University of St.Gallen

Institute for Law and Economics

Tax and Sustainability Study 2022/2023

A qualitative analysis of the regulatory environment complimented by empirical insights

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This research report is based on a independent study to answer the question if there is a link between sustainability and tax behavior.

Commissioned by the European Business Tax Forum (EBTF), this research is conducted under the responsibility of the authors, who are affiliated to the University of St Gallen.

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1. Executive Summary

The study follows two major goals: (1) Analyzing and benchmarking Standard-Setters' frameworks and Rating Agencies' methodologies and (2) Receiving internal stakeholders' opinions on the topic of sustainable taxation. Accordingly, the following structure will guide through relevant findings and conclusions:

- Section 4 and section 5 focus on the analysis of the Rating Agencies' approaches and benchmark the Standard-Setters' recommendations.
- Section 6 illustrates how Rating Agencies' methodologies and Standard-Setters' recommendations are connected.
- Section 7 continues with the results of the stakeholder survey.
- Section 8 concludes with the overall takeaways and how the future could look like.

The key takeaways of the study can be summarized as follows:

1. Rating agencies and Standard-Setters are not entirely clear about what their actual goal is in tax:
    - Rating agencies apply very different approaches to measure the tax performance of multinational enterprises (MNE). Both the metrics used but also the overall value attributed to the tax performance differ significantly.
    - The large number of 93 recommendations results from the highly unaligned approaches to sustainability standards. E.g., while some focus on a wide variety of recommendations on tax governance, others completely neglect the topic or choose different recommendations.
    - A key reason for the current patchwork in the area of ESG and taxation is that both Rating Agencies and Standard-Setters follow two partly concurring goals. One is to reduce both financial and reputational risks, and the other one is to measure the impact an enterprise has on the SDGs.
2. In this context there is no clear direction or theme for enterprises to follow regarding sustainability standards and ratings. However, the following remarks can be made:
    - Some recommendations in tax governance might indeed be an effective tool to reduce financial risk.

- Whether the recommendations stated are effective to reduce reputational risks depends on the stakeholder perception. There are no recommendations to achieve such goal which would suit all enterprises.

- It is very challenging to measure impact regarding tax matters. Very few recommendations do so; for instance, recommendations to mitigate bribery and corruption might have an unconditional positive impact.

3. In order to build an effective reporting framework, it is necessary to consider input also from NGOs, governments, investors.

2. Limitation Clause

The outcomes presented in this study are meant to contribute to relevant discussions in taxation and sustainability and may not provide information on financial, investment, or operational decisions. Also, no suggestions for public policy development are made. The insights produced may not be the same as the results produced based on similar data another day. There is no warranty or commitment that this study or any other appendix accompanying this research documentary and announcement will be error-free, accurate, reliable, or complete.

3. Introduction

The following study concludes the first phase of the project on Tax and Sustainability executed by the Institute for Law and Economics at the University of St. Gallen. As a next step, it is necessary to consider input from external stakeholders such as NGOs, governments, investors, etc.

As stakeholder's voices for sustainable business behavior and more transparency about corporate sustainable action became louder, different players in the field of enterprise regulation and reporting became active to frame what is needed in order to achieve such goals in the near future. Also, taxation is a focus point of the discussions, as governmental savings are perceived to be valuable funds to contribute to social welfare and environmental protection. However, the field recently became crowded by many frameworks, causing confusion on how multinationals should act and what they should report about. Especially, Standard-Setters[1] in the field of taxation and sustainability reporting as well as

[1] Standard-Setters are governmental or non-governmental organizations that have published recommendations in the area of non-financial reporting.

Rating Agencies show large extent of unalignment and disagreement than expressing their demands. This research aims to clarify the peculiarities of Rating Agencies' evaluation criteria and Standard-Setters' recommendations. Building on this, the analysis will move forward with differentiating between more and less relevant elements of sustainable tax behavior through a prism of internal stakeholder analyses.[2]

4. Analysis of Rating Agencies Approaches

4.1. Introduction

The first step is to identify relevant players in the reporting and rating environment and their perspectives and interests when measuring the tax behavior and tax information disclosed in enterprise sustainability reports. The following will focus on the evaluation criteria of Rating Agencies such as ISS ESG, Sustainable Fitch, S&P, MSCI and Refinitiv (hereinafter referred to as "Rating Agencies" or "Agencies").

According to the UN Global Compact, a combination of environmental, social, and governance elements traditionally represent the concept of sustainability.[3] In line with this definition, also all Rating Agencies refer to this composition.

The following remarks will remain a strong focus on taxation. For an overview of each Rating Agencies general methodology approach and additional insights on the interviews conducted with the agencies representatives please refer to annex 3.

4.2. Source of Data

The primary sources used are interviews with the Rating Agencies and the published frameworks of Standard-Setters to extract the relevant reporting and policy recommendations. If necessary, guidance material on rating methodologies provided by the Agencies is used to evaluate specific percentage ranges, as shown in the latter. Also, licenses for the databases of Refinitiv, S&P and MSCI were utilized to validate those evaluations by sampling.

[2] A starting point of the relation between taxation and sustainability is delivered by Enami, A., Lustice, N. & Aranda, R. (2018). Analytic Foundations, Measuring the Redistributive Impact of Taxes and Transfers. In N. Lustig (Ed.). Commitment to Equity Handbook, Estimating the Impact of Fiscal Policy on Inequality and Poverty (pp. 56-113). Washington, DC: Brookings Institution Press and Lin, X., Lin, X., Liu, M., So, S. & Yuen, D. (2019). Corporate social reponsibility, firm performance and tax risk. Managerial Auditing Journal, 34 (9): 1101–1130 and Ling, T. W. & Wahab, N. (2018). Roles of tax planning in market valuation of corporate social responsibility, Cogent Business & Management, 5: 1482595.

[3] United Nations (2015), Guide to Corporate Sustainability: Shaping a Sustainable Future, p. 11.

4.3. ISS ESG

4.3.1. Overview

ISS ESG's Corporate Rating uses a methodology that was developed by the subsidary Institutional Shareholder Services Germany and has been consistently updated over the past 25 years. The methodology of the ESG Corporate Rating is designed in line with relevant provisions of the UN Global Compact, the UN Sustainable Development Goals, the International Labour Organization, the OECD Guidelines for Multi-national Enterprises, the UN Principles for Responsible Investment, and the EU Sustainable Finance Regulation.[4]

4.3.2. Tax specific components

As ascertained by the agency's representative, tax management is considered a governance topic and, therefore, part of the corresponding governance pillar. Specifically, the terminology used as a sub-category is "Relations with governments", which is furthermore summarized under another preliminary category named "Society and Product Responsibility" next to other topics like "Human Rights" and "Engagement in society".

The category "Relations with governments" itself consists of two subsections named "Tax base erosion and profit shifting" and "Payments to governments and economic activity". Each subsection contains two measurement indicators, which are described in the following paragraphs.

The first indicator of the subsection "Tax base erosion and profit shifting" is "Transfer pricing". The evaluation of transfer pricing takes place based on a tax policy, an internal standard, a gridline, or any other kind of written commitment. During the interview, the representative did not disclose the scale; however, it was exemplarily mentioned that a complete ban on tax planning in transfer pricing would lead to the best grade; formulations relating wording used to refer to the OECD guidelines or the arm's length principle would yield a mid to low range rating.

The second indicator is "Presence in jurisdictions enabling tax base erosion and profit shifting", which measures any use of tax havens. It is tested by comparing a uniquely generated list of tax havens with jurisdictions where the enterprise is present. If the analyst concludes that the enterprise has business activity in tax havens, the corresponding internal policy is screened for any explanations or restrictions regarding business within those countries. It must be shown in a trustworthy way that the presence in low-tax jurisdictions is not meant to save taxes. Whether a statement is formulated in a trustworthy way is evaluated within the discretionary scope of the ISS analyst.

[4] Based on ISS ESG (2021), ESG Corporate Rating, p. 1.

Concerning the subsection of "Payments to governments and economic activity", two indicators serve as measures named "Public disclosure of payments to governments" and "Public disclosure of economic activity". Both point to the topic of country-by-country reporting. The first one evaluates what types of government payments are disclosed and if the charges are separated in a detailed way. The second indicator captures the economic components like "employees by country", "revenue by country" and "profit by country".

The ISS ESG rating also incorporates particular indicators for enterprises in the financial industry that are added on top of the before-mentioned compounds.

- First, there is the indicator "Policy on tax evasion and tax avoidance of clients", assessing an internal policy on how the bank approaches tax fraud and tax planning of customers. The bank must ban tax planning and fraudulent activities to achieve the best rating.[5] Only avoiding tax fraud would result in a medium rating.

- Second, the "Position on offshore banking services" is analyzed. A bank financial institute shall not offer offshore banking services in tax havens operated by the bank or partner banks within their network. If captured otherwise, the bank must have a policy that bans services to at-risk customers, ensuring a screening process for all customers of these services.

- Third, the agency looks for "Measures to ensure tax compliance of wealth management clients". This indicator focuses on any reports, interviews, or statements regarding the risk assessment process in wealth management. The bank must prove that all taxes are paid on the portfolio assets of customers and demand evidence if needed.

4.3.3. Tax relative weighting inference

The percentage ratio of ISS ESG was estimated based on the data gathered during the interview. It indicates equivalence in the weighting of the pillar scores. The share of tax-related criteria amounted to approximately 2.5% and was explicitly mentioned during the interview. Banks may face an increased percentage since the evaluation criteria include offshore banking and tax compliance, which add 1.75% to the usual score.

[5] This was mentioned during the interview. Exact definitions of tax planning and fraudulent activity in this regard are not disclosed.

4.4. Sustainable Fitch

4.4.1. Overview

Fitch Group is a global leader in financial information services, with operations in more than 30 countries. The group comprises: Fitch Ratings, a global leader in credit ratings and research; Fitch Solutions, a leading provider of data, research, and analytics; Fitch Learning, a pre-eminent training and professional development firm and Sustainable Fitch, launched in 2019.[6]

Sustainable Fitch is the sustainable counterpart to the classic credit ratings the group offered successfully for many years. The Environmental Social Governance (ESG) rating is designed to help market participants evaluate the relative ESG quality of financial instruments and entities. They provide consistency, granularity, and transparency via full coverage of labeled bonds (green, social, sustainable, KPI-linked, transition); Instrument and entity-level reports and ratings (including framework analysis); Ability to cover any debt instrument (bonds and loans, labeled and conventional); Fully modular grading system (access to sub-grades for all leading indicators); and Consistent disclosure of alignment indicators (ICMA, UN Sustainable Development Goals, EU Green Bond Standard, etc.).[7]

The starting point in the evaluation process applied by Sustainable Fitch, as stated in the ESG Rating Methodology, is to focus on the high-level strategic view of the issuer, how it relates to sustainability, and how sustainability is embedded in the issuer's business activities and strategy. The agency also points out that there should be tangible evidence that an ESG objective has been achieved (or is in the process of doing so) and that there has been progress towards the enterprise's overall ESG commitment to give credit to it.[8]

4.4.2. Tax specific components

Data obtained during the interview with the agency's representative allowed drawing some conclusions regarding evaluating the procedure of tax management.

According to the representative of Sustainable Fitch, the purpose of including taxation within their ESG rating is not only to impact the score itself but also to show forewarnings about the risks and potentially negative tax impact within the corresponding rating report. If there is sufficient "negative" data regarding an enterprise's tax management (such as relevant controversies), the report will also include a significant amount of tax-related caveats.

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[6] Based on Sustainable Fitch (2022), Purpose built ESG: Powered by human insights, p. 1.

[7] Based on Sustainable Fitch (2022), Introduction to ESG Scores for Leveraged Finance, p. 2.

[8] Based on Sustainable Fitch (2022), ESG Score Methodology, p. 1. Access on 08.03.2023.

There is also a specific scoring number for tax within the respective section of the report. The rating scale of the agency is expressed between one (highest) and five (lowest) and derived from a more granular score between 0 and 100. Also, the relative impact on the rating depends on the severity of tax-related misconduct. Suppose the enterprise has material misconduct within the tax section that is relatively overweighing other indicators. In that case, the overall rating will reflect it in a more significant share, even a lot above the contemplated weighting originally intended for taxation.

Sources used by the agency for conducting the tax management analysis:

- Remarks within the enterprise's audit report;

- Unique tax haven list designed by Sustainable Fitch Group;

- Financial and non-financial reporting of the enterprise;

- Debt reporting of the enterprise.

As a starting point of the tax management analysis, the enterprise is screened for controversies such as illegal tax fraud and legal tax planning involving transfer prices and tax havens. Notably, there is no industry dependency in evaluating an enterprise's tax management (i.e., no change in criteria or weighing for financial institutions, pharma producers etc.).

During the analysis of controversies, the agency is looking for news relating to open investigations against the enterprise in the context of taxation. The agency mentions this fact separately within the report.

If the investigations turn out negatively during a more detailed analysis, it will impact the actual rating. Information about the withdrawal of investigations or fines will also be (positively) considered retrospectively. The lookback period for the investigation is three years. If penalties are related to the use of tax havens, the agency applies a self-generated tax haven definition. Possible controversies are only counted as severe misconduct if Sustainable Fitch ranks the jurisdiction as a tax haven. The agency's representative confirms that the purpose of Sustainable Fitch is much larger than the most common classifications, such as the one by the OECD.

When evaluating subsidiaries in tax havens and transfer pricing of a respective entity, the agency is viewing the auditor's reports. The rating will be impacted negatively if there are negative remarks and forewarnings about transfer pricing disputes. Furthermore, the agency makes cross-checks if there is an economical substance in tax havens to ensure actual business and not only artificially generated profits. However, this is only done if controversies are found in the preliminary screening mentioned above, which justifies a closer investigation.

4.4.3. Tax relative weighting inference

The percentage ratio of Sustainable Fitch was estimated based on the data gathered during the interview with the agency's representative, wherein equivalence in the weighting of the Social, Governance, and Environmental Pillars was indicated. This finding is identical to the previously summarised weightings of ISS ESG, but at the same time, the estimated share of the tax-related criteria is slightly more significant. *It is impacting the score at the level of approximately 8.5%.* This was indicated by the representative from the agency.

4.5. Standards & Poor’s

4.5.1. Overview

S&P Global Rating is an American credit Rating Agency and is considered the largest of the Big Three credit Rating Agencies, next to Moody's and Fitch Group. Their headquarter is located in New York City. The Corporate Sustainability Assessment (CSA), which delivers the base for their sustainability rating, was designed more than 20 years ago to identify enterprises better equipped to recognize and respond to emerging sustainability opportunities and challenges presented by global and industry trends. The CSA's approach is based on information the enterprises provide through an online questionnaire. As the agency mentioned, it allows them to analyse sustainability much deeper than frameworks based on public disclosure alone.[9]

4.5.2. Tax Components

The agency assesses tax strategy as a category of the economic dimension. Within the tax strategy, three further sub-categories are comprised: tax strategy and governance, tax reporting, and effective tax rate (ETR).

Tax strategy and governance:[10] The agency considers general statements about an enterprise's intention to comply with all tax laws and regulations in its countries of operation and whether they are sufficient. Every enterprise should be able to logically justify its approach to crucial tax issues, such as using tax management techniques and whether they are aligned with the sustainability strategy. An effective policy should be overseen by the board of directors, created with relevant senior management, and regularly reviewed to address emerging risks.

[9] Based on S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 1.
[10] Based on S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 58-59.

The sub-category also determines if a group-wide tax policy or strategy in the public domain addresses sensitive or high-risk tax issues transparently and sustainably. Among the analysed aspects are the following:

- A commitment to comply with the spirit and the letter of tax laws and regulations in countries of operations;
- A commitment not to transfer value created to low tax jurisdictions;
- A commitment not to use tax structures without commercial substance;
- A commitment to undertake transfer pricing using the arm's length principle;
- A commitment not to use secrecy jurisdictions or tax havens for tax avoidance;
- The approval process of the tax policy by the board of directors.

Tax reporting:[11] In this sub-category, the agency aims to identify to what extent the enterprise reports essential information about their tax contributions in all tax jurisdictions where the enterprise's entities are (i.e., a kind of public country-by-country reporting). This also includes consolidated information within their financial statements.

The analyzed aspects in public reporting for each tax jurisdiction are the following:

- names of all the resident entities;
- primary activities;
- number of employees;
- revenue;
- profit (loss) before tax;
- income tax accrued (current year);
- income tax paid.

Effective tax rate:[12] The goal is to assess whether an enterprise's tax rate is unsustainable based on the reported and cash tax rates for the last two years.

[11] Based on S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 60-61.
[12] Based on S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 62-66.

In the assessment, the agency analyses the enterprise's data on the reported tax rate (income statement) and cash tax rate (cash flow statement) for the last two years. Suppose the calculated average or cash tax rate is lower than the industry group average. In that case, the enterprise should specify the reason, indicate the tax amount per item, and provide explanations and references where this information is available in the respective reporting channel.

Public disclosure of the following items is required for the enterprise to deliver - earnings before tax, reported taxes, reported tax rate, cash taxes paid, and cash tax rate.

4.5.3. Tax relative weighting inference

The percentage ratio of S&P was estimated based on the average data of the EBTF members' reports[13], which indicates that the governance pillar has the most significant share in the weighting process and is in the range of 32%-55%. The share of the environmental pillar varies between 9%-39%, and the share of the social pillar is between 26%-41%. At the same time, as mentioned during the interview with the agency's representative, the estimated share of tax-related criteria does not exceed 1.65%.

4.6. MSCI

4.6.1. Overview

MSCI ESG Ratings is a part of the MSCI Group, headquartered in New York City, USA. It aims to measure an enterprise's resilience to long-term ESG risks. As stated by the agency, enterprises are scored on an industry-relative scale across the most relevant key ESG issues based on an enterprise's business model. They offer two ratings, one for equity issuers and another for fixed-income securities. The incorporated Industry Materiality Map is publicly available and explores the critical issues by Global Industry Classification Standard (GICS) sub-industry or sector and manifests their importance to the enterprises' overall ESG ratings. GICS is the global industry classification standard.[14]

[13] For each enterprise the Rating Agency publishes a report with the results of their analysis. Sampling the overall population is an approach to derive insights of the treatment of a certain subject. In this regard the S&P Reports for the EBTF Member enterprises serve as such sample.

[14] Based on MSCI (2022), ESG Ratings Methodology, p. 7.

4.6.2. Tax Components

The agency considers tax as a sub-category of the corporate behavior theme. This theme evaluates how enterprises may face ethical issues such as fraud, executive misconduct, corruption scandals, money laundering, antitrust violations, or tax-related controversies.

The table below presents the enterprise's methodology regarding the tax transparency evaluation approach:[15]

KEY ISSUE: TAX TRANSPARENCY

Companies are evaluated on their estimated corporate tax gap (i.e., gap between Estimated Effective Tax Rate and Estimated Statutory Tax Rate), revenue-reporting transparency and their involvement in tax-related controversies.

A company's estimated tax gap will only affect its 0-10 Corporate Behavior Theme Score and its 0-10 Governance Pillar Score when it is involved in an ongoing tax-related controversy. Because the estimated tax gap is an approximation and does not consider the unique circumstances of a company's tax structure, ongoing tax controversies are used to improve the level of conviction in an estimated negative tax gap.

Impact	• Economic losses to governments due to lower tax revenue, affecting their ability to finance budget deficits/public expenditures
Risk / Opportunity	• Regulatory risks from global tax reforms • Reputational risk • Lower profits due to increased tax payouts • Increased costs from liabilities and fines associated with violation of tax laws
Metrics	• Estimated Effective Tax Rate using the actual tax paid and the company's income before tax, disclosure transparency, and track record of controversial tax practices
Sectors	• Applies to all industry groups
Data Sources	• Company disclosure and news searches • Refinitiv

Key Metric	Data
Tax Controversies	Confidence Level of Estimated Tax Gap Estimated Effective Tax Rate Estimated Corporate Income Tax Rate Estimated Tax Gap Foreign Revenue (%) Total number of taxes and subsidies controversies

Figure 1: MSCI Tax Transparency Methodology

According to the agency's methodology, the critical metric for tax transparency is tax controversies, which are designed to indicate the enterprise's involvement in ongoing tax-related litigation and media controversies.

[15] MSCI (2022), ESG Ratings Methodology, p. 110.

Additionally, if the search for controversies results in a negative outcome, a plausibility check of the tax rate will be conducted. Therefore, the total ETR of the enterprise is compared to the corporate income tax rate of the respective country. When the enterprises tax rate turns out to be lower, the rating is impacted according to the severity:[16]

Involvement in tax controversies	Estimated tax gap	Tax gap assessment	Deduction
Yes	Below 5%	Low	-0.80
	5-10%	Moderate	-1.40
	Above 10%	High	-2.00
No	Below 5%	Low	0.00
	5-10%	Moderate	0.00
	Above 10%	High	0.00

Figure 2: MSCI Rating Impact of Effective Tax Rate

4.6.3. Tax relative weighting inference

The percentage ratio of the MSCI ESG Rating was estimated based on the average of the EBTF members' reports, which indicate the weighting of the environmental pillar within the span of 9% to 54%. The social and governance pillar account for 18% to 58% and 33% to 50%, respectively. *The estimated share of the tax-related criteria is regarded as 6-10%*.

