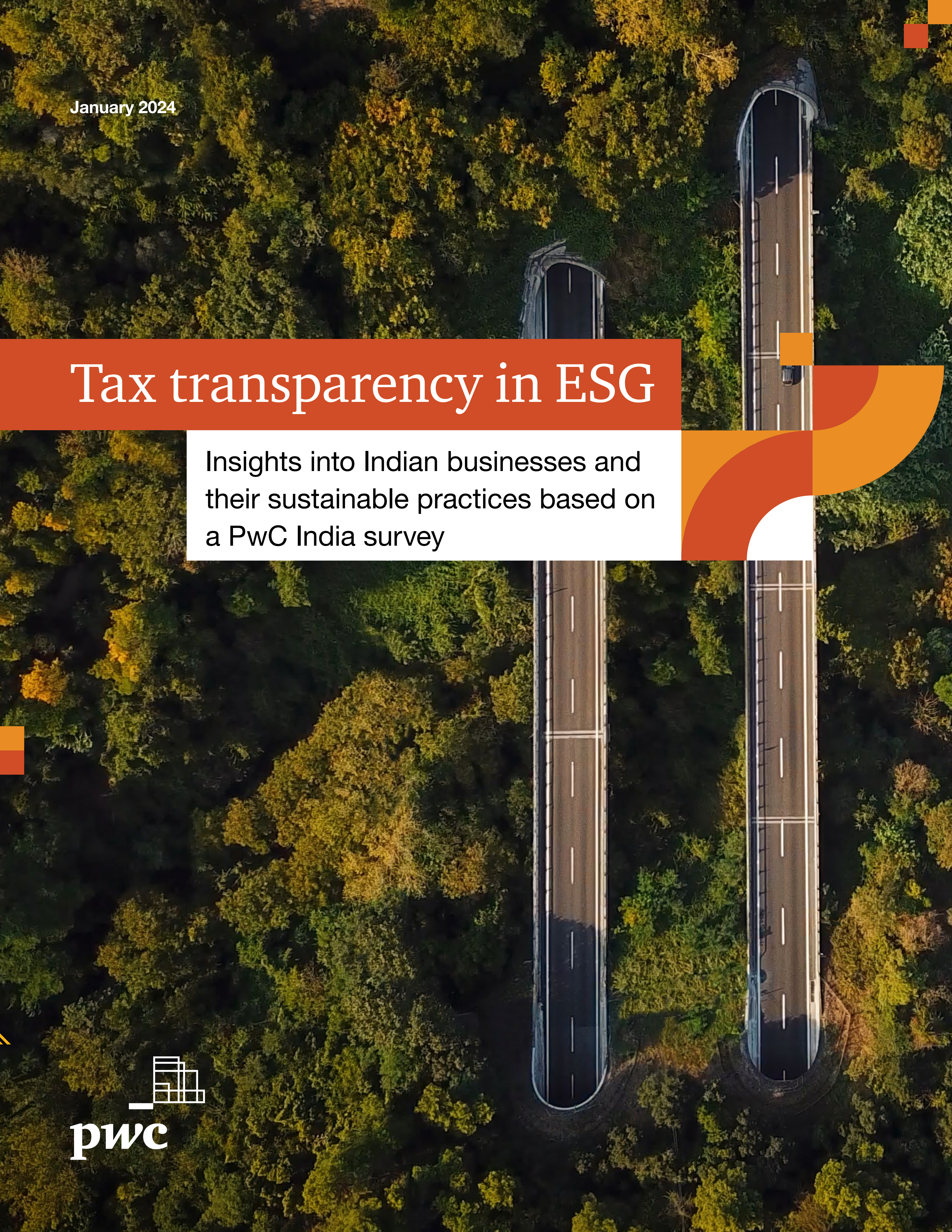