[16] Taken from an exemplary ESG Rating Report of an enterprise rated by MSCI.

4.7. Refinitiv

4.7.1. Overview

Refinitiv is an American-British global provider of financial market data that was founded in 2018 as a London Stock Exchange Group subsidiary. The ESG scores from Refinitiv are designed to measure transparently and objectively an enterprise's relative ESG performance and cover ten main themes, including emissions, environmental product innovation, human rights, shareholders, and others, shown in the Figure 3. According to the methodology of the agency, an additional ESGC score is also calculated, which is discounted by controversies that materially impact corporations.[17]

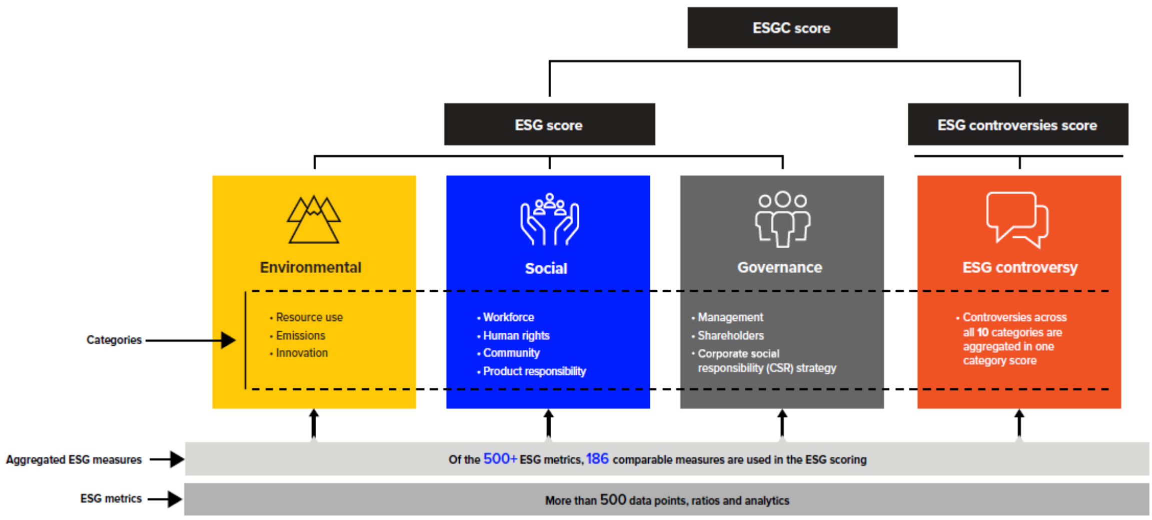

Figure 3: Composition of the Refinitiv Overall Score

Summarizing the above, the evaluating model of the agency comprises two standalone ESG scores:

- **The ESG score** – that measures the enterprise's ESG performance based on verifiable reported data in the public domain;

- **The ESGC score** – that overlays the ESG score with ESG controversies to provide a comprehensive evaluation of the enterprise's sustainability impact and conduct over time.

[17] Based on Refinitiv (2021), Environmental, Social and Governance Scores from Refinitiv, p. 3.

4.7.2. Tax specific components

Within the process of measuring tax controversies, the agency evaluates the indicator called "tax fraud controversies", reflecting the number of controversies published in the media linked to tax fraud. This is done in parallel to topics related to imports or money laundering. If there is no publicly available information, the enterprise is scored highly on ESG tax controversies.

4.7.3. Tax relative weighting inference

The percentage ratio is estimated based on the Refinitiv data for the EBTF members[18], which indicates that the agency's environmental pillar weighs at 13% - 43% while the social pillar and governance pillar account for 32% - 50% and 24% - 46%, respectively. Tax-related criteria are not considered part of the ESG score but may impact the ESGC score indefinitely if severe tax disputes exist.

4.8. Rating Agency Benchmark

After having an isolated look at the Rating Agencies' approaches in the following, they will be put in comparison to each other in order to consolidate the crucial components and make differences and similarities visible. The analysis will be split in (1) the relative importance (i.e., weighting) of tax-specific factors within the methodologies in general and (2) a comparison of all sub-components included.

[18] For each enterprise the Rating Agency publishes a report with the results of their analysis. Sampling the overall population is an approach to derive insights of the treatment of a certain subject. In this regard the Refinitiv Reports for the EBTF Member enterprises serve as such sample.

4.8.1. Comparison of tax specific weighting

Figure 4 reflects the weighting of tax compared to the social, governance, and environmental pillars among the selected Rating Agencies:

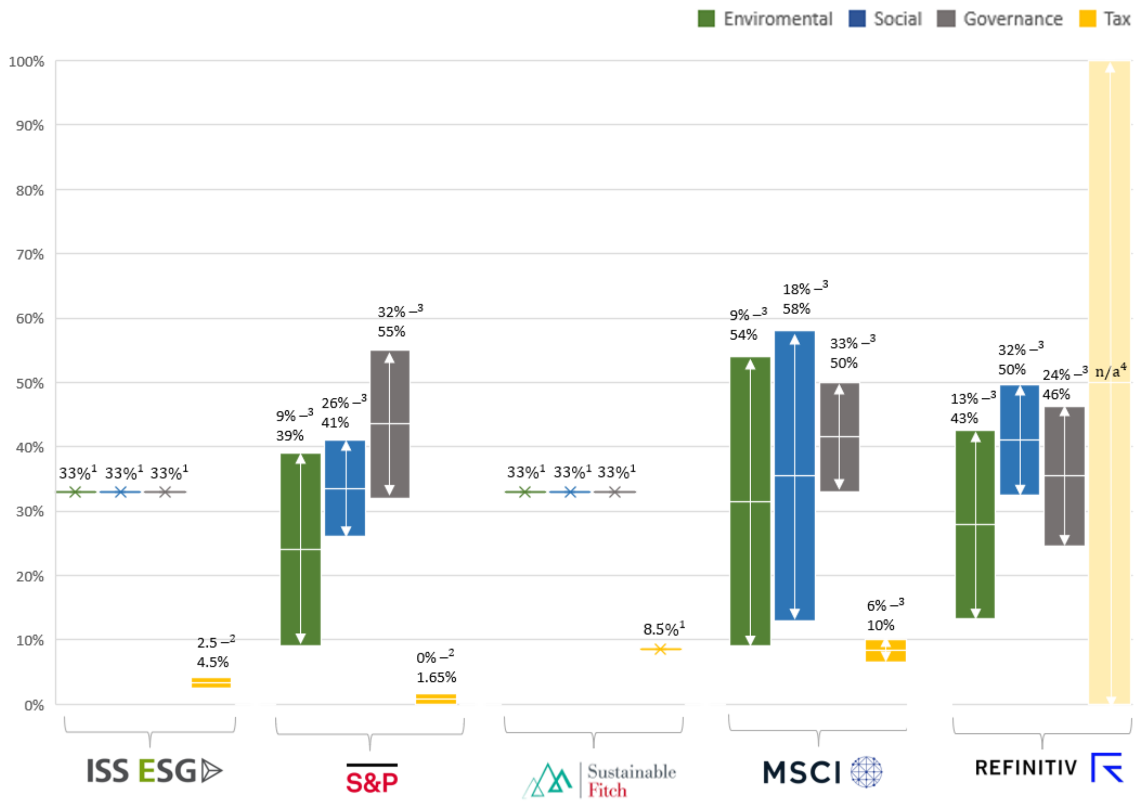

Figure 4: Comparison of ESG pillars and tax weightings of ESG Ratings

[1]*Estimated based on data gathered during the interviews*

[2]*Mentioned during the interview*

[3]*Based on average of the EBTF member reports*

[4]*Agency claims that weights can not be estimated*

As visible, the following statements summarize the relative influence of the pillars and tax components.

- ISS ESG weighs its environmental, social, and governance pillars equally at a percentage of 33% each. The weights are not flexible. Taxation has an overall impact of at least 2.5% and a maximum of 4.5% on the Rating.
- S&P adapts its pillar weights to a minimum of 9% and a maximum of 39% for the environmental pillar, between 26% and 41% for the social pillar, and between 32% and 55% for the governance pillar. The overall impact of taxation can reach up to 1.65%.
- Sustainable Fitch has inflexible pillar weights of 33% for each pillar. Also, taxation constantly impacts the overall rating at the same significance of 8.5%.

- MSCI's pillar weights range from 9% - 54% for the environmental pillar, 18% - 58% for the social pillar, and 33% to 50% for the governance pillar. Taxation impacts 6 - 10% overall, depending on the enterprise evaluated.
- The pillar weights of Refinitiv range between 13% - 43 % for the environmental pillar, 32% - 50% for the social pillar, and 24% - 64% for the governance pillar. According to the agency's representative, taxation can impact the rating almost to an infinite amount if there are severe controversies.

4.8.2. Comparison of the Rating Agencies' tax methodology construction

As the above outline has shown, the methodologies and evaluating criteria used by the Rating Agencies as well as the weighting and testing approaches applied within the scoring are very different.

Figure 5 presents the comparative share of each tax-related sub-category differentiated during the research: transfer pricing, tax rate, controversies, tax havens and aggressive tax planning, tax governance, engagement with tax authorities, public CbCR, regulatory compliance and tax advocacy.

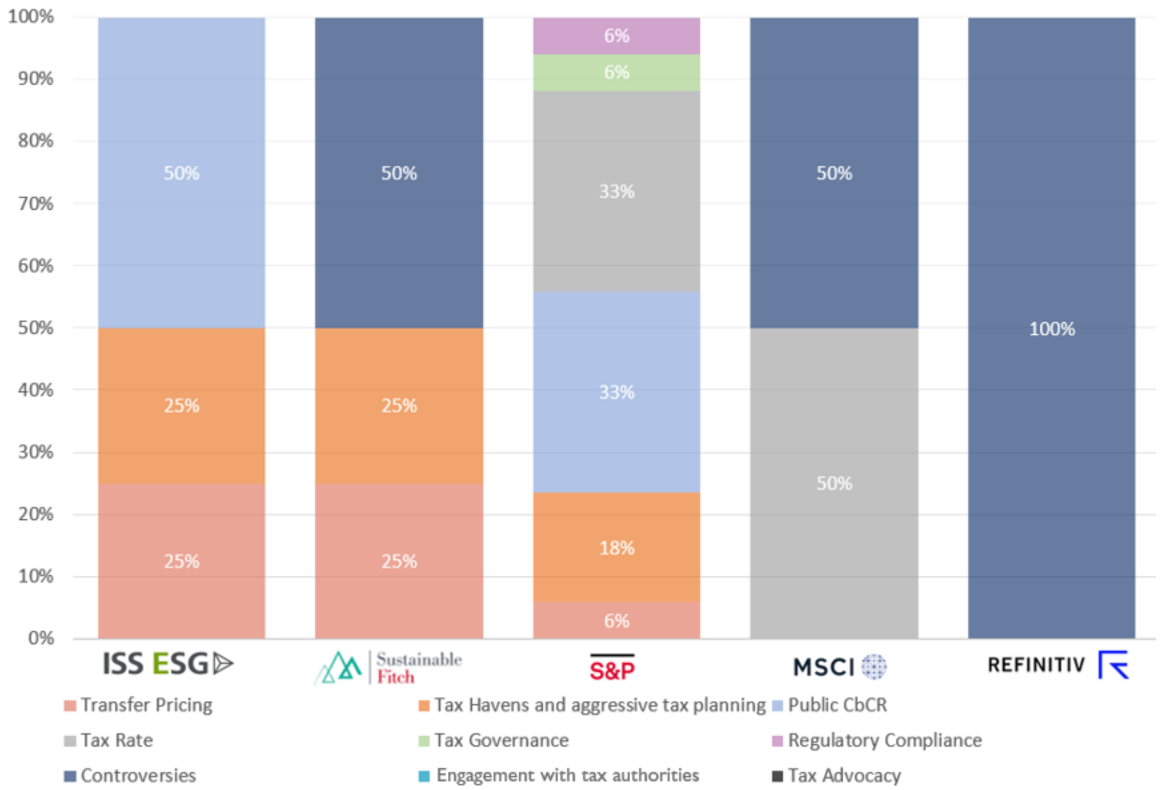

Figure 5: Comparison of Methodology Construction

The specific criteria and indicators of the agencies were sorted into uniform sections in order to benchmark them. Notably, this terminology was not exactly used by all Rating Agencies; however, the focus of the specific criteria was eligible to assign to one of the categories. Using uniform categories also serves the purpose of later benchmarking the relevant requirements of standard-setters in a comparative framework. The exact criteria mapping to the categories can be found in Annex 1.

Based on the data presented in the above-stated sections regarding the methodologies of the Rating Agencies, the following summary can be drawn:

- Controversies are an essential building block of tax evaluations in 3 out of 5 Rating Agencies: Refinitiv, Sustainable Fitch, and MSCI, primarily acting as a preliminary check.
- Public CbCR is considered by 2 out of 5 Rating Agencies: ISS and S&P, where single items mostly get "check-boxed".
- Plausibility checks for the tax rate are an important indicator for 2 out of 5 agencies: MSCI and S&P.
- Transfer pricing, tax havens, and aggressive tax planning are medium-weighted topics for 3 out of 5 agencies: ISS ESG, Sustainable Fitch, and S&P.
- Overall, the relevance of tax is rather small and inclusions and exclusions of tax specific components vary a lot.[19]
- The individual enterprise evaluations may vary slightly based on the country and analyst.

[19] Relating the divergence of ESG Ratings in general refer to Berg, F., Kölbel, J. F. & Rigobon, R. (2022). Aggregate Confusion: The Divergence of ESG Ratings, Review of Finance, 26 (6): Pages 1315–1344 and Avramov, D., Cheng, S., Lioui, A. &Tarelli, A. (2021). Sustainable investing with ESG rating uncertainty, Journal of Financial Economics.

5. Benchmark of Standard-Setters Recommendations

ESG metrics are not commonly part of mandatory financial reporting in most countries. The European Union is a pioneer in establishing regulatory demands in this regard. For others, however, current trends show that enterprises increasingly make voluntary ESG disclosures in their annual or standalone sustainability reports, from which enterprises hope to benefit by satisfying stakeholder demands.[20] The regulative development regarding the EU Sustainability Taxonomy and the EU Corporate Sustainability Reporting Directive (CSRD) developed by the European Financial Reporting Advisory Group in corporation with the Global Reporting Initiative (GRI) has put pressure on the market. In November 2022, the European Commission approved its implementation by the calendar year 2024 and by publishing the European Sustainability Reporting Standards (ESRS) on 31 July 2023 further guidance is available.[21] This report does, however, not yet make explicit reference to the ESRS and the CSRD.

In the following section, the results of the benchmark analysis of the tax reporting standards are presented, including the following leading institutions in this area: Her Majesty's (UK Authority) Revenue and Customs (HMRC), the GRI, The B Team and the World Economic Forum (WEF). HMRC’s tax reporting standard represents a binding requirement in the UK; all latter standards are voluntarily applicable. The selection was chosen since these are the most acknowledged throughout Europe and – except UK HMRC – have an application for cross-territory audience. Looking at these standards allow us to develop a comprehensive understanding of recommendations used by standard-setters to assess the tax behavior of multinationals.

5.1. UK HMRC

HRMC is a non-ministerial department of the UK Government responsible for collecting taxes, paying several forms of state support, and administrating the regulatory regimes, including the national minimum wage.

[20] For the reasoning in expanding of sustainability reporting view Stolowy, H., & Paugam, L. (2018). The expansion of non-financial reporting: an exploratory study. Accounting and Business Research, 48(5), 525–548.

[21] Council of the EU (2022), Council gives final green light to corporate sustainability reporting directive, found at: https://www.consilium.europa.eu/en/press/press-releases/2022/11/28/council-gives-final-green-light-to-corporate-sustainability-reporting-directive/, retrieved on 09.03.2023.

Within the scope of this research, HRMC was selected and analyzed due to the uniqueness of its practice and experience as an official governmental authority. HRMC has a fixed scope of disclosures. The UK was the first country to introduce mandatory requirements for enterprises to publish their tax strategies. HRMC can also impose fines for not publishing an enterprise's tax strategy, not disclosing all relevant information defined by the conditions, or not making it available free of charge and within the appropriate period.

5.1.1. General disclosure requirements

Among the principal disclosures required by the HMRC, the following issues should be covered by the published tax strategy:[22]

- The tax strategy should be approved by the board of directors and be in line with the overall strategy and operation of the business.
- It should include details of the paragraph of the legislation it complies with.
- It should show the financial year the strategy relates to.

Relating the procedure for managing tax risks:

The enterprise should demonstrate its business's approach to risk management and governance. This may include, but is not limited to:

- how an enterprise identifies and reduces inherent tax risk due to the size, complexity, and extent of change within the business activities;
- the governance framework that the enterprise uses to manage tax risk;
- the levels of oversight and involvement of the board of directors;
- a high-level description of key roles, responsibilities, systems, and controls in place to manage tax risk.

Relating the enterprise's attitude to tax planning:

The following disclosures outline the enterprise's attitude and approaches toward tax planning:

- details of any code of conduct the enterprise has for tax planning;

[22] All following requirements are taken from UK HMRC (2018), Publish your large business tax strategy, found at: https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy#what-must-be-in-your-strategy, retrieved on 09.03.2023.

- an outline of what influences an enterprise's tax planning and how this affects its tax strategy;
- the enterprise's approach to structuring tax planning;
- an explanation of why the enterprise might seek external tax planning advice.

Relating the level of risks:

This section covers the tax risk perspective and how the enterprise addresses it, i.e.:

- levels of risk that the enterprise is prepared to accept by disclosing details of the internal governance process for measuring this;
- the influence relevant stakeholders have.

Relating the enterprise's interaction with HMRC:

Disclosures of how the enterprise deals with authority interaction, i.e.:

- an explanation of how the enterprise works with HMRC to meet statutory and legislative tax requirements;
- remarks how the enterprise works to be transparent with HMRC on current, future, and past tax risks across all relevant taxes and duties.

Among the main requirements, HMRC obliges enterprises to publish their tax strategy online and make it free of charge. Public members should be able to easily find the tax strategy by browsing the enterprise's website or searching online.

5.2. The B Team

Intending to design guidance material for enterprises to approach taxation and disclose their activities towards sustainable tax management, The B Team developed their "Responsible Tax Principles," which cover key areas such as interactions with authorities and other stakeholders, tax management, and tax reporting.

5.2.1. Recommendations for responsible tax behavior

The B Team recommends that enterprises account for responsible tax management by implementing the following practices:

Accountability and governance: This principle demands tax to be a core part of corporate responsibility, also being monitored by the board of directors. As suggested by The B Team, this category can be secured by:[23]

- the presence of a tax strategy and set of tax principles that are approved by the board of directors;
- accountability of the board of directors for the tax strategy, as well as constant reviewal of the risk management by an established board sub-committee;
- the presence of mechanisms to ensure awareness of and adherence to the tax strategy with easy access for the employees;
- the existence of upstream risk management and risk assessment procedures before any tax planning decisions or entering into significant transactions;
- early reporting on tax risks and adherence to the tax strategy to the board of directors;
- tax principles and strategies applied to all tax practices in all jurisdictions;
- qualified and trained tax employees.

Compliance: The enterprise may comply with the tax legislation of the countries where the enterprise is present and pay the right amount of tax at the right time in countries where the values were created. As suggested by The B Team this category can be secured by:[24]

- preparation of all required tax returns as well as providing complete and timely disclosures to the authorities;
- tax planning, which is based on reasonable interpretations of applicable law aligned with the substance of the economic and commercial activities of the business;
- avoiding transactions whose sole purpose is to create a tax benefit that is in excess of a reasonable interpretation of relevant tax rules (legislation, regulation, or treaties);
- aiming for certainty on tax positions and ensuring that the enterprise's position would likely be upheld by an external opinion;
- using the arm's length principle and applying best practice guidelines issued by the OECD consistently.

[23] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 5.
[24] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 5.

Business structure: The enterprise uses business structures that are aligned with business activity and have genuine substance, not seeking abusive tax results. As suggested by The B Team, this category can be secured by:[25]

- transparency about business and ownership structures around the world;
- not using "tax havens" to avoid taxes. Entities that are based in low or nil-rate jurisdictions exist for substantive and commercial reasons;
- paying taxes on profits according to the place where value is created. Not using artificially fragmented structures or contracts to avoid establishing a taxable presence in jurisdictions where the enterprise is conducting its business;
- extending tax principles to the relationships with employees, customers, and contractors, not engaging them in arrangements whose sole purpose is to create a tax benefit;

Relationships with authorities: The enterprise seeks opportunities to develop cooperative relationships with tax authorities based on mutual respect. As suggested by The B Team, this category can be secured by:[26]

- following established procedures and channels for all dealings with tax authorities, government officials, ministers, and other third parties in a professional and timely manner;
- openness and transparency with tax authorities, responding to relevant tax authority inquiries in a straightforward and timely manner;
- the tendency to build relationships of cooperative compliance with tax authorities and building constructive dialogue to discuss tax planning strategy, risks, and significant transactions;
- seeking dialogues with tax authorities regarding where there are misunderstandings of facts of law;
- seeking rulings from tax authorities to confirm an applicable tax treatment based on full disclosure of all of the relevant facts and circumstances;
- seeking to enter into early dialogue with tax authorities where there is significant uncertainty about how the tax rules apply to the business;
- exception of briberies or other ways of inducing tax and governmental officials.