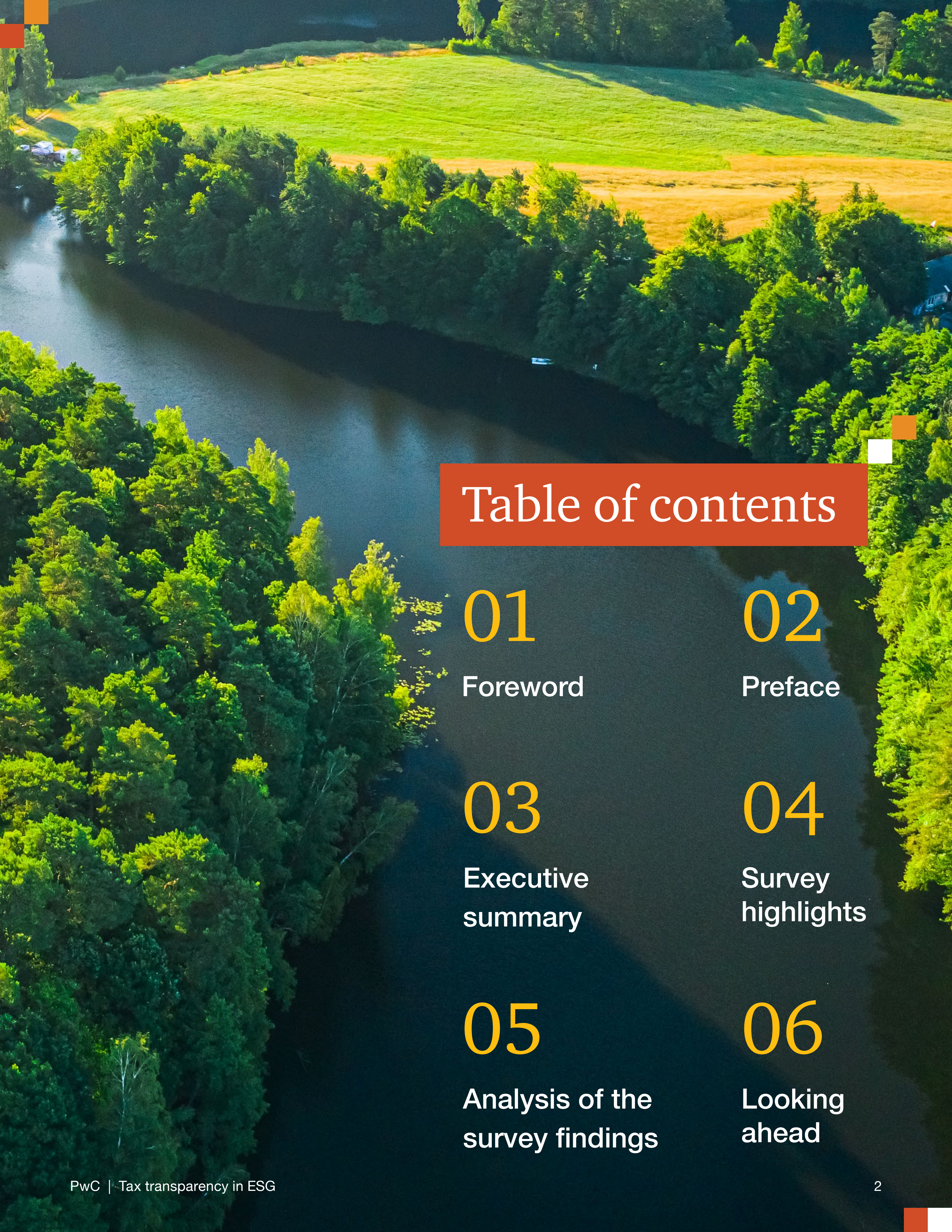
January 2024