[25] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 6.
[26] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 7.

Seeking and accepting tax incentives: Where an enterprise claims tax incentives offered by government authorities, it should seek to ensure transparency and consistency with statutory or regulatory frameworks. As suggested by The B Team, this category can be implemented via the following actions:[27]

- When accepting tax incentives offered by the government, the enterprise should seek to implement these in the manner intended by the relevant statutory, regulatory, or administrative framework;

- using tax incentives where they are aligned with business and operational objectives and where an economic substance is present;

- in case there are exceptions for some other market participants in tax exemptions and reliefs, the enterprise might work with relevant authorities to encourage the publication of such incentives and contracts;

- the enterprise makes data available for governments to assess the revenue and economic impacts of specific tax concessions where appropriate.

Supporting effective tax systems: The enterprise supports the development of effective tax systems, legislation, and administration via national and international dialogue with governments, business groups, and civil society. The enterprise can take the following key steps:[28]

- Giving constructive input to industry groups, governments, and other external authorities in order to contribute to the development of future tax legislation;

- proactive support of the initiative to help develop the capability of tax authorities and systems;

- promoting responsible tax practices through involvement in industry associations and other governmental or external bodies.

Transparency: Provide regular information to the stakeholders about the enterprise's approach to tax and taxes paid. As suggested by The B Team, this category can be implemented via publishing:[29]

- a tax strategy or policy, including details on governance arrangements, the tax risk management strategy, and the approach to dealing with tax authorities;

[27] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 7.
[28] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 8.
[29] Taken from The B Team (2018), A new bar for responsible tax: The B Team Responsible Tax Principles, p. 8.

- regular updates on progress and key issues related to the tax strategy and principles;
- an overview of the group structure and a list of all entities with ownership information;
- an explanation regarding the presence of subsidiaries, branches, or joint ventures operating in low-tax jurisdictions;
- annual information, explaining the overall ETR and information on taxes paid at a country level, together with information regarding the economic activities of the enterprise;
- information on financially-material tax incentives, including an outline of the incentive requirements and when it expires;
- an outline of the advocacy approach that takes on tax issues, the channels through which the enterprise is engaged in regard to policy development, and the overall purpose of the engagement.

5.3. Global Reporting Initiative

The GRI Sustainability Reporting Standards are a reporting framework for enterprises to disclose positive and negative impacts on the environment, society, and the economy. The GRI Standards are designed to be universally applicable to enterprises of all types and sectors, large and small, worldwide. The enterprise has developed established standards since 1997, which are constantly updated and revised. Today GRI is the most used non-financial reporting standard in Europe and the foundation relating regulative discussions for mandatory sustainability reporting by the European Union.

In 2019 the respective standard for taxation was published, named "GRI 207: Tax".[30] It is part of the GRI topic-specific standards, specifically included in the 200 – Economic series. Among the rest, there are two further topic-specified subgroups: the GRI 300 – Environmental series and the GRI 400- Social series.

GRI 207: Tax contains disclosures attributed to the management approach as well as topic-specific information demands.

Management approach disclosures include:

- Disclosure 207-1 Approach to tax;

[30] GRI (2019), GRI 207: Tax.

- Disclosure 207-2 Tax governance, control, and risk management;

- Disclosure 207-3 Stakeholder engagement and management of concerns related to tax.

Topic-specific disclosure:

- Disclosure 207-4 Country-by-country reporting.

5.3.1. GRI 207: Tax – Approach to Tax

An enterprise's approach to tax defines how the enterprise balances tax compliance with business activities and ethical, societal, and sustainable development-related expectations. It can include the enterprise's tax principles, attitude to tax planning, the degree of risk the enterprise is willing to accept, and its approach to engaging with tax authorities.[31]

Among the main reference points set out by the GRI, within disclosures regarding an enterprise's approach to tax the following can be distinguished:[32]

- The enterprise can illustrate its approach to tax by providing an overview of its use of tax havens, the types of tax incentives it uses, or its approach to transfer pricing;

- in case the tax strategy is not publicly available, the enterprise can provide an abstract or summary of the strategy;

- in case the tax strategy applies not to all legal entities within the enterprise group, it may additionally report this strategy and also mention the list of the entities or tax jurisdictions to which the strategy applies;

- when describing its approach to regulatory compliance, the enterprise can show whether it takes reasonable steps to determine and follow the intention of the legislature,

- when describing how its approach to tax is linked to its business strategy, the enterprise can explain how its tax planning is aligned with its commercial activities;

- when describing how its approach to tax is linked to its sustainable development strategy, the enterprise can explain whether it considered the economic and social impacts of its approach to tax when developing its tax strategy as well as show any organizational commitments to sustainable development in the jurisdictions in which it operates and whether its approach to tax is aligned with these commitments.

[31] GRI, GRI 207: Tax, p. 6.
[32] Taken from GRI, GRI 207: Tax, p. 6.

5.3.2. GRI 207: Tax – Tax governance, control, and risk management

Among the main reference points set out by the GRI, within reporting requirements regarding tax governance, control, and risk management, the following can be distinguished:[33]

- When describing the tax governance and control framework, the enterprise can provide examples of effective implementation of its tax governance, control, and risk management systems;

- the enterprise can specify any accountability for compliance with the tax strategy delegated to executive-level positions within the enterprise as well as the degree to which the highest governance body or employees of executive-level positions have oversight of compliance;

- when reporting how the approach to tax is embedded within the enterprise, it can describe processes, projects, programs, and initiatives that support adherence to the approach to tax and tax strategy, for example, training and guidance provided to relevant employees, remuneration or incentive schemes for the persons responsible for implementing the tax strategy;

- when reporting how compliance with the tax governance and control framework is evaluated, the enterprise can describe the process through which the tax governance and control framework is monitored, tested, and maintained.

5.3.3. GRI 207: Tax – Stakeholder engagement and management of concerns related to tax

The approach an enterprise takes to engaging with stakeholders has the potential to influence its reputation and position of trust. This includes how the enterprise engages with tax authorities in developing tax systems, legislation, and administration.

Among the main reference points set out by the GRI, within reporting stakeholder engagement and management of concerns related to tax, the following can be distinguished:[34]

- The approach to engagement with tax authorities can include participating in cooperative compliance agreements, seeking active real-time audits, seeking clearance for all significant transactions, engaging in tax risks, and seeking advance pricing agreements;

[33] Taken from GRI, GRI 207: Tax, p. 7.
[34] Taken from GRI, GRI 207: Tax, p. 9.

- when reporting the approach to public policy advocacy on tax, an enterprise can disclosure: its lobbying activities related to tax; its stance on significant issues related to tax that it addresses in its public policy advocacy, and any differences between its advocacy positions and its stated policies, goals, or other public positions; in case of contributing or participating in public policy advocacy on tax enterprise can describe the type of its contributing as well as any differences between stated policies and claimed public positions;

- regarding the processes of collecting and considering the concerns of stakeholders, the enterprise can describe how the processes enable stakeholders to participate in this engagement.

5.3.4. GRI 207: Tax – Country-by-Country Reporting

Country-by-Country Reporting is the financial, economic, and tax-related information for each jurisdiction in which an enterprise operates and includes permanent establishment and dormant entities.

Among the main reference points, when an enterprise is compiling information about each tax jurisdiction within Country-by-Country Reporting, the following can be distinguished:[35]

- country-by-country information is to be reported at the level of tax jurisdictions and not at the level of individual entities;

- it also includes reporting about permanent establishment and dormant entities;

- reported data should reconcile with the data stated in its audited consolidated financial statements or the financial information filed on public record. In case of difference, the enterprise shall provide an explanation for this difference;

- in cases where an entity is deemed not to be resident in any tax jurisdiction, the enterprise still should give the information for this stateless entity separately.

Specifically, as GRI prescribes, the reporting enterprise should provide jurisdiction wise:[36]

- Names of the resident entities;

- Primary activities of the enterprise;

- Number of employees, and the basis of calculation of this number;

[35] Taken from GRI, GRI 207: Tax, p. 11.
[36] Taken from GRI, GRI 207: Tax, p. 10 - 11.

- Revenues from third-party sales;
- Revenues from intra-group transactions with other tax jurisdictions;
- Profit/loss before tax;
- Tangible assets other than cash and cash equivalents;
- Corporate income tax paid on a cash basis;
- Corporate income tax accrued on profit/loss;
- Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax.
- The time period covered by the information reported.
- Total employee remuneration;
- Taxes withheld and paid on behalf of employees;
- Taxes collected from customers on behalf of a tax authority;
- Industry-related and other taxes or payments to governments;
- Significant uncertain tax positions;
- Balance of intra-enterprise debt held by entities in the tax jurisdiction and the basis of calculating the interest rate paid on the debt.

When disclosing information about industry-related and other taxes or payments to governments, this could amount to industry taxes (e.g., energy tax, airline tax), property taxes (e.g., land tax), product taxes (e.g., customs duties, alcohol, and tobacco duties), taxes and duties levied on the supply, use, or consumption of goods and services considered to be harmful to the environment (e.g., vehicle excise duties).

5.4. World Economic Forum

Having taken the position to promote alignment among existing ESG frameworks, the WEF aims to bring stakeholders together to simplify and harmonize the various approaches to non-financial reporting.

The set of metrics and disclosures presented by the WEF can be used by enterprises to align their reporting on performance against ESG indicators and track their contributions toward the Sustainable Development Goals (SDG) consistently.

As stated by the WEF, the presented metrics are deliberately based on existing standards, with the near-term objectives of accelerating convergence among the leading private standard-setters and bringing greater comparability and consistency to the reporting of ESG disclosures.

WEF organized its metrics under four pillars: Principles of Governance, Planet, People, and Prosperity, which in turn consists of 21 core and 34 expanded metrics and disclosures:[37]

- Core metrics are primarily quantitative metrics for which information is al-ready being reported by many firms (albeit often in different formats) or can be obtained with reasonable effort. They focus primarily on activities within an enterprise's boundaries.

- Expanded metrics are a set of 34 measures and disclosures that tend to be less well-established in existing practice and standards and have a wider value chain scope or convey impact in a more sophisticated or tangible way, such as in monetary terms. They represent a more advanced way of measuring and communicating sustainable value creation.

5.4.1. Core tax metrics

Total tax paid is evaluated as a core metric within the part of the pillar "Prosperity" and its category "Community and social vitality". According to the WEF, the total global tax borne by the enterprise consist of corporate income taxes, property taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the enterprise by category of taxes.[38]

[37] Taken from WEF (2020), Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, p. 6.

[38] Taken from WEF (2020), Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, p. 10.

5.4.2. Expanded tax metrics

Expanded tax metrics and disclosures include the following categories:

- **Additional tax remitted**: Total additional global tax collected by the enterprise on behalf of other taxpayers, including VAT and employee-related taxes that the enterprise remits on behalf of customers or employees by category of taxes.[39]

- **Total tax paid by the country for significant locations**: Total tax paid and, if reported, additional tax remitted, by the country for significant locations.[40]

The additional tax remitted provides information on an enterprise's further contribution to governments and society. Arguably the respective enterprise does so by collecting and remitting taxes in its business interactions with other taxpayers. An example are payroll taxes associated with the compensation the enterprise provides to the workforce it employs.

5.5. Benchmark of Standard-Setters Recommendations

The above-presented overview of the reporting recommendations and standards confirms that there is no unified approach to reporting requirements, which could bring greater comparability and consistency to the reporting made by the enterprises.

To make this more transparent, a qualitative comparison of each recommendation with its meaning was made. Wording may diverge heavily by Standard-Setters as some consolidate multiple requirements in each recommendation issue. However, pulling apart the single recommendation makes it possible to differentiate the requirement of each institution. After removing the duplicates – included by multiple standard-setters – a volume of 93 unique recommendations could be identified, each demanding either a policy or disclosure requirement.

Furthermore, it was possible to identify core topics – i.e., consolidated categories – in which all of the recommendations could be sorted. The following categories were clustered: tax havens, transfer pricing, regulatory compliance, tax governance, tax rate, public CbCR, engagement with authorities, controversies, and tax advocacy. These categories may sound familiar since they were also used to benchmark Rating Agencies in chapter 4.

[39] Taken from WEF (2020), Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, p. 81.

[40] Taken from WEF (2020), Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, p. 81-82.

Below is an example of the evaluation relating to the tax governance category:

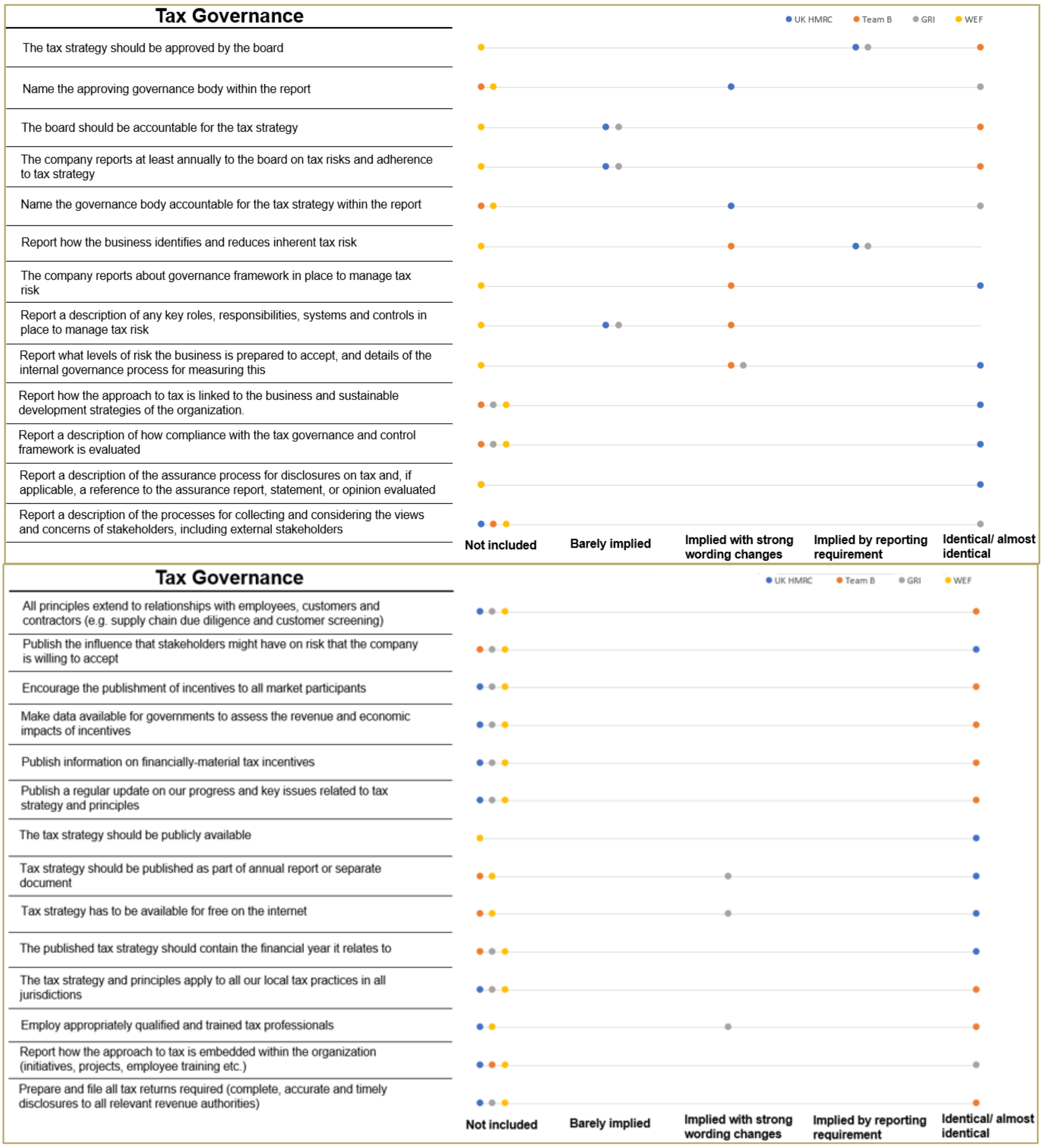

Figure 6: Example Benchmark of Standard-Setter Recommendations

It is reflected whether each standard-setter:

- does not include a recommendation;
- barely implies a recommendation;
- implies a recommendation with strong wording changes;

- implies a recommendation by a corresponding reporting requirement; or
- fully includes an identical or almost identical disclosure.

In Annex 1 the complete overview is represented for each category. All 93 recommendations are assigned into one of the categories for guidance. Summarizing the implications of all graphics in the annex, it can be said that:

- The categories used for the Rating Agencies in section 4.8. also serve as cluster topics for the Standard-Setters.
- On removing the duplicates from the recommendations, an extensive regulative environment of a total of 93 recommendations is revealed.
- Standard-Setters demand different recommendations; there is no uniform standard.

Of course, the classification could be done in various forms and follows a subjective assessment of the researchers.

6. Synthesis of Rating Agencies Criteria and Standard-Setters Recommendations

This part of the research will briefly evaluate how reporting recommendations designed by the Standard-Setters resonate with the methodologies of Rating Agencies applied within their process of an enterprise's evaluation. The results of the benchmark can be found in Annex 2.

The analysis is again structured by the nine cluster categories identified in section 4.8 and 5.5, i.e., tax havens, transfer pricing, regulatory compliance, tax governance, tax rate, public CbCR, engagement with authorities, controversies, and tax advocacy. Figure 7 is an example for the category tax governance.

Tax Governance

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	Refinitiv
1	General	The tax strategy should be approved by the board		✓			
2	External Reporting	Name the approving governance body within the report		✓			
3	General	The board should be accountable for the tax strategy					
4	General	The company reports at least annually to the board on tax risks and adherence to tax strategy		✓			
5	External Reporting	Name the governance body accountable for the tax strategy within the report					
6	General	Business identifies and reduces inherent tax risk due to the size, complexity and change					
7	External Reporting	Report how the business identifies and reduces inherent tax risk					
8	General	The company must have a governance framework in place to manage tax risk					
9	External Reporting	The company reports about governance framework in place to manage tax risk					
10	External Reporting	Report a description of any key roles, responsibilities, systems and controls in place to manage tax risk					
11	External Reporting	Report what levels of risk the business is prepared to accept, and details of the internal governance process for measuring this					
12	External Reporting	Report how the approach to tax is linked to the business and sustainable development strategies of the organization.					
13	External Reporting	Report a description of how compliance with the tax governance and control framework is evaluated					
14	External Reporting	Report a description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion evaluated					
15	External Reporting	Report a description of the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders					
16	General	All principles extend to relationships with employees, customers and contractors (e.g. supply chain due diligence and customer screening)	✓				
17	External Reporting	Publish the influence that stakeholders might have on risk that the company is willing to accept.					
18	General	Encourage the publishment of incentives to all market participants					
19	External Reporting	Make data available for governments to assess the revenue and economic impacts of incentives					
20	External Reporting	Publish information on financially-material tax incentives		✓	✓		
21	External Reporting	Publish a regular update on our progress and key issues related to tax strategy and principles					
22	External Reporting	The tax strategy should be publicly available			✓		
23	External Reporting	Tax strategy should be published as part of annual report or separate document					
24	External Reporting	Tax strategy has to be available for free on the internet	✓	✓	✓		
25	General/External Reporting	The published tax strategy should contain the financial year it relates to					
26	General/External Reporting	The tax strategy and principles apply to all our local tax practices in all jurisdictions	✓	✓	✓		
27	General	Employ appropriately qualified and trained tax professionals	✓				
28	External Reporting	Report how the approach to tax is embedded within the organization (initiatives, projects, employee training etc.)					
29	General	Prepare and file all tax returns required (complete, accurate and timely disclosures to all relevant revenue authorities)					

Figure 7: Example of synthesis of Rating Agencies criteria and standard-setters recommendations

Recommendations were furthermore labelled by their scope of content as: general, which covers general tax behavior and focuses on policy-related issues, and external reporting, covering issues focused on the discourse of specific tax-related information.

Comparative analyses regarding the reflection of the Standard-Setters recommendations in the practices of each Rating Agency's evaluation were conducted based on a qualitative comparison. The extracted demand of each recommendation was compared to either the Rating Agencies' methodology documentation or the information gathered in the interviews.

The table in Annex 2 shows whether every reporting requirement matches the methodology of a Rating Agency. The insights on the graphics can be summarized as follows:

- The categories of Transfer Pricing and Tax Havens are reflected quite well in the Rating Agencies' methodology in general. As these items go hand in hand, they are easily reflected with composite measures. Between the two, the coverage is more dominant for Transfer Pricing. All Rating Agencies incorporate the items within that category. ISS ESG and S&P additionally fulfil almost every item of the category Tax Havens.

- For the public CbCR, ISS ESG and S&P take leading positions. ISS ESG has the most pronounced inclusion of CbCR issues. Other than these two, no other Rating Agency included CbCR.

- Regulatory Compliance is well adapted within the methodologies. While four of the Rating Agencies incorporate at least 2 out of 5 recommendations, Sustainable Fitch neglects this topic.

- Every Rating Agency takes account of tax controversies, at least when it comes to bribery of government officials. Apart from this, only S&P manifests a deeper analysis and incorporates three out of four recommendations in this category.

- The Rating Agencies do not consider tax governance. Some recommendations can be seen as fulfilled for ISS ESG, S&P, and Sustainable Fitch; however, they mostly focus on the general availability of a governance framework. Most recommendations are neglected.

- Public Advocacy and Interaction with Tax Authorities are not picked by any Rating Agency and therefore no recommendation is fulfilled.

Generally expressed, the Rating Agencies have rather different approaches to including the 93 recommendations. Also, the recommendations are addressed very differently.

7. Stakeholder Analysis

The previous goal was to learn about the current standpoint of sustainability-related tax recommendations. The derived picture of sustainable taxation indicates clear items in focus regarding both tax behavior and tax reporting. Furthermore, insights on the Rating Agencies' perspectives and how they integrate taxation into their methodologies of ESG ratings were gained.

Building on these identified critical areas of sustainable tax behavior, it is of great interest to gather internal stakeholders' perspectives on this perception of sustainable tax behavior and tax reporting to critically question what is relevant in a business and a sustainable development context.

For the purpose of this research, internal stakeholders are defined as individuals situated in the corporate environment, i.e., employees and management positions in different industries. The aim is to capture a uniform perception since individual opinions may diverge depending on the field of expertise an individual represents.

7.1. Construction of the survey

To gather the different opinions needed to obtain a view of the internal experts' perception, one needs to transition the relevant items identified beforehand into a questionnaire capable of being distributed as a survey. As there are different pertinent areas in the sustainable tax discussion and it is of didactic interest to guide participants towards specific tax questions in an easily understandable way, the survey was divided into the following parts:

- Demographic Identification
- General ESG & Stakeholder Capitalism
- Tax Behavior and Tax Policy
- Tax Reporting
- Knowledge in the field and future perspective

The goal of each part and how they were addressed within the survey will be shown in the following paragraphs.

7.1.1. Demography

Information on each individual's professional background was gathered to classify each participant into a specific expert group. This step is essential to identify how participants' answers vary according to their particular characteristics and to ensure that only respondents belong to the sample that satisfy the definition of a stakeholder in the context of this research. Key questions aim at:

- Enterprise identification (not disclosed)
- Customer segment classification
- Industry classification
- Job level classification
- Educational background
- Specification of individual job experience

7.1.2. General Part

Before moving into the specific direction of taxation, the questionnaire incorporates two general questions that guide toward the general concept of sustainable stakeholder capitalization and sustainable development. Those serve two purposes.

- **First**, the respondent is familiar with the overall frame of the survey, which is pointed at the sustainability context. To not lose track of background, it is of interest to start and end the survey with more generally ESG-focused questions that contrast taxation to other items deemed relevant for sustainable development.

- **Second**, to identify an individual's stakeholder orientation and capture how taxation's relevance is perceived in contrast to other sustainable development topics without any preliminary gathered information on sustainable tax and possible problem areas.

According to this, the respondent is given two tasks:

- To order a selection of seven stakeholders in the order of perceived relevance;

- and to arrange twelve items of sustainable development in the personal order of perceived priority. The items available for choice are derived from the popular reporting framework of the GRI, which is one of the view frameworks focusing on many topics and, at the same time, incorporates taxation as one element. Furthermore, items are equally distributed on the environmental, social, and governance pillars, i.e., four items per pillar.

The questions are formulated to put the decision power of the respondents' enterprise in each participant's hands. This approach aims to capture the individual belief, not the enterprise's ideology.

7.1.3. Tax behavior and policy section

Following the general part, the ongoing questions of the questionnaire have an explicit taxation focus and strive an isolated picture of relevant components of sustainable tax behavior. Since some target groups of the survey might not have excellent knowledge of taxation, it is essential to explain the relationship between sustainability and taxation, as it can be found in recent discussions from an objective perspective. Therefore, information is given on what possible governmental spending can target (e.g., steering and revenue functions). Also, the concept of Sustainability Development Goals is explained. The survey also informs that governments rely upon public income (i.e., tax payments) to fund the achievement of these goals.

Subsequently, there are three goals of this section:

- To measure the potential impact of corporate tax savings on the business value, the SDGs, the enterprises' reputation, the enterprises' financial output, or the reduction of stakeholder pressure in an applied business case. All are measured on a 5-point Likert scale ranging from "strongly disagree" to "strongly agree".

- To capture whether tax savings can have a "lower", "same", or "higher" impact on the fulfillment of each of the twelve topics of sustainable development (as defined in the General Part) compared to leaving the funds to the government, i.e., asking whether the funds can achieve a more significant impact at the government or the enterprise level.

- To identify enterprises' most relevant tax policy actions by measuring each action's perceived impact on either business value or the fulfillment of the SDGs.[41] The actions included are based on the components identified in section 4.8 and 5.5; i.e.: Strong tax governance, policy management against the use of tax havens, policy management to promote public advocacy, policy management to promote the interaction with tax authorities, policy management to track the current ETR, policy management

[41] For the classic separation of the business development rational and the sustainable development rational see Dyllick, T. & Muff, K. (2015). Clarifying the Meaning of Sustainable Business: Introducing a Typology From Business as Usual to True Business Sustainability. Organization & Environment: p. 1 et seq.

to disclose how many taxes have been paid by each jurisdiction and policy management to reduce corruption towards tax authorities. This question is measured on a 5-point Likert scale ranging from "strongly disagree" to "strongly agree".

Again, the individuals are put into the decision makers' perspective to remain at a corporate view but also detach choices from enterprise-specific ideologies.

7.1.4. Reporting section

Besides tax behavior, the other big focus of the survey was the transparency about it. It is important to learn what the internal experts think about the benefit of tax-specific sustainability reporting. Also, the survey aimed at capturing the granular reporting items relevant in this context.

Subsequently, the following elements were included:

- The respondent was given examples of tax-specific disclosures in sustainability reporting and then asked whether this has added value compared to the sustainable business behavior shown in the section before. Again, the impact is measured on both the business value and sustainable development on a 5-point Likert scale ranging from "strongly disagree" to "strongly agree".

- The respondents had to rank different reporting items according to their perceived priority. The ordering was done twice: In the context of the business value and sustainable development. All reporting items were closely aligned to the sustainable tax components identified in sections 4.8 and 5.5; i.e.: disclosures of governance attributes, disclosures on regulations in tax havens, disclosures on public advocacy, disclosures on the interaction with tax authorities, disclosures on the aims for tax rates, disclosures on taxes paid by jurisdiction, and disclosures on anti-corruption measures towards tax authorities.

- From an enterprise-level perspective, it was asked whether tax-related sustainability reporting was relevant now or in 5 years and if it shows good citizenship. All were measured on a 5-point Likert scale.

- The concept of Total Tax Contribution (i.e., disclosing information on all payments to governments, also those paid on behalf of the employees and customers) was shortly introduced. The perceived impact was also measured on a 5-point Likert scale and separated by business value and sustainable development.

7.1.5. Section on knowledge within the topic

The last part of the questionnaire includes elements that focus on the participants' knowledge of standard setter frameworks and the ESG Ratings that include taxation in their methodologies. This aimed to classify whether the participant brings in a substantial amount of topic expertise but was also meant to measure the notoriety of each framework and rating.

Subsequently, the following elements were included:

- The participants were asked to indicate their familiarity with each tax reporting and tax behavior framework on a 5-point Likert scale. The UK HMRC was not included in the survey since it solely focuses on the United Kingdom.
- The same was done for the ESG ratings.
- Lastly, the participants were asked to indicate whether they think tax-related ESG reporting should be a part of a Rating Agency's methodology

7.2. Target and distribution

The survey was meant to focus on internal stakeholders to learn about expert opinions from different expertise fields and standpoints. The target departments and areas were:

- Taxation
- Sustainability
- Financial Reporting and Accounting
- General Finance
- Legal
- Human Resources
- Workers Councils

However, the survey distribution was not limited to those target groups. It was the goal to get as many target groups by enterprise as possible, so the results show a significant width in terms of the total enterprise volume represented and depth by different departments per enterprise. To drive such depth and ensure the quality of results, enterprises were only contacted personally, and survey links were sent out to each participant individually.

Used channels for advertising the survey were LinkedIn and the website of the European Business Tax Forum. Interested parties needed to contact the European Business Tax Forum or the University of St. Gallen research team to participate. Besides, the target enterprises were contacted directly and asked for their cooperation.

7.3. Description of the sample

The final sample includes 50 experts from 16 large-listed enterprises in Europe. Due to data privacy reasons, the enterprise names cannot be disclosed. However, the following tables provide an overview of the country and industry distribution of the participating enterprises:

Industry		Country	
Financials	4	Switzerland	4
Energy	2	United Kingdom	3
Industrials	2	Netherlands	2
Utilities	2	Italy	2
Consumer Staples	2	France	1
Consumer Discretionary	1	Finland	1
Health Care	1	Spain	1
Information Technology	1	Sweden	1
Materials	1	Liechtenstein	1

Figure 8: Country and industry distribution of sample

The demographics of the 50 participants can be described as follows:

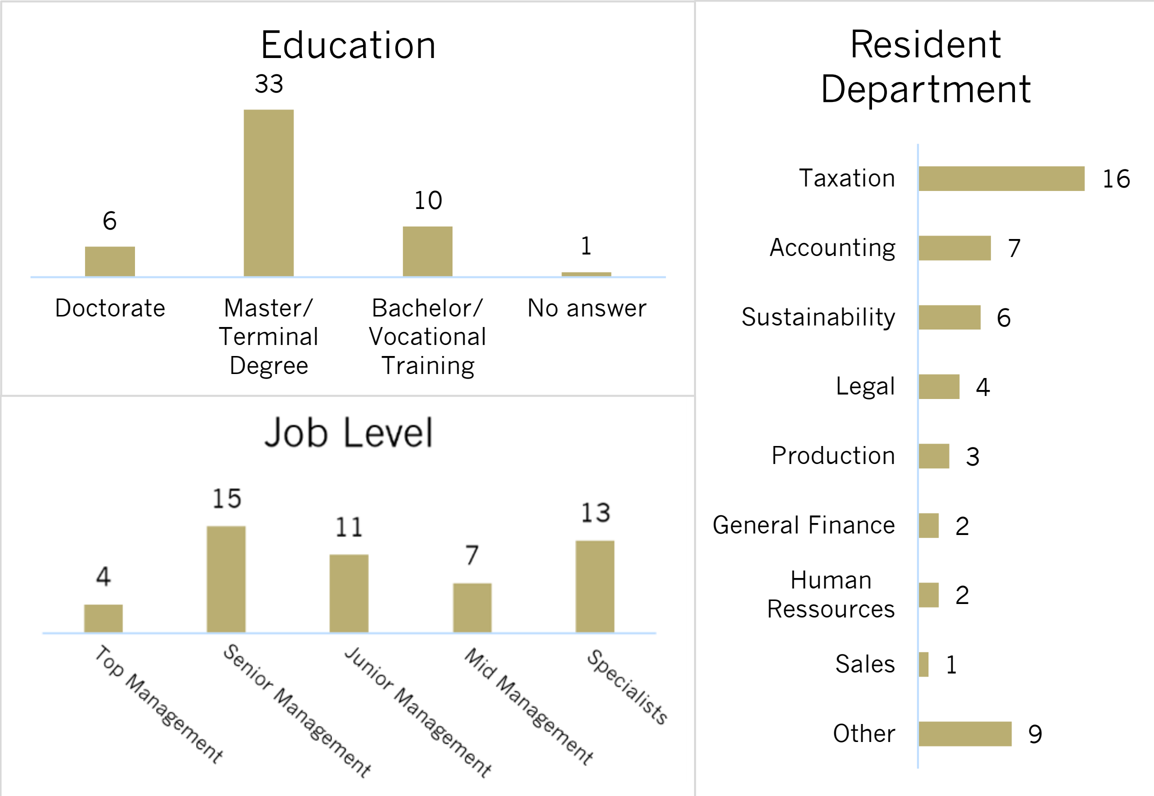

Figure 9: Sample demography

As shown, a large proportion of the population stems from the field of taxation, accounting, and sustainability. This distribution is not surprising since these are the fields most affiliated with sustainable tax policies and reporting and the primary applicants of the common standards discussed in chapter 5.

7.4. Results

The following section concentrates on aggregating and illustrating the responses of the experts. Key findings will be pointed out, also giving possible interpretations and implications. The analysis starts with a general framing of taxation in the context of other topics associated with sustainable development. Afterward, an isolated view of relevant components within sustainable tax policies and behavior follows. Concludingly, the reporting landscape will be addressed.

7.4.1. Relevance of taxation as an ESG topic

Question: Imagine you had the resources and capabilities to take the topic of sustainable development into your hands. What would be your main priority issues to tackle in your enterprise?

To benchmark the different ESG topics to one another, the participants had to rank them according to their prioritization if they could choose the resource allocation of their enterprise.

The illustration on the right provides an overview of each topic's average ranking.

The term x #1 refers to the number of times the respective item was selected in first place.

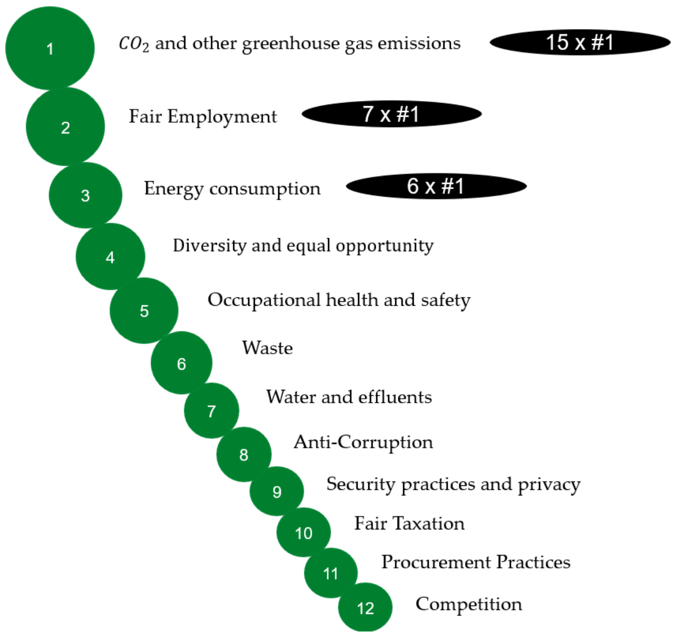

Figure 10: Preceived importance of sustainable components

It can be seen that environmental and social topics are perceived as relatively necessary then compared to the other components of sustainable development. Governance topics like Anti-Corruption practices, Security and privacy, Competition practices, and Fair taxation were regularly put at the bottom of the priority list. This indicates that taxation is instead seen as a less urgent topic than the others.

It is notable that those topics seen as crucial are closely related to the sustainable development goals. Having in mind that enterprises are already dedicated to the SDGs the participants may also perceive them as focus topics in this study.

After a short introduction to sustainable taxation, the participants were again asked to indicate how they would allocate their enterprise's resources; however, this time, they should compare each topic directly to the subject of fair taxation. Specifically, they should decide whether the impact of legal tax savings of 50 Million euros is higher than allocated to either one of the below-shown issues or left to the government for their purposes. The decision had to be made to satisfy the most significant perceived sustainable impact.

Question: Assume that you approved a revised transaction model, and you will save USD 50'000'000 in corporate income taxes. Due to such fact, your enterprise has USD 50'000'000 more to spend. Do you believe that the following spending alternatives have a higher positive impact on the SDGs compared to not using the revised transaction model option and paying USD 50'000'000 additional taxes?

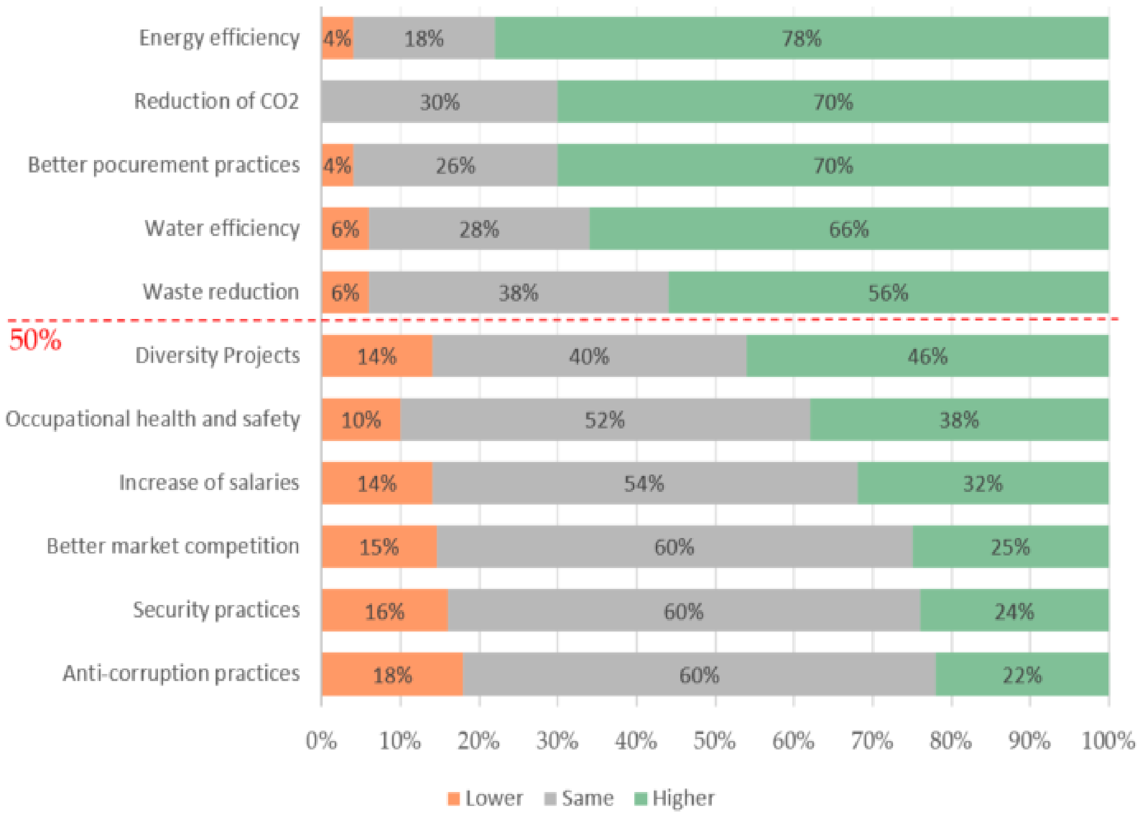

Figure 11: Compared impact of enterprise activities to tax payments

The red dotted line in Figure 13 refers to the 50% approval rate border. For all items below less than 50% of all participants perceived such as relevant. Respectively, items above this line draw over 50% of all participants approval. This definition corresponds to all following Figures.

The results confirm the indication that was given in the first ranking. Especially spending on environmental issues is believed to have a higher impact than focusing on fair taxation. This belief implies that funds may be needed to reinforce the dedication of enterprises to CO2 targets and other environmental goals. In general, it is visible that the participants do not trust that funds are more impactful when left to the government. For every sustainable enterprise action, the perceived impact is at least recognized to be the same as if the funds were paid as taxes and then redistributed by the government.

7.4.2. Tax policy and behavior

Having an isolated view on taxation, there are different possibilities for fostering fair tax behavior that have already been pointed out as the sustainable tax categories in sections 4.8 and 5.5. The participants were asked to critically assess these categories in the light of their benefit for sustainable development and business value.

Question: **You are responsible for implementing different business activities and policies.** *Please choose if they are relevant to you in the light of sustainable development.*

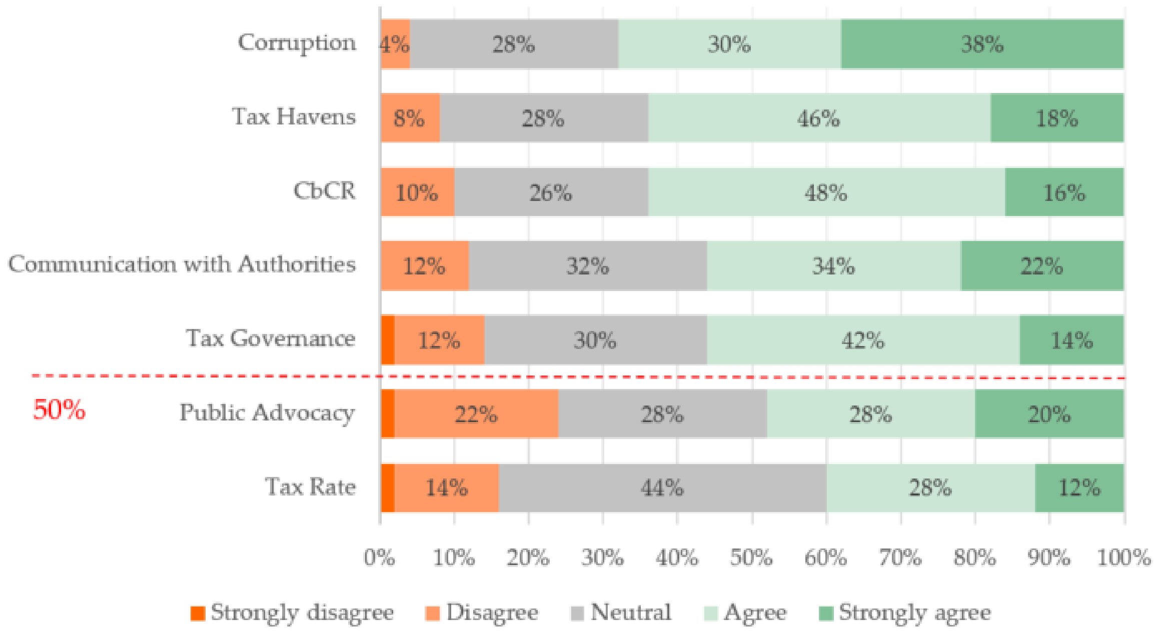

Figure 12: Sustainable value of tax behavior

Question: **You are responsible for implementing different business activities and policies.** Please choose if they are relevant to you for improving the business value.