Tax transparency in ESG

Insights into Indian businesses and their sustainable practices based on a PwC India survey



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Foreword

Trust and transparency tend to go hand in hand. Across the world, trust is proving fragile in 2023, yet some of the most significant challenges in reaching an agreement to build a sustainable future for all will rely on increasing levels of trust. In this scenario, businesses have a significant role to play in re-establishing trust by proactively providing reliable information of interest to wider stakeholders and supporting evidence-based public debate on crucial issues.[1]

Businesses are starting to rise to this challenge. There is increasing recognition that environmental, social and governance (ESG) considerations are not just about 'doing good', but are fundamental to any business in building reputation, reducing risks, and creating sustainable value for stakeholders. As this report highlights, there is a growing demand for transparency from investors, employees, regulators and other stakeholders on how businesses are operating, and that certainly includes the demand for transparent tax information.

In the context of developing economies, which often face challenges in generating revenues to fund essential public services like healthcare, infrastructure and education, tax transparency has taken on growing importance. Tax transparency disclosures made by businesses serve as an effective tool to demonstrate societal contribution to relevant stakeholders (e.g. investors, creditors, consumers and employees), allowing stakeholders to understand where and how businesses pay taxes and, thus, the role they play in a government's revenue base.

As one of the fastest-growing economies, India has responded to these trends by bringing about substantial shifts in its tax transparency policies and procedures through the modernisation of tax systems and adoption of digital platforms that have enhanced transparency on tax matters regarding prescribed information. However, as highlighted in our survey, tax transparency is low on aspects of tax strategy, governance, risk management, contribution of taxes and tax-related disputes. Businesses, however, are starting to recognise the opportunity to embrace tax transparency to meet the needs of wider stakeholders.

Through thoughtful analysis and a survey capturing the perspectives of top-tier executives from leading Indian businesses, this report highlights the intrinsic link between tax transparency and ESG principles, demonstrating how organisations are integrating tax considerations into their strategies for sustainable business conduct. Our inquiry extends further into various facets of ESG, encompassing respondents' net-zero commitments, the strategies employed to attain these commitments, the impact of carbon taxes on their supply chains, and the policy interventions deemed vital for the implementation of robust ESG practices.

Barry Murphy
Partner, Global ESG Team, PwC

1 2023 Edelman Trust Barometer: https://www.edelman.com/trust/2023/trust-barometer

Preface

As India ambitiously pursues its goal of becoming a USD 5 trillion economy and reaching its net-zero emissions target by 2070,[2] the dimensions of ESG have assumed a pivotal role in facilitating sustainable development. These considerations have gained a central position in attracting capital and aligning with stakeholders' expectations, driving innovation and nurturing long-term sustainability. This transformation underscores the evolving demands of investors, consumers and stakeholders, all of whom now demand heightened levels of transparency, especially about a company's tax affairs. A key facet of this transformation lies in recognising the critical role of taxes, within the ESG framework. Governments and businesses both have a significant and complementary role to play in the net-zero transition and in achieving a more sustainable future through responsible reporting.

Taxes are a powerful instrument for governments, and many nations are implementing coordinated policies that combine the imposition of green taxes with the introduction of incentives (carrot-and-stick strategy) to encourage the adoption of ESG practices. According to a recent World Bank Report, governments are increasingly utilising tax incentives more frequently to encourage companies to adopt ESG practices among businesses.[3] These incentives can be in the form of tax credits, deductions or exemptions, among other things. By encouraging innovation and investment in greener technology, energy efficiency and ethical business practices, these incentives can bring about positive change and contribute to a more sustainable and responsible global business landscape. Increasingly, governments are also seen scrutinising tax compliance and/or enacting carbon taxes, levies or penalties to incentivise companies to lower their carbon emissions and switch to sustainable practices.

Tax is the largest societal contribution made by businesses, and this is vital in the context of developing economies since it funds essential public services and infrastructure such as healthcare, education and infrastructure development. It also promotes social safety nets, poverty reduction and economic stability, all of which contribute to societal well-being. According to the Organisation for Economic Co-operation and Development (OECD), 'taxes are the most important source of government revenue, accounting for an average of 24.5% of GDP in OECD countries in 2020.'[4] As a result, when firms are transparent about their tax contributions, it displays their commitment to supporting the country's growth and development. Transparency promotes trust and favourable public perception, cultivates resilience in operations, ultimately benefiting both businesses and society.

In India, this shift is evident as a number of top businesses have chosen to voluntarily provide important tax information to the public. They are achieving this by disclosing their tax metrics, methodologies, and frameworks for tax risk management and control by publishing their Tax Transparency Reports (TTRs). This trend is palpable in several industries such as technology, retail and consumer, metals and mining, and pharmaceuticals. Voluntary disclosure through TTR has multiple benefits, such as fostering trust among stakeholders, promoting compliance with tax regulations, setting companies apart from their peers – particularly if they are pioneers – and, lastly, serving as a powerful medium to convey the

2 India's Vision to $5 trillion economy: https://pib.gov.in/Pressreleaseshare.aspx?PRID=1549454

3 World Bank, 'Tax Incentives for ESG Promotion: A Review of Global Practices', 2022

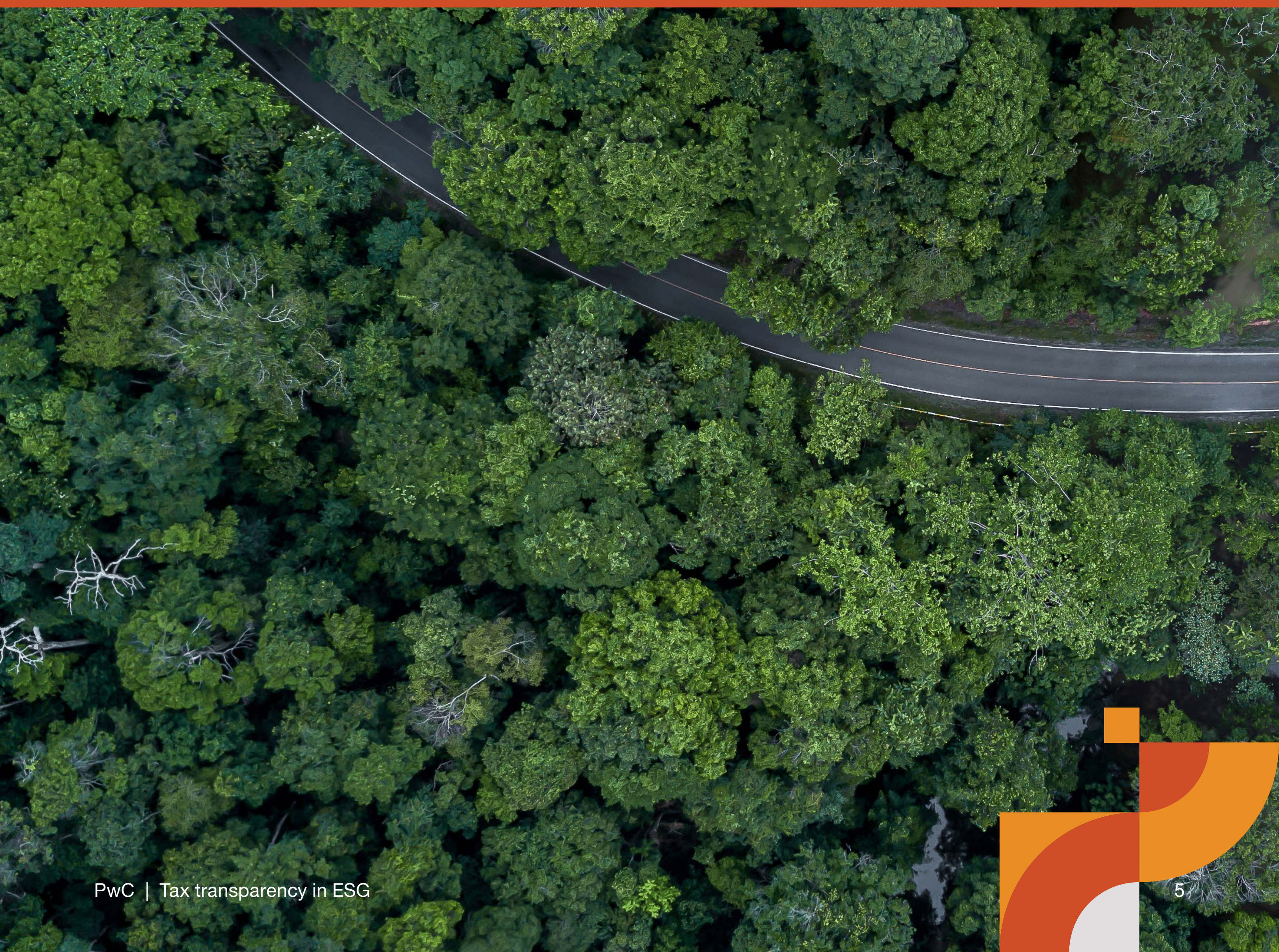
4 Organisation for Economic Cooperation and Development, 'Revenue Statistics 2022', 2022

company's tax narrative, enabling stakeholders, including regulators and customers, to gain a clear understanding of the company's approach to taxes.

The findings of this survey conducted by PwC India illustrate India Inc.'s perception of how companies are integrating tax within the ESG framework. The report throws light on how and why it is important to walk the sustainability talk. Our findings indicate that businesses are preparing to meet their net-zero commitments, but there is concern around the impact of carbon taxes on supply chains. The significance of tax incentives and other policy measures in promoting sustainable behaviour also comes to the fore in no uncertain terms.