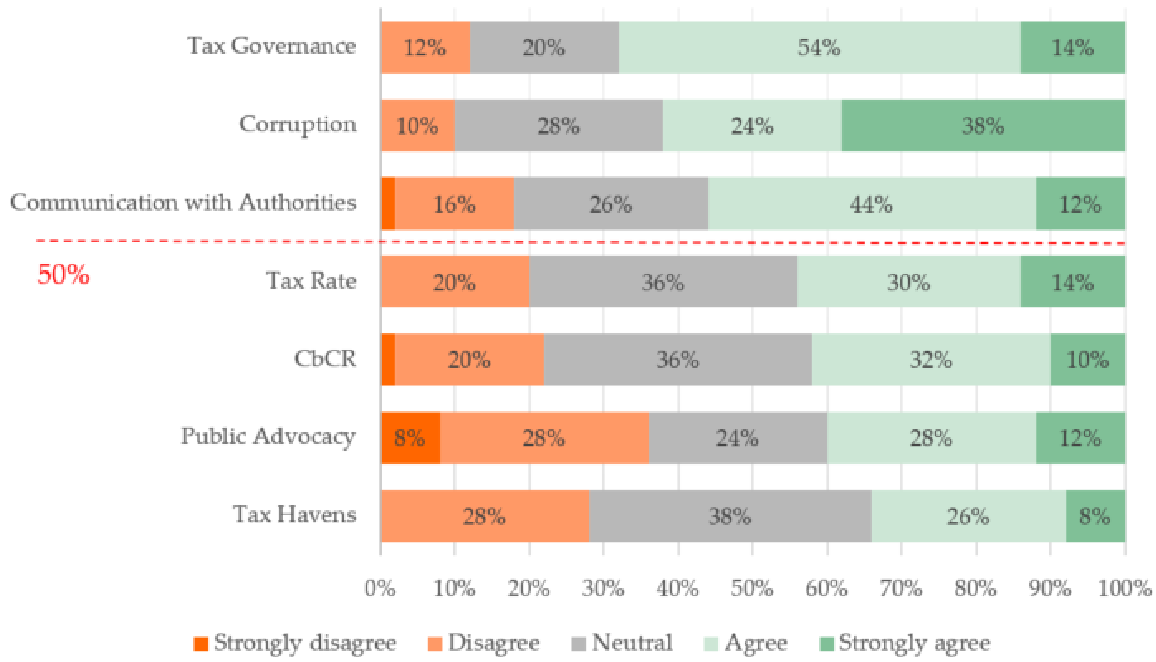

Figure 13: Business value of tax behavior

As it is visible, there are differences in perceived relevance of each topic depending on the objectives they are considered in.

Regarding the benefits for sustainable development, prevention practices relating to corruption towards tax authorities were evaluated as the most relevant item to encourage. Also, policies to regulate business activity in low-tax jurisdictions and public country-by-country transparency were seen as rather impactful compared to the other taxation-related components.

Viewed as a tool for improving business value, tax governance exhibits the best perspective to achieve such a purpose. Anti-Corruption practices and regular communication with tax authorities are also relevant.[42]

The results must be regarded with caution. Seemingly highly relevant components are only ranked compared to other taxation-related issues, and no statement can be made

[42] E.g. the integration of tax risks in the governance structures is framed by Erle, B. (2008). Tax risk management and board responsibility. In W. Schön (Ed.), Tax and corporate governance (pp. 205–225). Berlin: Springer and Friese, A., Link, S. & Mayer, S. (2008). Taxation and corporate governance - State of the art. In W. Schön (Ed.), Tax and corporate governance (pp. 357–425). Berlin: Springer.

about how each of the items would perform towards other topics of sustainable development or the SDGs. The results solely indicate the most relevant items within the subject of sustainable taxation.

When comparing the two objectives of sustainable development and enhancing the business value, mentionable similarities and differences can also be observed. The prevention of corruption towards tax authorities is shown to be highly relevant for both, which might be grounded in the significant risk to shareholders that corruption generally bears. The biggest difference is observed for policies that restrict business in low-tax jurisdictions, which have a 64% approval rate for sustainable development and only a 34% approval rate for driving the business value. The exact relationship is also true for public country-by-country reporting that achieves 64% approval in the light of sustainable development and only 43% approval relating to the business value. Remembering the similar purpose of both enterprise actions – restriction of profit shifting to low tax jurisdictions – it makes sense that similar results are visible for both.

Furthermore, viewing all components in a big picture, the results indicate that most items achieve higher approval rates for sustainable development. While only two enterprise actions (Public Advocacy and the tracking of the Tax Rate) score below a 50% approval rate for sustainable development, the background of pushing the business value shows four of the seven components below the 50% mark.

7.4.3. Tax-related sustainability reporting

In contrast to internal policy management and behavioral output in taxation, most frameworks also recommend reporting certain aspects and including information about their approach to taxation and key performance indicators in an enterprise's sustainability report. The following will address the respondents' opinions on this in general and afterward split up into different components of sustainable tax reporting.

Question: **Would you see any additional value in publicly disclosing respective policy information, the goals aimed, and the status of fulfillment?** Please differentiate between the perspective of sustainable development and business value.

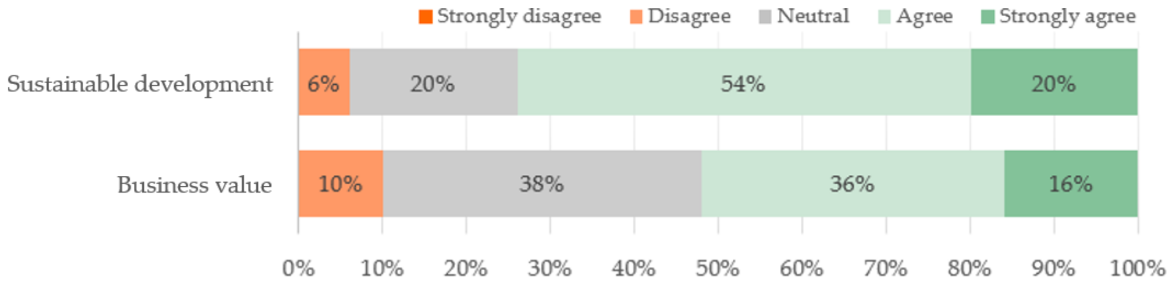

Figure 14: Additional value of tax related disclosure

As visible, the participants do see additional value in disclosing tax-related information to foster sustainable development, as 74% agree with this statement. From the perspective of improving the business value, the approval rate is just above 50%, which denotes a reduction when changing the evaluation purpose.

Question: **Would you agree with the following statements?**

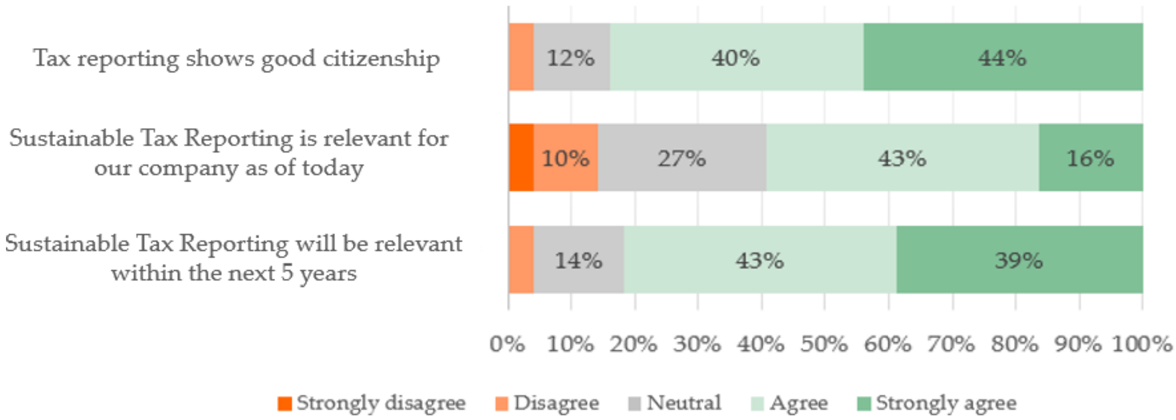

Figure 15: Future relevance of tax reporting

Also, the majority of the participants confirm that sustainable tax reporting is relevant to them already, and 82% believe that it will gain relevance within the next five years. Furthermore, 84% answered that tax reporting is a sign of good corporate citizenship.

The participants had to rank different reporting topics on a seven-level scale to learn about the most relevant tax reporting items. The reporting items correspond to the components introduced earlier. The task shall now bring to light the additional value of disclosing each single topic.

Question: As in terms of relevance for sustainable development: Please order the following below-mentioned reporting items in terms of priority if you had to choose to disclose such information.

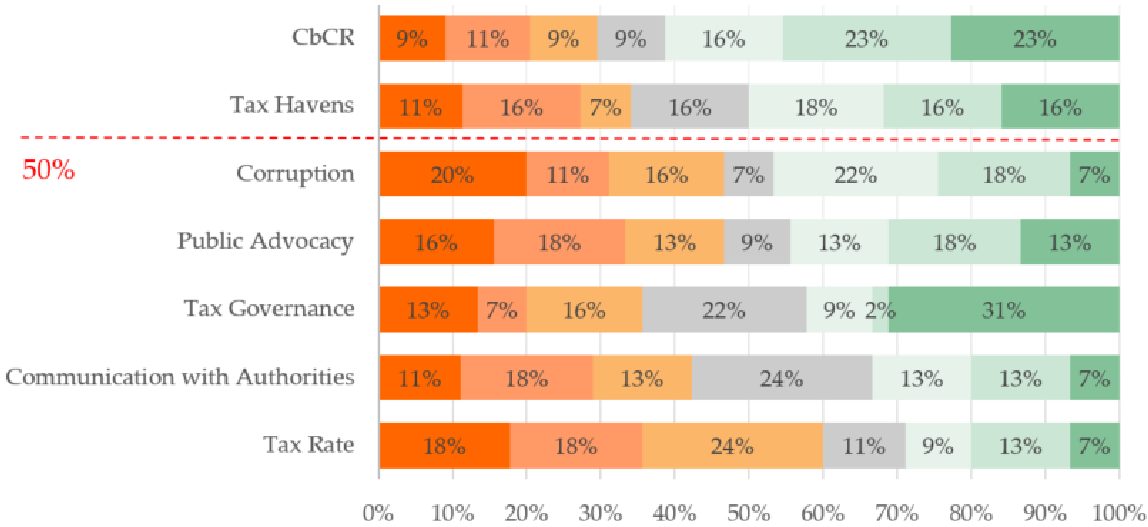

Figure 16: Sustainable value of tax reporting

Question: As in terms of relevance for the business value: Please order the following below-mentioned reporting items in terms of priority if you had to choose to disclose such information.

When concerning sustainable development, CbCR (62% approval rate) and information relating to business activity in tax havens (50% approval rate) were considered the most critical disclosures compared to the other topics. Also, information on anti-corruption practices is close to the majority mark (48% approval rate). The observations correspond to the findings for the tax policy and behavior section, where the same three items scored

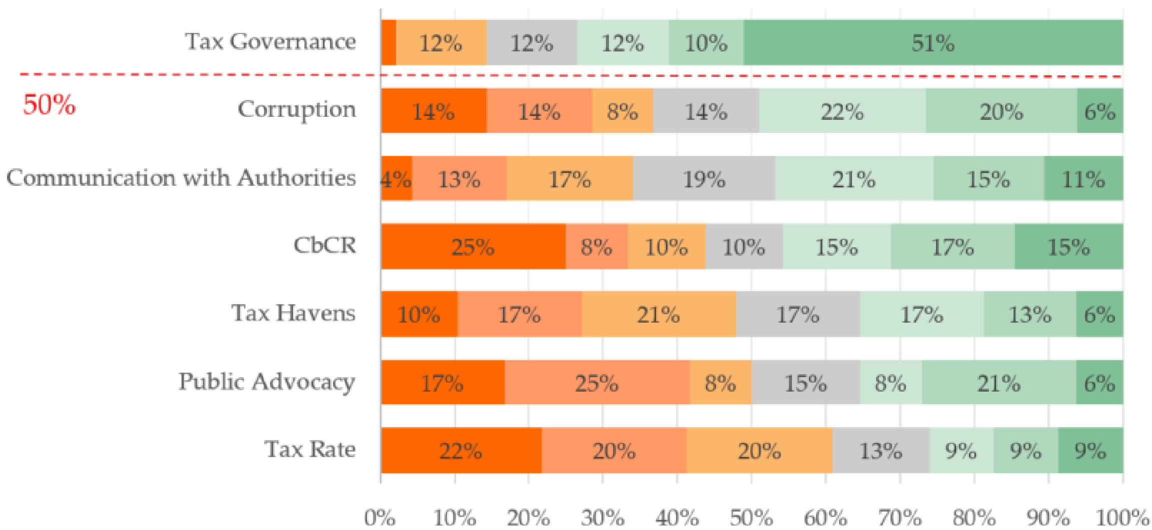

Figure 17: Business value of tax reporting

the most. This interaction implies that transparency relating to activity in low-tax jurisdictions is believed to have a sustainable effect.[43] In general, however, fewer items reached a majority rank than comparing the policy and reporting sections, indicating that policy management and tax behavior are more relevant than being transparent about each item.

In view of the business value, even fewer items reached above an approval rate of 50%. However, information on tax governance, communication with authorities, and anti-corruption practices were again judged the highest relevant, contributing to the theory that this information is relevant to shareholders and investors.

Overall, it can be said that the approval rate for reporting items is higher for sustainable development than for business value; however, an enterprise's actions are more crucial than transparency in general.

7.4.4. Differences within the sample

Notably, almost every result is robust to subsample analysis. When the sample is divided by industry groups and knowledge levels within the topic of sustainability and tax reporting, divergence views can be observed. The following is worth pointing out.

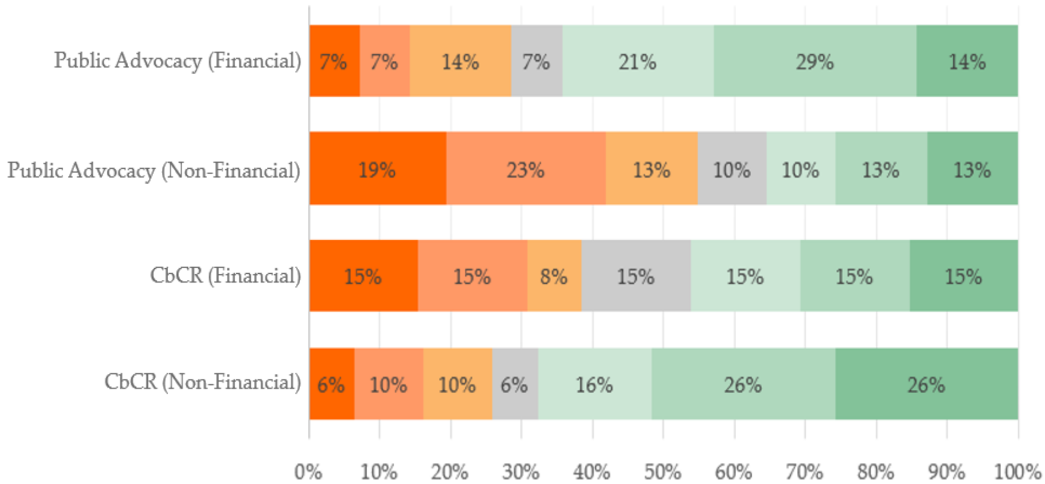

Figure 18: Differences in the sample - Industries

43 See for fellow research on profit shifting De la Cuesta-González, M. & Pardo, E. (2019). Corporate tax disclosure on a CSR basis: a new reporting framework in the post-BEPS era. Accounting, Auditing & Accountability Journal, 32(7): p. 2167–2192.

When looking at financial and non-financial industries, the prioritization of Public Advocacy and CbCR in the light of sustainable development changes quite heavily. Financial industry relatives assign higher relative relevance to Public Advocacy and less relevance to CbCR than non-financial industry relatives. This divergence is valid for the policy section as well as the reporting section.

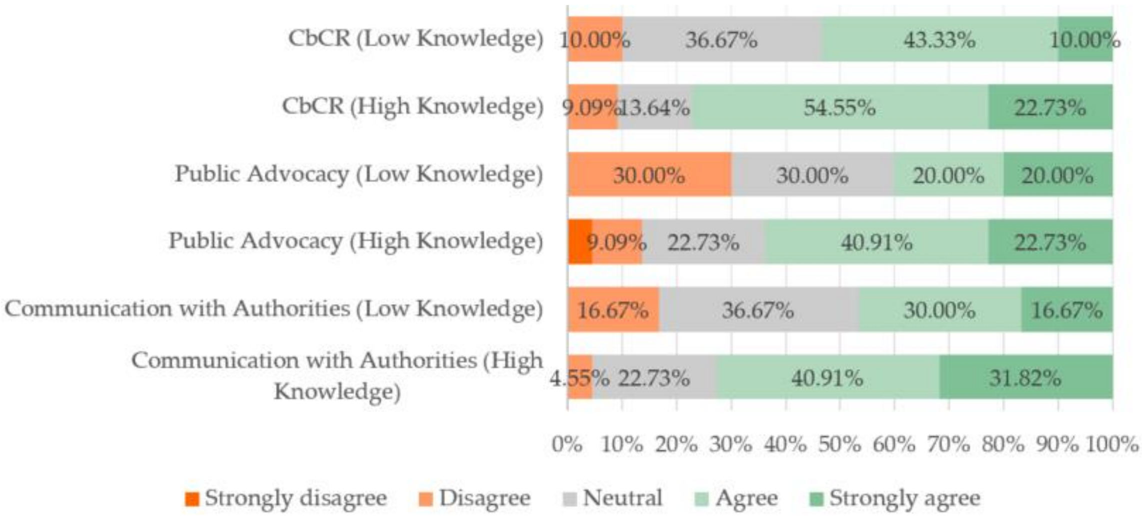

Figure 19: Differences in the sample - Knowledge

Similarly, this can be observed for participants with more knowledge of sustainability and tax reporting. Those participants ranked the interaction with authorities and the public higher on average. Also, CbCR shows a considerable step up for the participants with more knowledge of sustainability and tax reporting.

7.4.5. Limitations

The results must be interpreted with caution. The sample consists of 50 experts, which allows for an indication of the opinion of enterprise representatives but cannot be representative for the region of Europe nor specific countries or industries. All implications formulated and graphics shown are meant to contribute thoughts to the discussion of sustainable tax behavior and reporting and do not aim to advise policy management and uniform standard development.

8. How to Proceed?

8.1. Introduction

The analysis so far has shown that the variety of recommendations used is impressive. It seems clear that such heterogeneity cannot be sustained in the long run as it causes confusion at all ends. Confusion in the sense that there is no clarity on which recommendations are helpful to drive sustainable development and what would be an effective way to implement them for MNEs. Therefore, in this last chapter, a potential way forward is outlined with a demonstration of which direction the development could go.

8.2. Risk vs. Impact?

It is well known that ESG ratings, ESG standards, and ESG policies, in general, can have (and have!) two different goals:

1. Risk reduction: Achieving a sustainable development of the value of an enterprise (e.g., stock price) by reducing ESG risks.

2. Impact: Having a positive impact on the SDG.

For instance, recommendations in the governance pillar often aim at reducing risks within MNEs (goal 1) and not primarily at the impact an MNE has on the SDGs (goal 2). However, recommendations in the environmental pillar might be more impact-oriented (goal 2). This has also been outlined above.[44]

Of course, if the two goals are aligned, it would not cause problems in practice. Though there is some congruence, there are also several conflicts between the goals. The following two rather extreme examples can illustrate this:

- It would be possible for an oil company to cease its business activity completely. By doing so, its impact on SDG 13 (Climate Action) might be the highest; however, of course, this would be detrimental to the business value of such an enterprise.

- An enterprise could decide to use its entire profits to invest into green energy transformation. By doing so, the enterprise will positively impact SDG 13 (Climate Action) but will simultaneously be detrimental to developing

[44] See section 3.4 and section 5.

the business value in the classical valuation sense, as it would not have funds left to pay dividends and meet shareholders' expectations.