We trust that this report will offer valuable insights for businesses in India, their stakeholders, and policymakers as they navigate this dynamic landscape that sees a synthesis of taxation, sustainability, and responsible corporate conduct.

Sambitosh Mohapatra
ESG Leader, PwC India

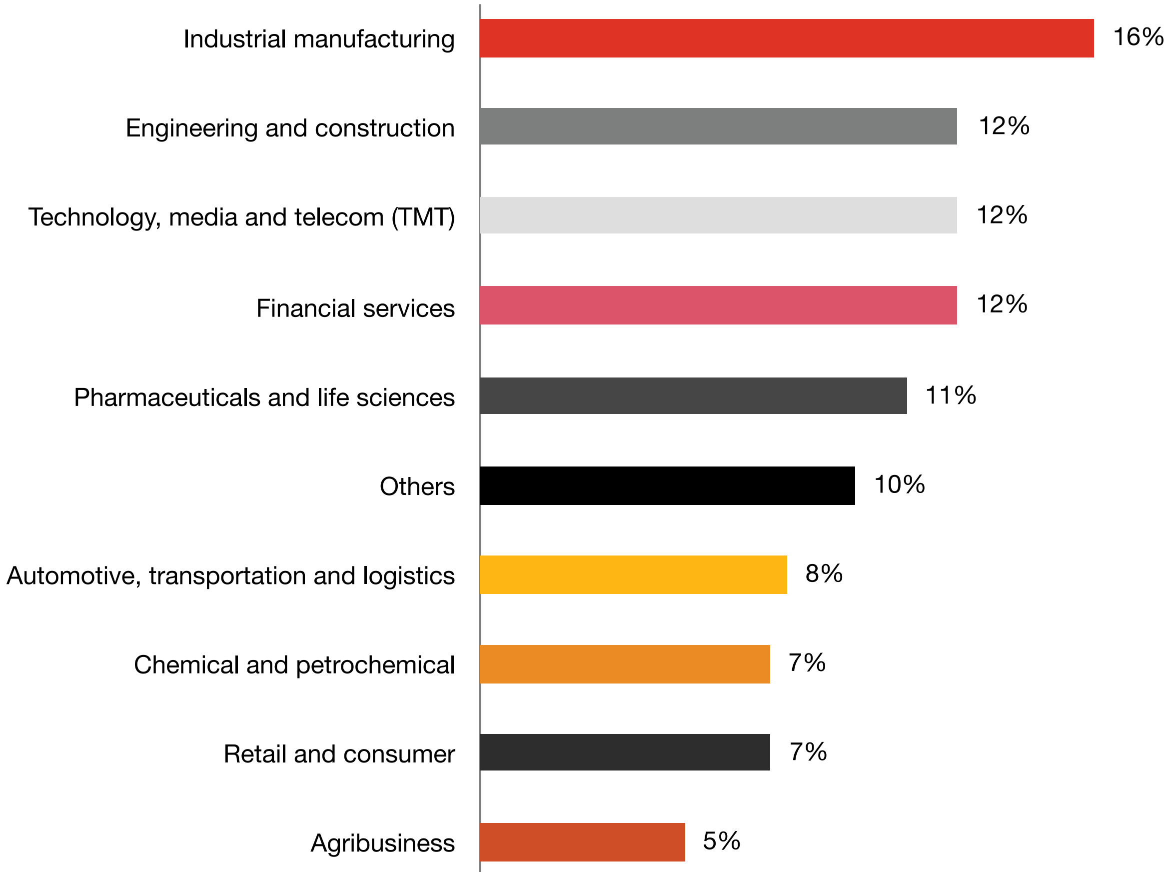


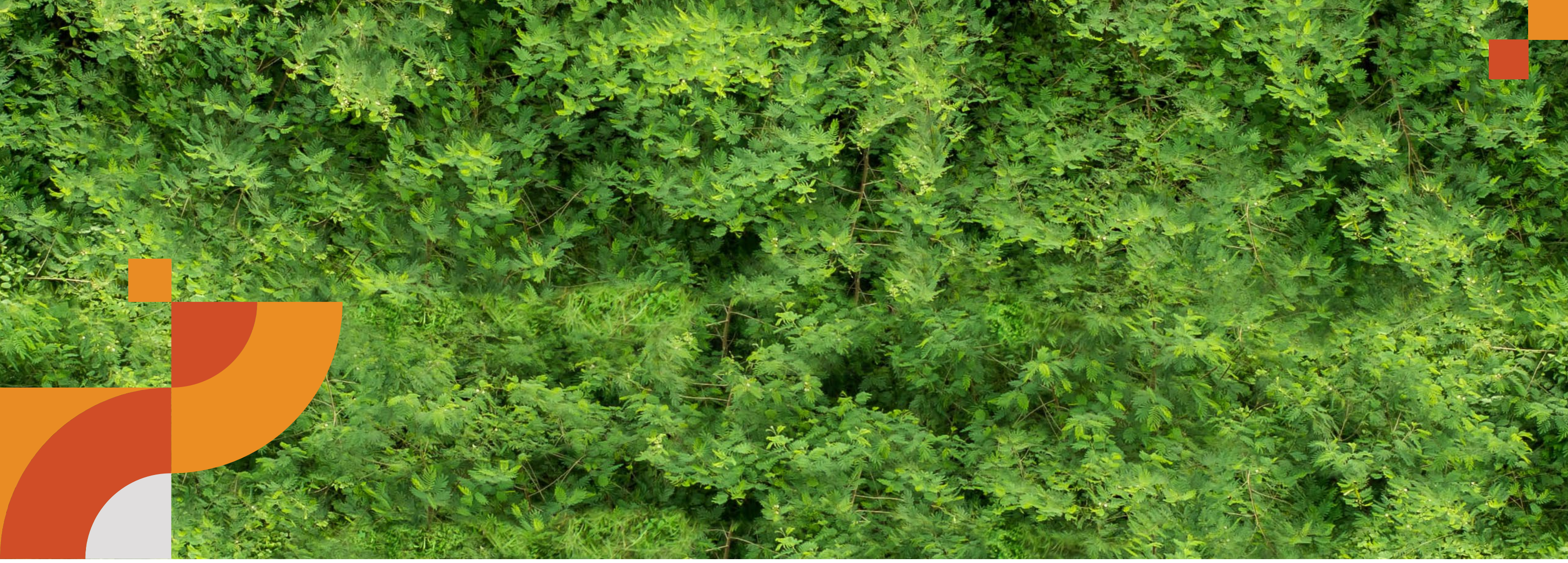
Executive summary

In recent years, the global business landscape has witnessed a significant transformation in sustainable and responsible practices. This shift is driven by the increasing demand for transparent and ethical behaviour from businesses by investors, consumers and other relevant stakeholders. Companies that embrace ESG principles and comprehend the need for tax transparency are not only seen as responsible corporate citizens but are also more likely to enhance their long-term value by reducing operational costs, mitigating long-term risks and building stakeholder trust. Conversely, businesses that delay factoring in ESG carry the risk of losing out on business, particularly from ESG-native Gen Z customers, are vulnerable to enhanced regulatory scrutiny, have difficulty in attracting and retaining talent, and may have limited access to green finance.

ESG then is no longer a peripheral concern. As a core pillar of corporate strategy, companies are investing in sustainability and striving to communicate their intentions clearly to stakeholders. This report, based on a market survey of nearly 250 tax heads, sustainability/ESG leaders, CFOs and CXOs of Indian businesses, spans industries such as financial services, technology, media, and telecom (TMT), retail and consumer, pharmaceuticals and life sciences, and hard-to-abate sectors such as metals and mining, automotive, transportation, logistics, chemical and petrochemicals, and engineering and construction. Industries classified as 'others' in the following chart include education, hospitality, consulting, tourism, data, internet, and B2B supply.

Chart 1: Industries that were covered in the survey





Conducted in India between April and July 2023, the survey explored the net-zero commitments of companies, the impact of carbon taxes on supply chains, and the role of tax incentives and policy interventions in implementing ESG practices. It also touched upon drivers, disclosures and enablers for tax transparency in business, tax governance structures and adoption of international reporting standards by companies.