While reflecting on the role of tax behavior as part of an ESG rating, it becomes evident that the measurement of tax behavior is one area in which these conflicts between the two aims are omnipresent. This is because tax payments only have an indirect impact on sustainable development. It depends on state spending whether paying one Euro of taxes positively or negatively impacts the SDGs. Therefore, it is worth assessing whether the current recommendations mainly aim at addressing one or the other of the two goals.

8.2.1. A meaningful risk assessment

8.2.1.1. Introduction

It goes beyond the purpose of the present study to assess the link between an enterprise's business development and its tax behavior in detail. Nevertheless, a few remarks are necessary. It is empirically challenging, if not impossible, to understand whether there is a clear causal relation between the tax behavior of a multinational enterprise and the development of the stock price or the business value in general.

There is already a wide variety of (empiric) literature available on the relation between tax planning and its impact on stakeholders' reception, such as:

- Executives[45]
- Consumer[46]
- Investors[47]

However, there is no clear understanding of what kind of tax recommendations indeed have, per se, a positive impact on business development in general and the stock price in particular. This is because the causes of a stock price increase and positive business development depend on industry-specific parameters that can change over time. Moreover, consumers and investors are essential value drivers; however, what is considered good and bad tax behavior depends on each consumer’s and investor’s perception.

[45] See e.g. Graham, J. R., Hanlon, M., Shevlin, T. & Shroff, N. (2014). Incentives for Tax Planning and Avoidance: Evidence from the Field, The Accounting Review: p. 991 et seq.

[46] See e.g. H. Asay, H. S., Hoopes, J. L., Thornock, J. R. & Jaron H. Wilde (2018), Consumer Responses to Corporate Tax Planning, SSRN.

[47] See e.g. Hanlon, M. & Slemrod, J. (2009). What Does Tax Aggressiveness Signal? Evidence from Stock Price Reactions to News About Tax Shelter Involvement. Journal of Public Economics 93 (1–2): 126–141.

For instance, the relative importance of an ESG rating for investors can change. Currently, these ratings are presumably very important; therefore, it might have a positive impact if an MNE reviews how such ratings could be improved. Moreover, the role ESG Rating Agencies attribute to taxation can impact the relationship between tax behavior and stock price development. Such a role's significance can also change over time. It was already shown that there are various approaches to assessing how an MNE performs in tax matters. Maybe in the future, taxation will become even more or less critical within these ratings.

Therefore, whether tax behavior has an important impact depends on a stakeholder's perception of what is considered good and bad tax behavior and this could, for instance, be assessed through a stakeholder analysis. To outline this in more detail, the following will look at the actual risks.

8.2.1.2. What kind of risks are we talking about?

In tax matters, the main potential risks are the following:

- **Reputational risks:** For instance, using offshore companies with no economic substance could be perceived as aggressive and, therefore, either investors or consumers would put pressure on the MNE to step back from such structure or even chose not to consume (as a consumer) or divest (as an investor). Therefore, this can negatively impact the stock price or the business development.

- **Risk of higher tax payments / financial risks:** For instance, one could argue that the less effectively the tax function is governed in an MNE, the higher the risk that the MNE will face higher tax payments in the future. The tax provisions disclosed in the financial statements might not be sufficient to offset these additional tax payments.

Both risks can potentially impact the stock price and the business value, but again, as already mentioned, the first risk is based on unknown, enterprise-specific, and dynamic parameters. Therefore, it is impossible to unconditionally develop clear recommendations to reduce such first risk.

With respect to the second risk, however, there is room for recommendations that might help to reduce such risk. In particular, the following examples, derived from GRI 207-2 seem effective, but it is questionable whether reporting about these recommendations provides for an additional risk-reducing benefit or whether implementing them per se is already sufficient:

The reporting enterprise shall report the following information:

a. *A description of the tax governance and control framework, including:*

   i. *the governance body or executive-level position within the enterprise accountable for compliance with the tax strategy;*

   ii. *how the approach to tax is embedded within the enterprise;*

   iii. *the approach to tax risks, including how risks are identified, managed, and monitored;*

   iv. *how compliance with the tax governance and control framework is evaluated.*

Especially (iii) and (iv) seem particularly helpful in order to reduce the risk of higher tax payments due to weak governance and compliance structure.

8.2.1.3. Intermediate conclusion

From the perspective of an MNE it might make sense to follow their stakeholders' current narrative and apply specific standards and implement the tax recommendations. Following these standards might positively impact business development and the stock price. However, these narratives can change over time, and for each MNE, the stakeholders' needs might differ. It is also shown above that stakeholders have quite different views on the importance of tax.

Therefore, it seems impossible to make eternal recommendations. No clear recommendations in the tax area that would unconditionally lead to a positive development of the stock price independent of the stakeholders' perception have been identified. Of course, however, improving the internal governance within the tax function might reduce the risk of additional tax payments in the future for which no tax provisions have been made.

8.2.2. Impact assessment

8.2.2.1. Introduction

To assess an enterprise's impact, one needs first to define the metric. How should it be assessed whether an enterprise has a positive impact or not? What is the benchmark? One path could be to keep relying on the Sustainable Development Goals (SDGs). There is a broad consensus that this is indeed a normative base. Relying on the SDGs has the advantage that one does not need to dig into a fundamental question of what is good and what normatively lousy behavior is.

If the SDGs are used as an agreed normative framework, it needs to be assessed what kind of tax behavior positively impacts any SDGs. As SDGs are rather abstract concepts, reliance on the so-called SDG indicators could provide us with more substance.

Current sustainability standards tend to oversimplify that higher tax payments are, per se, good for the SDGs. For instance, some Rating Agencies review whether a significant difference exists between the ETR of a multinational enterprise and its competitors. One underlying argument could be that the higher the ETR is, the higher the impact is. A similar approach is taken by relying on the total tax contribution.

This is not evident. It all depends on what states do with the additional revenues. In some states, the money might indeed be spent for SDG-enhancing purposes. In others, the revenues might even be used for SDG-reducing purposes. Therefore, it is not recommended using oversimplified metrics such as the ETR of an MNE compared to its competitors.

The same is true for mere transparency measures. For instance, the question of whether a tax policy is published or not does not have a direct impact on the SDGs.

8.2.2.2. SDG Enhancing Behavior (Direct Approach)

When assessing the SDG indicators, the following items could be of relevance:[48]

- **12.6.1 Number of enterprises publishing sustainability reports**

- **16.5.2 Proportion of businesses that had at least one contact with a public official and paid a bribe to a public official or were asked for a bribe by those public officials during the previous 12 months.**

- **17.3.1 Additional financial resources mobilized for developing countries from multiple sources.**

However, not all of these indicators can directly be influenced by MNEs. According to Indicator 12.6.1, it seems evident that it is SDG-enhancing if an enterprise publishes a sustainability report; however, there are no specifics concerning the content. Other indicators, such as Indicator 16.5.2, could indeed be used to measure the direct impact of a multinational enterprise. For instance, the following more concrete recommendations could be designed in the tax area:

- **Use no success fees for audit negotiations (or with consultants/tax advisors) in countries with a high level of corruption. Success fees increase the risk of corruption.**

- **An extent supplier code of conduct to tax advisors/legal advisors.**

[48] United Nations (2017). SDG Indicators, found at: https://unstats.un.org/sdgs/indicators/indicators-list/, retrieved on 29.03.2023.

- **A supplier code of conduct should include a section on the prohibition of corruption and a reporting obligation in case of bribery attempts.**

- **There should be no link between bonus payments to employees and the ETR of MNEs. Such practice might also increase the risk of corruption.**

- **A general reporting obligation for all employees in case of attempts of bribery by tax authorities.**

8.2.2.3. SDG Enhancing Behavior (Indirect Approach)

Besides such a direct approach, one could also think of an indirect approach. This means to look at how much taxes (total tax contribution) an enterprise pays and whether such payments are used for SDG-enhancing purposes.[49] Therefore, it would be needed to measure the indirect impact tax payments have through the performance of the countries that receive tax payments.

There is already data available on the SDG performance of countries.[50] There are two options, but both have weaknesses.

- **Option 1:** Relying on a country's SDG performance in the tax year. For instance, in one publicly available assessment,[51] Finland has the best SDG rating; therefore, paying taxes in Finland would be valued better than paying taxes in Somalia. Obviously, this leads to counterintuitive results. In some states, most SDG goals are already fulfilled. In other states, there is much room for improvement. It is rather apparent that generally developed countries perform better compared to developing countries. Therefore, relying on a country's performance could lead to a situation in which an MNE would perform better if it paid its taxes in developed countries.

- **Option 2:** Instead of relying on a country's SDG performance in the tax year, one could look at level of improvement of a country's SDG performance. Therefore, it would be better to pay taxes in a state that has increased its SDGs relatively more than other countries. At first glance, this seems to be the more persuasive incentive as multinational enterprises would be interested in paying taxes in states that

[49] A starting point for the relation of tax and sustainability is delivered by Davis, A. K., Guenther, D. A., Krull, L. K. & Williams, B. M. (2016). Do Socially Responsible Firms Pay More Taxes? The Accounting Review, 91(1), 47–68.

[50] See e.g. United Nations (2023). Rankings: The overall performance of all 193 UN Member States, found at: https://dashboards.sdgindex.org/rankings, retrieved on 29.03.2023.

[51] See United Nations (2023). Rankings: The overall performance of all 193 UN Member States, found at: https://dashboards.sdgindex.org/rankings, retrieved on 29.03.2023.

improve their SDG ranking and, therefore, help to achieve the SDGs. Such an approach also has a major weakness, as countries with a very high SDG ranking have little room for improvement and might have a disadvantage.

8.3. The Risk and Opportunities of ESG Ratings

8.3.1. The risks

As outlined above, Rating Agencies measure the ESG performance similarly to financial performance from a methodological perspective. This means that they use a spectrum, e.g., from A-D or from 1-10, to assess the ESG performance of an MNE. Such a methodological approach leads to a situation in which a bad rating in one pillar (e.g., environment) can be offset with a good rating in another (e.g., governance). The problem with such an approach is that it opens chances for window dressing. Window dressing is particularly harmful if an MNE has opportunities to improve its rating through measures which have no impact except for optimizing the rating. And many of the above tax recommendations belong to such category.

As an example, it is sometimes recommended that MNEs shall commit themselves to follow not only the letter of the (tax) law but also the spirit of the law. The fact that an MNE commits itself to such a statement (maybe in the published tax strategy) might have no impact at all (neither risk-reducing nor SDG-enhancing); however, it can positively impact the rating. Therefore, it is not wrong that an MNE commits itself to follow the spirit and not only the letter of the law but does not necessarily lead to a risk reduction nor an SDG enhancement.

8.3.2. The opportunities

It is obvious that the pressure from stakeholders can be intense; therefore, designing solid ESG ratings could help steering the behavior of MNEs in an SDG-enhancing way. However, from a tax perspective, it seems that using less metrics with an unconditional SDG enhancing effect is more persuasive. As it was demonstrated, if it is indeed the aim to measure the (unconditional) impact, probably focusing on fewer recommendations such as the ones outlined in section 8.2 is a lot more effective.

9. Literature

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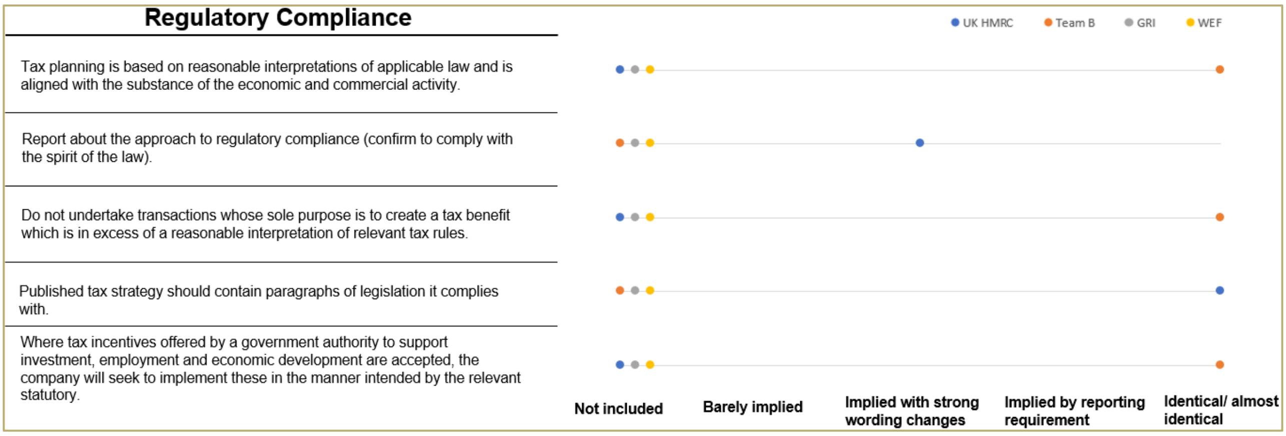
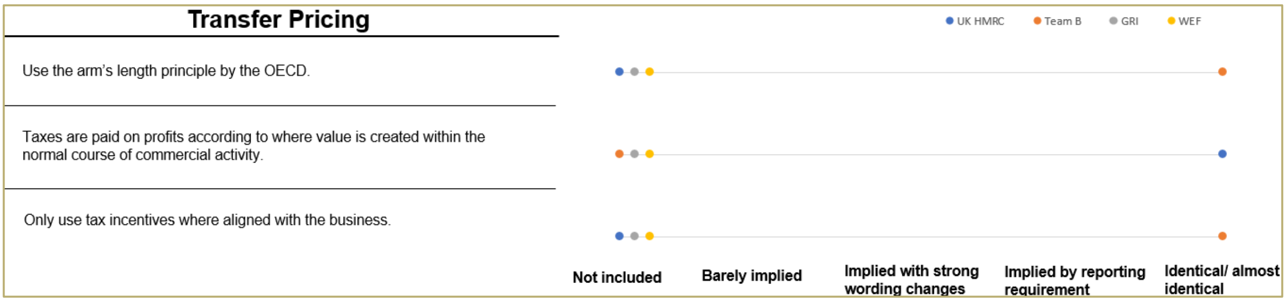
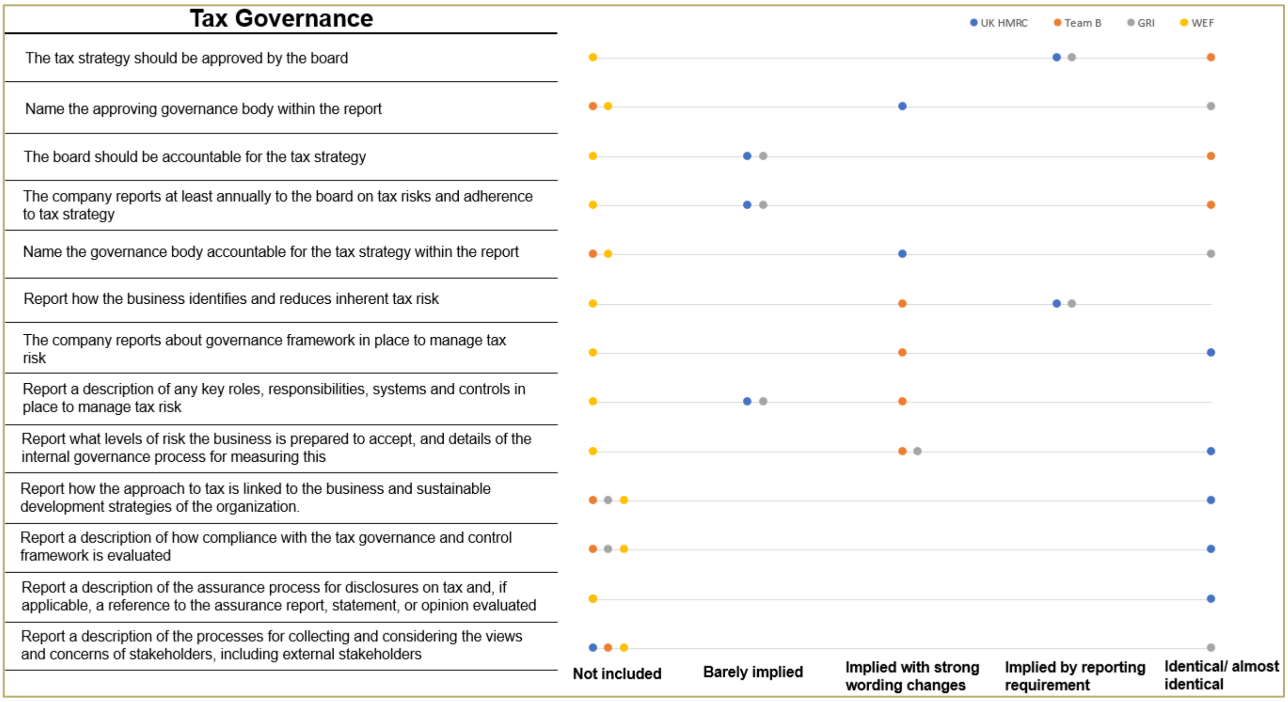
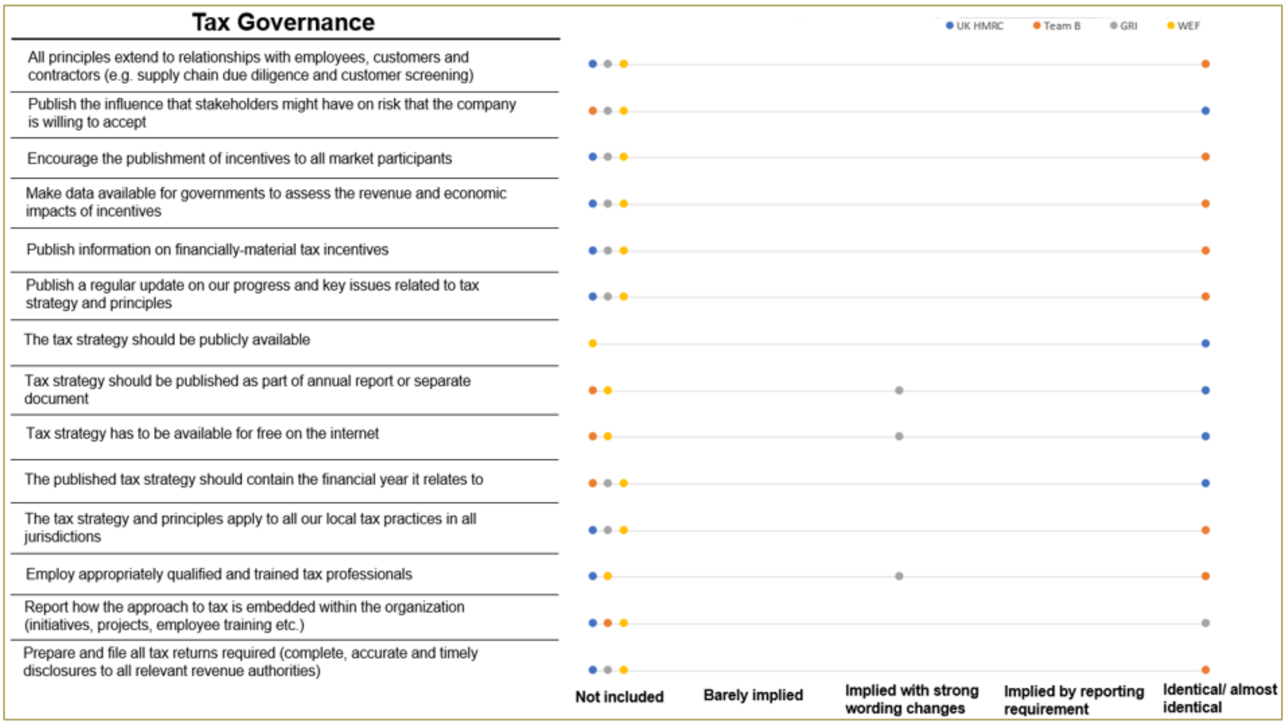
10. Annex 1: Benchmark of Standard-Setters Recommendations

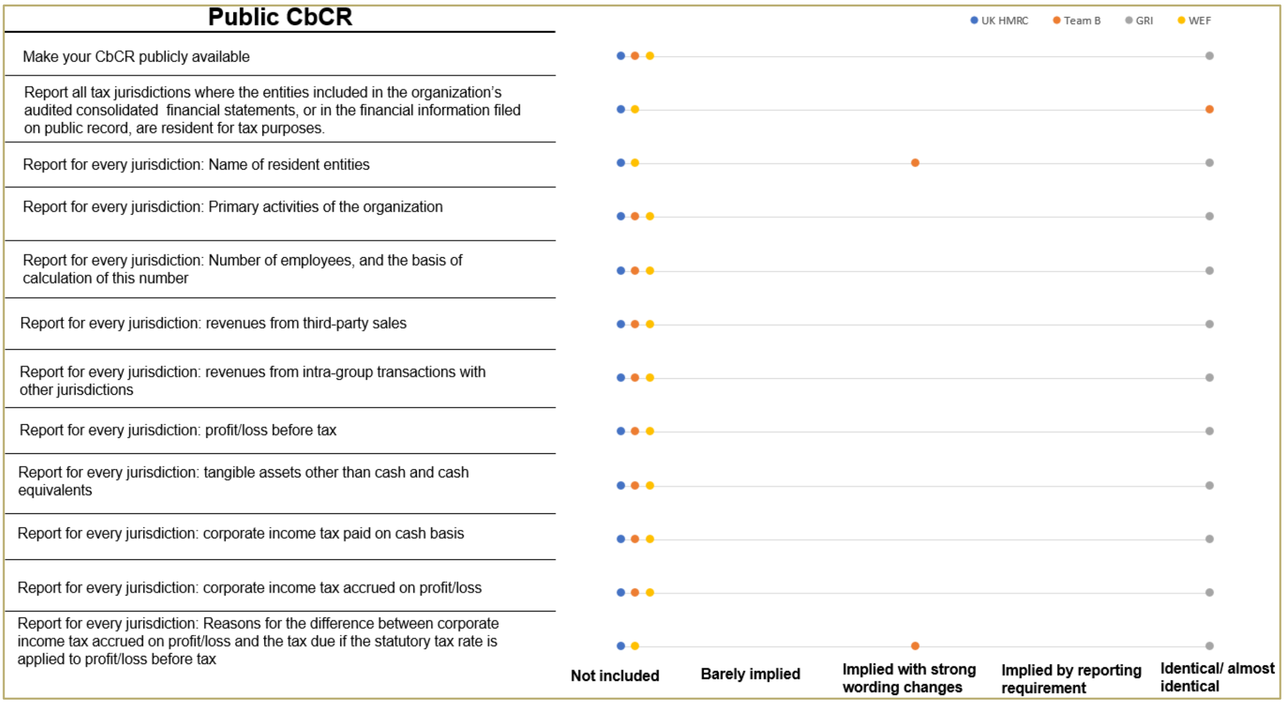




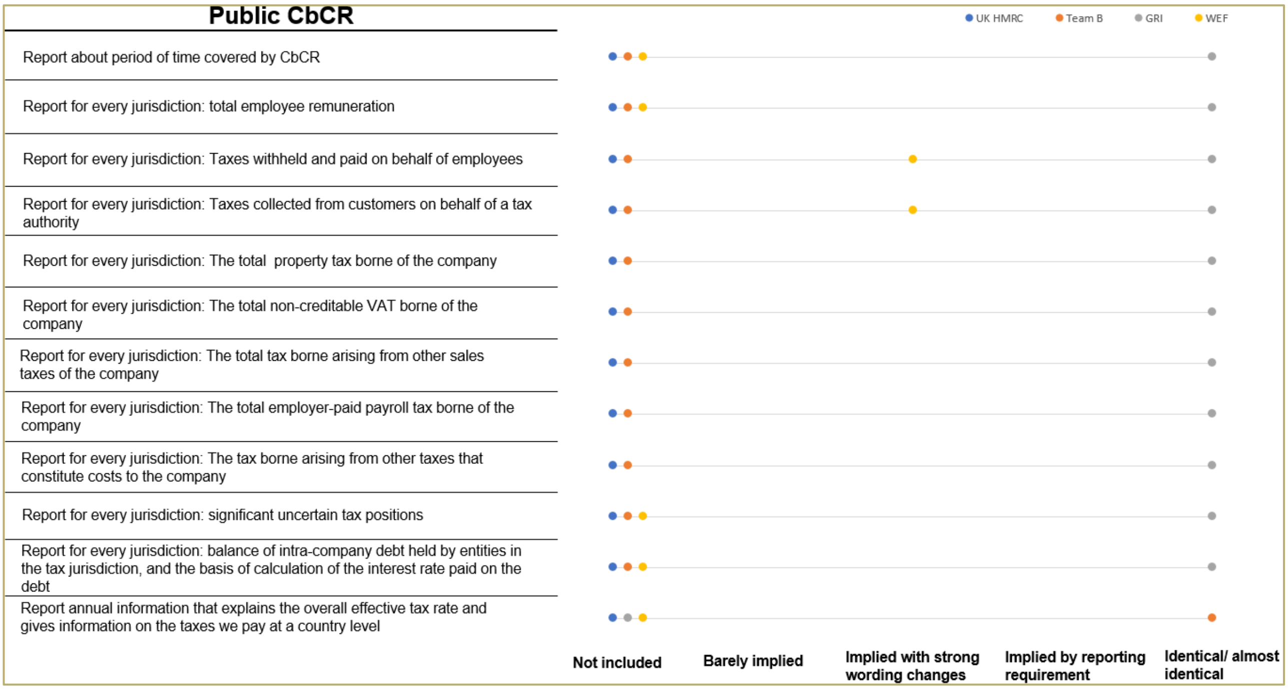

Tax Governance
UK HMRC
Team B
GRI
WEF
The tax strategy should be approved by the board
Name the approving governance body within the report
The board should be accountable for the tax strategy
The company reports at least annually to the board on tax risks and adherence to tax strategy
Name the governance body accountable for the tax strategy within the report
Report how the business identifies and reduces inherent tax risk
The company reports about governance framework in place to manage tax risk
Report a description of any key roles, responsibilities, systems and controls in place to manage tax risk
Report what levels of risk the business is prepared to accept, and details of the internal governance process for measuring this
Report how the approach to tax is linked to the business and sustainable development strategies of the organization.
Report a description of how compliance with the tax governance and control framework is evaluated
Report a description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion evaluated
Report a description of the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical

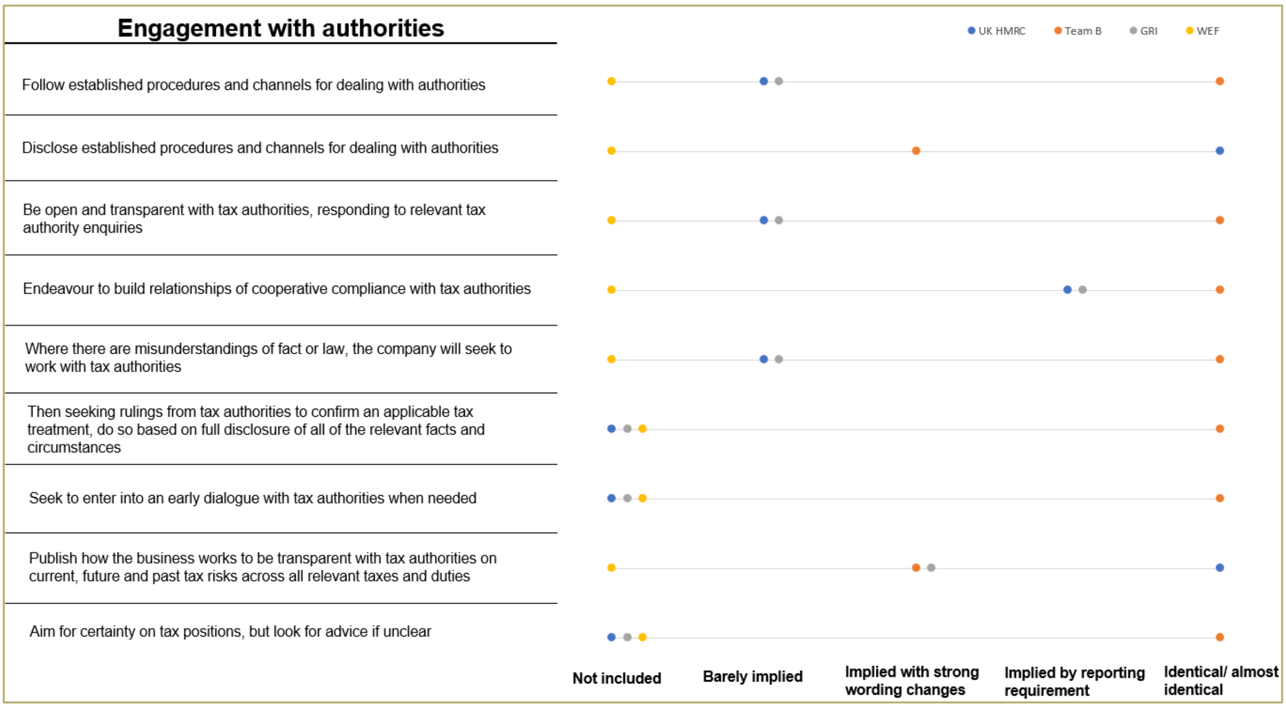

Tax Governance
UK HMRC
Team B
GRI
WEF
All principles extend to relationships with employees, customers and contractors (e.g. supply chain due diligence and customer screening)
Publish the influence that stakeholders might have on risk that the company is willing to accept
Encourage the publishment of incentives to all market participants
Make data available for governments to assess the revenue and economic impacts of incentives
Publish information on financially-material tax incentives
Publish a regular update on our progress and key issues related to tax strategy and principles
The tax strategy should be publicly available
Tax strategy should be published as part of annual report or separate document
Tax strategy has to be available for free on the internet
The published tax strategy should contain the financial year it relates to
The tax strategy and principles apply to all our local tax practices in all jurisdictions
Employ appropriately qualified and trained tax professionals
Report how the approach to tax is embedded within the organization (initiatives, projects, employee training etc.)
Prepare and file all tax returns required (complete, accurate and timely disclosures to all relevant revenue authorities)
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical

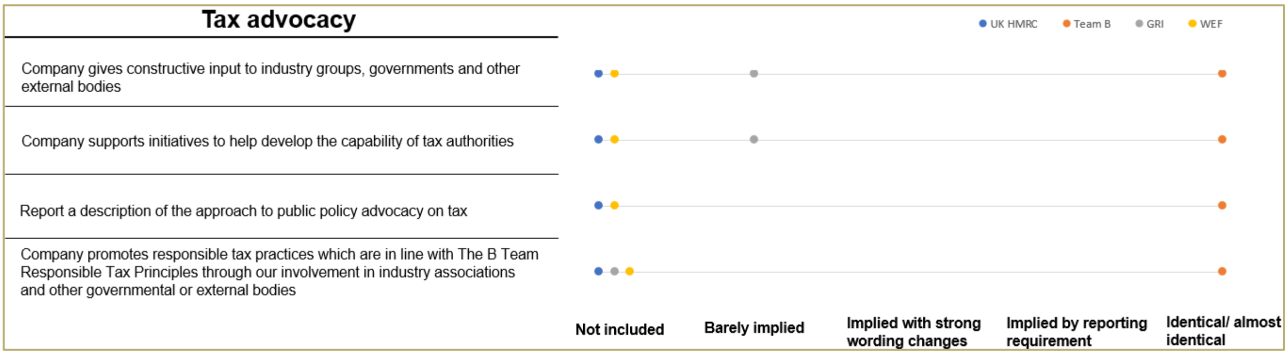
Tax Rate
UK HMRC
Team B
GRI
WEF
Report the total global corporate income tax borne of the company
Report the total global corporate property tax borne of the company
Report the total global corporate non-creditable VAT borne of the company
Report the total global corporate tax borne arising from other sales taxes of the company
Report the total global corporate employer-paid payroll tax borne of the company
Report the total global corporate tax borne arising from other taxes that constitute costs to the company
Describe the measurement and presentation approach of tax borne
Report the total additional global VAT collected and remitted on behalf of customer by the company
Report the total additional employee related taxes that are remitted by the company
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical

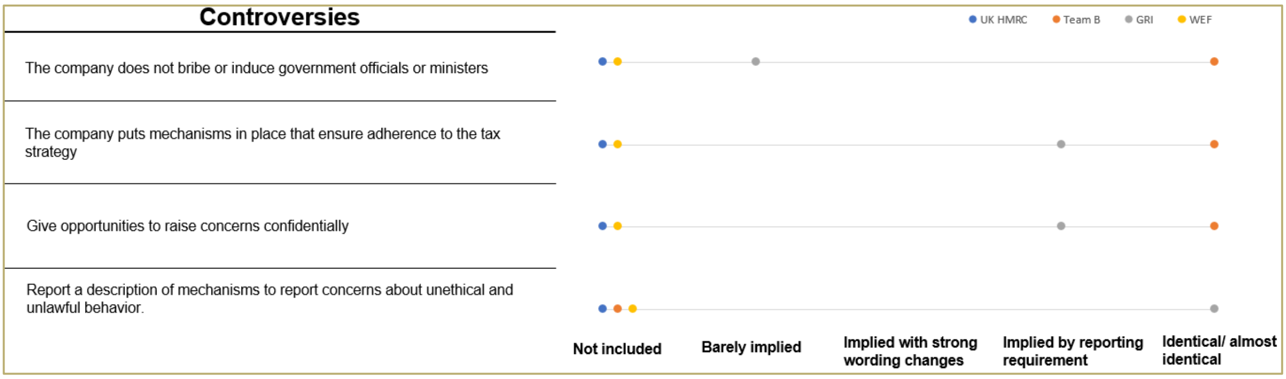


Public CbCR
UK HMRC
Team B
GRI
WEF
Make your CbCR publicly available
Report all tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes.
Report for every jurisdiction: Name of resident entities
Report for every jurisdiction: Primary activities of the organization
Report for every jurisdiction: Number of employees, and the basis of calculation of this number
Report for every jurisdiction: revenues from third-party sales
Report for every jurisdiction: revenues from intra-group transactions with other jurisdictions
Report for every jurisdiction: profit/loss before tax
Report for every jurisdiction: tangible assets other than cash and cash equivalents
Report for every jurisdiction: corporate income tax paid on cash basis
Report for every jurisdiction: corporate income tax accrued on profit/loss
Report for every jurisdiction: Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical


Public CbCR
UK HMRC
Team B
GRI
WEF
Report about period of time covered by CbCR
Report for every jurisdiction: total employee remuneration
Report for every jurisdiction: Taxes withheld and paid on behalf of employees
Report for every jurisdiction: Taxes collected from customers on behalf of a tax authority
Report for every jurisdiction: The total property tax borne of the company
Report for every jurisdiction: The total non-creditable VAT borne of the company
Report for every jurisdiction: The total tax borne arising from other sales taxes of the company
Report for every jurisdiction: The total employer-paid payroll tax borne of the company
Report for every jurisdiction: The tax borne arising from other taxes that constitute costs to the company
Report for every jurisdiction: significant uncertain tax positions
Report for every jurisdiction: balance of intra-company debt held by entities in the tax jurisdiction, and the basis of calculation of the interest rate paid on the debt
Report annual information that explains the overall effective tax rate and gives information on the taxes we pay at a country level
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical


Engagement with authorities
UK HMRC
Team B
GRI
WEF
Follow established procedures and channels for dealing with authorities
Disclose established procedures and channels for dealing with authorities
Be open and transparent with tax authorities, responding to relevant tax authority enquiries
Endeavour to build relationships of cooperative compliance with tax authorities
Where there are misunderstandings of fact or law, the company will seek to work with tax authorities
Then seeking rulings from tax authorities to confirm an applicable tax treatment, do so based on full disclosure of all of the relevant facts and circumstances
Seek to enter into an early dialogue with tax authorities when needed
Publish how the business works to be transparent with tax authorities on current, future and past tax risks across all relevant taxes and duties
Aim for certainty on tax positions, but look for advice if unclear
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical


Tax advocacy
UK HMRC
Team B
GRI
WEF
Company gives constructive input to industry groups, governments and other external bodies
Company supports initiatives to help develop the capability of tax authorities
Report a description of the approach to public policy advocacy on tax
Company promotes responsible tax practices which are in line with The B Team Responsible Tax Principles through our involvement in industry associations and other governmental or external bodies
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical


Controversies
UK HMRC
Team B
GRI
WEF
The company does not bribe or induce government officials or ministers
The company puts mechanisms in place that ensure adherence to the tax strategy
Give opportunities to raise concerns confidentially
Report a description of mechanisms to report concerns about unethical and unlawful behavior.
Not included
Barely implied
Implied with strong wording changes
Implied by reporting requirement
Identical/ almost identical

11. Annex 2: Comparison of Rating Agencies Criteria and Standard-Setters Recommendations

Tax Governance

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
1	General	The tax strategy should be approved by the board		✓			
2	External Reporting	Name the approving governance body within the report		✓			
3	General	The board should be accountable for the tax strategy					
4	General	The company reports at least annually to the board on tax risks and adherence to tax strategy		✓			
5	External Reporting	Name the governance body accountable for the tax strategy within the report					
6	General	Business identifies and reduces inherent tax risk due to the size, complexity and change					
7	External Reporting	Report how the business identifies and reduces inherent tax risk					
8	General	The company must have a governance framework in place to manage tax risk					
9	External Reporting	The company reports about governance framework in place to manage tax risk					
10	External Reporting	Report a description of any key roles, responsibilities, systems and controls in place to manage tax risk					
11	External Reporting	Report what levels of risk the business is prepared to accept, and details of the internal governance process for measuring this					
12	External Reporting	Report how the approach to tax is linked to the business and sustainable development strategies of the organization.					
13	External Reporting	Report a description of how compliance with the tax governance and control framework is evaluated					
14	External Reporting	Report a description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion evaluated					

Tax Governance

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
15	External Reporting	Report a description of the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders					
16	General	All principles extend to relationships with employees, customers and contractors (e.g. supply chain due diligence and customer screening)	✓				
17	External Reporting	Publish the influence that stakeholders might have on risk that the company is willing to accept.					
18	General	Encourage the publishment of incentives to all market participants					
19	External Reporting	Make data available for governments to assess the revenue and economic impacts of incentives					
20	External Reporting	Publish information on financially-material tax incentives		✓	✓		
21	External Reporting	Publish a regular update on our progress and key issues related to tax strategy and principles					
22	External Reporting	The tax strategy should be publicly available			✓		
23	External Reporting	Tax strategy should be published as part of annual report or separate document					
24	External Reporting	Tax strategy has to be available for free on the internet	✓	✓	✓		
25	General/External Reporting	The published tax strategy should contain the financial year it relates to					
26	General/External Reporting	The tax strategy and principles apply to all our local tax practices in all jurisdictions	✓	✓	✓		
27	General	Employ appropriately qualified and trained tax professionals	✓				
28	External Reporting	Report how the approach to tax is embedded within the organization (initiatives, projects, employee training etc.)					
29	General	Prepare and file all tax returns required (complete, accurate and timely disclosures to all relevant revenue authorities)					

Tax Havens

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
30	External Reporting	Report details of any code of conduct the business has for tax planning	✓	✓			
31	External Reporting	Report an outline what influences the business's tax planning and how this affects your tax strategy	✓	✓		✓	
32	External Reporting	Report the approach to structuring tax planning	✓	✓			
33	External Reporting	Report an explanation of why the business might seek external tax planning advice					
34	General	The company does not use tax havens in order to avoid taxes on activities which take place elsewhere	✓	✓		✓	✓
35	External Reporting	Report an explanation of why there are subsidiaries, branches and joint ventures operating in low tax jurisdictions	✓	✓			

Transfer Pricing

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
36	General	Use the arm's length principle by the OECD	✓	✓		✓	✓
37	General	Taxes are paid on profits according to where value is created within the normal course of commercial activity	✓	✓		✓	✓
38	General	Only use tax incentives where aligned with the business					

Regulatory Compliance

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
39	General	Tax planning is based on reasonable interpretations of applicable law and is aligned with the substance of the economic and commercial activity	✓	✓		✓	✓
40	External Reporting	Report about the approach to regulatory compliance (confirm to comply with the spirit of the law)	✓	✓			
41	General	Do not undertake transactions whose sole purpose is to create a tax benefit which is in excess of a reasonable interpretation of relevant tax rules					
42	External Reporting	Published tax strategy should contain paragraphs of legislation it complies with	✓	✓		✓	✓
43	General	Where tax incentives offered by a government authority to support investment, employment and economic development are accepted, the company will seek to implement these in the manner intended by the relevant statutory					

Tax Rate

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
44	External Reporting	Report the total global corporate income tax borne of the company		✓	✓		✓
45	External Reporting	Report the total global corporate property tax borne of the company					
46	External Reporting	Report the total global corporate non-creditable VAT borne of the company					
47	External Reporting	Report the total global corporate tax borne arising from other sales taxes of the company					
48	External Reporting	Report the total global corporate employer-paid payroll tax borne of the company					
49	External Reporting	Report the total global corporate tax borne arising from other taxes that constitute costs to the company					
50	External Reporting	Describe the measurement and presentation approach of tax borne					
51	External Reporting	Report the total additional global VAT collected and remitted on behalf of customer by the company					
52	External Reporting	Report the total additional employee related taxes that are remitted by the company					

Public CbCR

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
53	External Reporting	Make your CbCR publicly available					
54	External Reporting	Report all tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes	✓		✓		
55	External Reporting	Report for every jurisdiction: Name of resident entities	✓	✓	✓		
56	External Reporting	Report for every jurisdiction: Primary activities of the organization		✓	✓		
57	External Reporting	Report for every jurisdiction: Number of employees, and the basis of calculation of this number	✓	✓	✓		
58	External Reporting	Report for every jurisdiction: revenues from third-party sales	✓	✓	✓		
59	External Reporting	Report for every jurisdiction: revenues from intra-group transactions with other jurisdictions	✓		✓		
60	External Reporting	Report for every jurisdiction: profit/loss before tax	✓		✓		
61	External Reporting	Report for every jurisdiction: tangible assets other than cash and cash equivalents					
62	External Reporting	Report for every jurisdiction: corporate income tax paid on cash basis			✓		
63	External Reporting	Report for every jurisdiction: corporate income tax accrued on profit/loss		✓	✓		
64	External Reporting	Report for every jurisdiction: Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax		✓			

Public CbCR

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	REFINITIV
65	External Reporting	Report about period of time covered by CbCR			✓		
66	External Reporting	Report for every jurisdiction: total employee remuneration	✓		✓		
67	External Reporting	Report for every jurisdiction: Taxes withheld and paid on behalf of employees	✓				
68	External Reporting	Report for every jurisdiction: Taxes collected from customers on behalf of a tax authority	✓				
69	External Reporting	Report for every jurisdiction: The total property tax borne of the company	✓				
70	External Reporting	Report for every jurisdiction: The total non-creditable VAT borne of the company	✓				
71	External Reporting	Report for every jurisdiction: The total tax borne arising from other sales taxes of the company	✓				
72	External Reporting	Report for every jurisdiction: The total employer-paid payroll tax borne of the company	✓				
73	External Reporting	Report for every jurisdiction: The tax borne arising from other taxes that constitute costs to the company	✓				
74	External Reporting	Report for every jurisdiction: significant uncertain tax positions					
75	External Reporting	Report for every jurisdiction: balance of intra-company debt held by entities in the tax jurisdiction, and the basis of calculation of the interest rate paid on the debt			✓		
76	External Reporting	Report annual information that explains the overall effective tax rate and gives information on the taxes we pay at a country level		✓			

Controversies

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	Refinitiv
77	General	The company does not bribe or induce government officials or ministers	✓	✓	✓	✓	✓
78	General	The company puts mechanisms in place that ensure adherence to the tax strategy		✓			
79	General	Give opportunities to raise concerns confidentially		✓			
80	External Reporting	Report a description of mechanisms to report concerns about unethical and unlawful behavior					

Tax Advocacy

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	Refinitiv
81	General	Company gives constructive input to industry groups, governments and other external bodies					
82	General	Company supports initiatives to help develop the capability of tax authorities					
83	External Reporting	Report a description of the approach to public policy advocacy on tax					
84	General	Company promotes responsible tax practices which are in line with The B Team Responsible Tax Principles through our involvement in industry associations and other governmental or external bodies					

Interaction with Authorities

No.	Scope	Recommendation	ISS ESG	S&P	Sustainable Fitch	MSCI	Refinitiv
85	General	Follow established procedures and channels for dealing with authorities					
86	External Reporting	Disclose established procedures and channels for dealing with authorities					
87	General	Be open and transparent with tax authorities, responding to relevant tax authority enquiries					
88	General	Endeavour to build relationships of cooperative compliance with tax authorities					
89	General	Where there are misunderstandings of fact or law, the company will seek to work with tax authorities					
90	General	Then seeking rulings from tax authorities to confirm an applicable tax treatment, do so based on full disclosure of all of the relevant facts and circumstances					
91	General	Seek to enter an early dialogue with tax authorities when needed					
92	General	Publish how the business works to be transparent with tax authorities on current, future and past tax risks across all relevant taxes and duties					
93	External Reporting	Aim for certainty on tax positions, but look for advice if unclear					

12. Annex 3: Basics of Rating Agency Methodologies

As Rating Agencies do not solely incorporate tax specific criteria the following remarks will summarize the methodology per institutions on a general basis. This ensures to provide the respective background knowledge if needed.

12.1. ISS ESG

12.1.1. General Methodology

The agency assesses enterprises against a standard set of universal ESG topics as well as additional industry-specific issues. The materiality approach for those topics covers both material sustainability risks and adverse impacts on society and the environment. Drawing on an overall pool of more than 700 indicators, ISS ESG applies approximately 100 social, environmental, and governance-related measures per rating, covering topics such as employee matters, supply chain management, business ethics, corporate governance, environmental management, eco-efficiency, and others.[52]

The ESG Corporate Rating applies a twelve-point grading system from A+/4.00 (excellent performance) to D-/1.00 (poor performance). All indicators are individually assessed based on clearly defined absolute performance expectations. All individual scores and weightings at the indicator level are aggregated to yield final data on the topic level as well as for the overall score (rating). The agency also differentiates the enterprises with "Prime" status granted to industry leaders who meet the industry-specific Prime threshold. This means that they fulfill ambitious absolute performance requirements. Prime entries ranging from C (for low-risk industries) to B- (for high-risk industries). In addition to the overall rating, a decile rank indicates performance relative to industry peers. A decile rank of 1 indicates high relative performance, while a 10 indicates a lower relative performance.[53]

The environmental, social, and governance risks and impacts differ by industry. The set of universal ESG topics against which all enterprises covered by the ESG Corporate Rating are assessed includes certain governance practices defined under the EU Sustainable Finance Disclosure Regulation (SFDR).[54]

The rating is structured as follows:[55]

[52] Information taken from ISS ESG (2022), Methodology & Research Process: ISS ESG Corporate Rating, p. 1.
[53] Information taken from ISS ESG (2022), Methodology & Research Process: ISS ESG Corporate Rating, p. 1-2.
[54] Information taken from ISS ESG (2022), Methodology & Research Process: ISS ESG Corporate Rating, p. 1.
[55] Based on ISS ESG (2021), ESG Corporate Rating, p. 2.

- The governance pillar of ISS ESG's Corporate Rating consists of evaluating the enterprises' management structures, including, for instance, the independence of the board of directors, the presence of relevant independent board committees, and remuneration policies.

- The social pillar includes the evaluation of the enterprise's management approach and performance regarding fundamental social principles and rights at work as well as labour conditions.

- The environmental pillar aims at topics like energy management, climate change strategy, water risk and impact, and the environmental impact of products.

12.1.2. Overview of the Agency’s research process

The ESG Corporate Rating follows a staged update process: Scheduled annual up-dates are complemented by ad-hoc updates triggered by significant events, including but not limited to corporate actions (e.g., mergers, significant spin-offs, and acquisitions) and new or evolving ESG controversies.

The rating process can be separated into the following steps:[56]

- Data collection: Relevant information is retrieved from the enterprises being assessed directly and from alternative ESG data sources, including international and local media, recognized international or local non-governmental enterprises, government agencies, intergovernmental agencies, and others.

- ESG research: Proprietary ratings and scoring models are applied, resulting in a draft rating.

- Quality assurance: Draft ratings are systematically proofread by experienced analysts.

- Enterprise feedback: A comprehensive dialogue with the rated issuers is carried out once every two to three years. Additionally, corporate issuers are welcome to send information/updates regarding sustainability issues for consideration at any time.

- Final Report: The final ESG Corporate Rating report is made available to the assessee enterprise free of charge on a confidential basis and will be published on ISS ESG customer platforms.

[56] Taken from ISS ESG (2022), Methodology & Research Process: ISS ESG Corporate Rating, p. 2.

12.2. Sustainable Fitch

12.2.1. General Methodology

The agency assesses the environmental and social impacts of the entity's overall ESG policies, procedures, and outcomes at an individual business activities level.

Factor	Weight (%)	Scope of analysis
Entity Information	10	The sustainability of the strategy, commitments and reporting of entities.
Business activity	45	The extent to which an entity's activities contribute positively towards the environment, as well as the extent to which it makes a positive contribution to society. Each business activity is compared to mainstream taxonomies and the SDGs.
Environmental profile	15	Entity-wide environment profile across various aspects (e.g., policies, disclosure, evolution, targets and supply chain and environmental incidents treatment).
Social profile	15	Entity-wide social profile across various aspects (e.g., policies, labor rights, diversity, community and customers, targets and supply chain, and social incidents treatment.
Governance profile	15	Entity-wide governance profile across various aspects (e.g. financial reporting, top management and control, remuneration, risk management and tax management).

Figure 20: Sustainable Fitch Pillar Weights[57]

The section **Entity Information** focuses on analyzing several subsections and significant aspects within them, namely:[58]

- Sustainable strategy: analysis of what is focused on the high-level strategic view of the issuer;

- ESG Risk Management: reviews how the enterprise acknowledges and ad-dresses ESG risks, including both environmental and social risks, and assess-es whether the entity is managing such risks through mitigation or adaptation;

- Sustainability Reporting: assesses the alignment of sustainability reporting with international or established market standards such as the Task Force on Climate-Related Financial Disclosures and the Global Reporting Initiative;

[57] Points taken from the unrevised methodology document: Sustainable Fitch (2022), ESG Rating Methodology. Access on 07.03.2022. The methodology still incorporates the component "Entity information", however, it does not describe what is meant by it in the most recent version of the method description.

[58] Points taken from the unrevised methodology document: Sustainable Fitch (2022), ESG Rating Methodology. Access on 07.03.2022. The methodology still incorporates the component "Entity information", however, it does not describe what is meant by it in the most recent version of the method description.

- Engagement on UN SDGs: evaluates if the issuer's strategy is aligned or committed to the UN SDGs. Sometimes this can be in addition to a sustainable strategy. The agency would check for references and initiatives toward the UN SDGs in the entity's financial and non-financial reporting.

The section **Business Activities** incorporates an assessment of environmental and social aspects found within the business activities. As mentioned in the agency's methodology document for assessing environmental alignment, it is referred to the EU taxonomy for sustainable activities. For social alignment, the agency furthermore takes inspiration from the non-environment-related UN SDGs.[59]

The section **Environmental Profile** consists of 5 major investigation aspects:[60]

- Policies: Commitments towards using natural resources; covering water, land use, biodiversity, waste, and pollution.

- Disclosures: The agency reviews the following disclosures from the entity: Emission disclosures, natural resource usage disclosures and non-natural re-source disclosures, such as energy and material usage.

- Evolution: This subsection covers trends of the metrics disclosed, such as emissions and natural resource usage, over the last three years. It also assessed whether the enterprise is following its targets and transitioning towards sustainability.

- Targets and Supply Chain: Includes the issuer's environmental targets' type, progress, and remit. For example, whether the targets are science-based targets or aligned with a net-zero strategy. Environmental marks relating to supply and customer chains, as well as the commitment and enforcement of the targets, are also in focus.

- Risks and Incident Treatment: This part reviews critical incidents from an environmental perspective, namely, those that an entity would usually classify in the highest category regarding damage or severity. Evaluating time ex-tends to three years before the analysis date.

The section **Social Profile** of the business entities includes the evaluation of six major themes:[61]

[59] Points taken from Sustainable Fitch (2022), ESG Score Methodology, p. 4. Access on 08.03.2023.

[60] Points taken from the unrevised methodology document: Sustainable Fitch (2022), ESG Rating Methodology. Access on 07 March 2022. The methodology still incorporates the component “Environmental Profile”, however, it is not described as detailed in the most recent version of the method description.

[61] Points taken from the unrevised methodology document: Sustainable Fitch (2022), ESG Rating Methodology. Access on 07 March 2022. The methodology still incorporates the component “Social Profile”, however, it is not described as detailed in the most recent version of the method description.

- Human rights: The agency checks if the issuer has a human rights policy, also considering whether those policies and commitments have been implement-ed.

- Labour Rights: The agency reviews the issuers' labor rights policies and their extent, e.g., if they are aligned with relevant international standards such as those of the global labor enterprise. Also under the assessment are the turnover rate, work conditions, and incidents such as employee and contractor fatalities and permanent disabilities.

- Diversity: Relevant are employee diversity across the enterprise, diversity at the senior management level, the overall gender pay gap, the gender pay gap at senior management level, and other types of diversity in addition to gen-der.

- Community and Customers: Captures the entity's community involvement, including its philanthropy programs, customer relationships, and satisfaction indicators based on multiple touchpoints.

- Targets and Supply Chain: Focuses type, progress, and remit of social targets and evaluates if the targets are embedded in the issuer's strategy and the management's remuneration.

- Risk and Incident Treatment: Includes critical incidents from a social perspective, namely those that an entity would usually classify in the highest category regarding damage or severity.

The section **Governance Profile** of the business entities includes the evaluation of five major themes, namely:[62]

- Financials and Reporting: This subsection assesses whether the issuer has been subject to any critical fines, investigations, or significant external audit remarks related to fraud or financial reporting during the past three years.

- Top Management and Control: The agency reviews the board composition, independence, and representation, including the diversity of its members, as well as the internal audit functions and their actions in the past three years. For example, whether the board includes diversity in the majority of its members and whether the majority is independent.

- Remuneration: Captures remuneration criteria and their definition. Respectively, the median annual total CEO compensation versus the median employee compensation.

[62] Points taken from Sustainable Fitch (2022), ESG Score Methodology, p. 5. Access on 08.03.2023.

The section also evaluates whether the income is linked to targets and clearly defined across fixed and variable elements and incentives.

- Risk Management: At this stage, it is assessed whether the issuer has any form of risk management and can identify and mitigate risks. Cyber, legal, compliance, and competition risks are also considered.

- Tax Management: Includes an assessment of the entity's behavior about tax haven usage and transfer prices and any fines it may have received in the past three years related to tax management practices.

- Limited Public Information regarding Governance Practices: Where public information required for governance is absent (such as financial statements, or risk-management and tax-related policies), it could have a detrimental impact on assigned governance scores. In this scenario, analysts endeavour to use alternative data, assumptions, and proxies to assess an entity’s governance profile. A significant lack of information may in itself lead to low governance scores and can have a negative impact on the overall ESG score.

12.3. Standards and Poor’s

12.3.1. General Methodology

The agency's annual corporate assessment starts with an industry-specific questionnaire focusing on financially relevant economic, environmental, and social criteria; especially on those factors that can impact enterprises' long-term value creation.

Notably, the agency also collects data on corporate sustainability practices apart from the CSA. The reported results are supplemented with a Media and Stakeholder Analysis (MSA) examining more recent findings that have surfaced via the media and other channels. The MSA monitors an enterprise's sustainability performance on an ongoing basis by assessing current controversies which could have a potentially negative reputational or financial impact on an enterprise. The MSA is an additional overlay used to modify criteria scores downward based on evidence ranging from deliberate involvement and mismanagement of controversial incidents to negligent lapses in oversight.

Criteria within the questionnaire vary from industry to industry to specific drivers. The agency separates the analyzed factors into three pillars.

The **Economic pillar** includes the following sub-categories:[63]

[63] Taken from S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 2-3.

- Corporate governance: Board structure, board diversity policy, board gender diversity, board effectiveness, average board tenure, board industry experience, CEO compensation: success metrics, CEO compensation: long-term performance alignment, management ownership, government ownership, family ownership, dual-class shares, and CEO-to-employee pay ratio.

- Materiality: Material issues and material disclosure.

- Risk and Crisis Management: Risk governance, emerging risks, and risk culture.

- Codes of Business Conduct: Code of Conduct (CoC): coverage, CoC: corruption & bribery, CoC: systems/procedures, anti-competitive practices, corruption and bribery cases, and reporting on breaches.

- Customer Relationship Management: Customer satisfaction measurement.

- Policy Influence: Contributions and other spending, and largest contributions and expenditures.

- Supply Chain Management: Supplier code of conduct, critical supplier identification, supply chain risk exposure, supplier risk management measures, ESG integration in CSM strategy, and supply chain transparency and reporting.

- Tax Strategy: Tax strategy and governance, tax reporting, and effective tax rate.

- Information Security/Cybersecurity and System Availability: IT security/cybersecurity governance, IT security/cybersecurity measures, and IT security/cybersecurity process and infrastructure.

The **Environmental pillar** includes the following sub-categories:[64]

- Environmental Reporting: Environmental reporting-coverage and environmental reporting-assurance.

- Environmental Policy and Management System: Coverage of environmental management policy and certification, audit, and verification.

- Operational eco-efficiency: Direct greenhouse gas emissions (scope 1 and scope 2), energy consumption, water consumption, and waste disposal.

64 Taken from S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 4.

- Climate Strategy: climate risk management, climate-related management incentives, climate change strategy, financial risks of climate change, economic opportunities that arise from climate change, climate risk assessment-physical risks, climate risk assessment- transition risks, physical climate risk adaptation, climate-related target, and scope 3GHG emissions.

The **Social pillar** includes the following sub-categories:[65]

- Social Reporting: social reporting-coverage, and social reporting-assurance.

- Labor Practice Indicators: discrimination and harassment, workforce breakdown: gender, workforce breakdown: race/ethnicity and nationality, workforce breakdown: other minorities, gender pay indicators, and freedom of association.

- Human rights: human rights commitment, human rights due diligence process, human rights assessment, human rights mitigation, and remediation.

- Human capital development: training and development inputs, employee development programs, and human capital return on investment.

- Talent attraction and retention: hiring, people analytics, strategic work-force planning, type of individual performance appraisal, long-term employee incentives, employee turnover rate, and the trend of employee engagement.

- Corporate citizenship and philanthropy: corporate citizenship strategy, type of philanthropic activities, and philanthropic contributions.

[65] Taken from S&P (2022), Corporate Sustainability Assessment Companion 2022, p. 4-5.

12.4. MSCI

12.4.1. General Methodology

The agency has several steps in its approach for conducting the enterprise's analysis, which is stated in the MSCI ESG Ratings Methodology and shown in the table below:

Data	Metrics	Evaluation	Rating
No questionnaires Collect and standardize public data: - Alternative data includes government, regulatory and NGO datasets. -Enterprise disclosure documents. -3,400 media sources.	- Standardized methodology to assess enterprise Risk Exposure and Risk Management relative to industry peers. - MSCI's ESG issuer communications team engages with enterprises for data verification.	- Industry-specific Key Issues are scored (0-10) using a rules-based methodology. - Daily monitoring and a weekly update of controversies and event.	- Key ESG Issue scores and weights combine to create an overall ESG rating (AAA - CCC) relative to industry peers. - Ratings are subject to industry and market-led checks and formal committee review.

Figure 21: MSCI Overall ESG Rating Concept[66]

MSCI ESG Ratings identify two to seven environmental and social key issues for each enterprise. These topics are industry-specific and determined based on externalities that may generate unanticipated costs for a given enterprise or industry.

In addition, governance is assessed, with six key issues across two themes: corporate governance and corporate behavior.

The environmental and social pillars' issue weights are determined based on each subindustry's contribution to the negative externality associated with the issue and the expected time horizon to materialize. All weights are set at the pillar level rather than the issue level. Furthermore, issue contents and pillar weights undergo a formal review and feedback process at the end of each calendar year.

[66] Based on MSCI (2022), ESG Ratings Methodology, p. 7.

An overview of all pillars and correspondent issues is given in the below table:[67]

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	**Climate Change**	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	**Human Capital**	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Consumer Financial Protection	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance	**Corporate Governance**	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

Figure 22: MSCI Rating Components

12.5. Refinitiv

12.5.1. Methodology ESG Score

The evaluation process is grouped into ten categories that reformulate into three-pillar scores and the final ESG score, specified to reflect an enterprise's ESG performance, commitment, and sustainable effectiveness based on publicly reported information. The categories have relative weightings within each pillar, varying per industry for the environmental and social categories. The weightings of the corporate governance pillar remain the same across all sectors.

The table below provides a detailed picture of the ESG themes covered in each category, also mentioning the respective data points and proxies of the ESG magnitude per industry group.[68]

[67] Taken from MSCI (2022), ESG Ratings Methodology, p. 10.
[68] Taken from Refinitiv (2021), Environmental, social and governance scores from Refinitiv, p. 10.

Pillars	Catagories	Themes	Data points	Weight method
Environmental	Emmission	Emissions	TR.AnalyticCO2	Quant industry median
		Waste	TR.AnalyticTotalWaste	Quant industry median
		Biodiversity*		
		Environmental management systems*		
	Innovation	Product innovation	TR.EnvProducts	Transparency weights
		Green revenues, research and development (R&D) and capital expenditures (CapEx)	TR.AnalyticEnvRD	Quant industry median
	Resource use	Water	TR.AnalyticWaterUse	Quant industry median
		Energy	TR.AnalyticEnergyUse	Quant industry median
		Sustainable packaging*		
		Environmental supply chain*		
Social	Community	Equally important to all industry groups, hence a median weight of five is assigned to all		Equally important to all industry groups
	Human rights	Human rights	TR.PolicyHumanRights	Transparency weights
	Product responsibility	Responsible marketing	TR.PolicyResponsibleMarketing	Transparency weights
		Product quality	TR.ProductQualityMonitoring	Transparency weights
		Data privacy	TR.PolicyDataPrivacy	Transparency weights
	Workforce	Diversity and inclusion	TR.WomenEmployees	Quant industry median
		Career development and training	TR.AvgTrainingHours	Transparency weights
		Working conditions	TR.TradeUnionRep	Quant industry median
		Health and safety	TR.AnalyticLostDays	Transparency weights
Governance	CSR strategy	CSR strategy	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		ESG reporting and transparency		
	Management	Structure (independence, diversity, committees)	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Compensation		
	Shareholders	Shareholder rights	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Takeover defenses		

Figure 23: Categories of Refinitiv ESG Score

12.5.2. Methodology controversies ESG Score

The ESG controversies score is calculated based on 23 ESG topics. If an enterprise scandal occurs, leading to penalization, it will affect the ESGC score and grading. The event's impact may still be reflected in the following years if new developments relate to the adverse event, for example, lawsuits, ongoing legislation disputes, or fines.