According to the survey, of the 50% respondents who have made a net-zero commitment, 48% aim to achieve their goals by 2030, and are therefore poised to undertake decarbonisation measures at an accelerated pace. Nearly 60% state that there is a need to incentivise ESG interventions. With incentives and policy interventions, governments can support businesses in achieving their decarbonisation commitments, addressing income inequality, and promoting diversity and inclusion, underpinning essential elements of ESG transformation for businesses.

Nearly 50% of respondents agreed that the reputation of responsible tax behaviour is a key driver of tax transparency. This indicates that companies in India value building trust and maintaining a positive image and credibility. The survey findings further reveal that companies recognise the connection between tax transparency and their sustainability and social responsibility commitments, and are therefore focused on improvements in their ESG profile and score. Then there are those companies – around 34% – that perceive tax transparency as an opportunity to shape a positive narrative for relevant stakeholders. The finding indicates that those companies that understand the potential benefits of proactively sharing information about their tax practices could gain an edge and foster transparency in tax.

The survey also highlights other key drivers of tax transparency, such as managing tax assurance and tax risk, and the fact that tax transparency is likely to be mandated by regulations in the future. These responses indicate that businesses have begun to recognise that sustainable economic growth is directly proportional to sustainable business practices and responsible tax behaviour by businesses. With more companies gradually integrating tax considerations into their overall ESG frameworks, engaging in responsible tax management and making voluntary disclosure on tax matters, the trend is likely to help build trust, foster credibility and contribute to a more transparent tax environment.

It is important to note that the manner in which companies conduct themselves on their tax function is a key indicator of their commitment to operate for the benefit of all stakeholders across the ecosystem, rather than simply to maximise shareholder returns. This in turn provides an opportunity to reframe tax reporting as a medium to shape a positive and value-accretive narrative for businesses at large. Our survey findings show that although companies have been slow on the uptake, the powerful transformative narrative has begun to take shape.

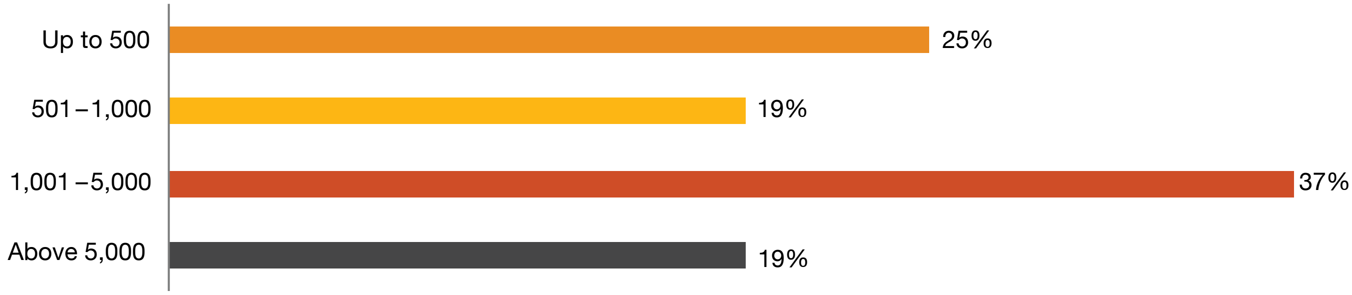
Survey highlights

The survey findings underline that among the various components of ESG, tax transparency is emerging as an important point of interest for stakeholders,[5] including shareholders, regulators, employees and customers. This development has the potential to create a favourable narrative for businesses.

At an aggregate level, 75% of the 229 survey participants – tax heads, sustainability/ESG leaders, CFOs – were from companies with more than 500 employees. 37% of respondents were from companies comprising 1,000 to 5,000 employees.

Scan the QR code below to find out more on the relevance of tax in ESG:

Chart 2: Companies by number of employees



Interestingly, 66% of participants belong to listed entities in India, while 34% are from unlisted entities, including privately held businesses. The following are some of the key findings of the survey:

Net-zero ambitions run high but concerns around carbon taxes impacting supply chains remain

The survey indicates that companies are actively taking steps towards reducing their carbon footprint and aligning with environmental sustainability goals.

50% of participants state they have made a net-zero commitment. Of these, 48% aim to achieve net-zero emissions by 2030.

67% of respondents believe that carbon taxes in various jurisdictions are likely to impact their supply chain. This demonstrates the awareness among companies regarding the potential impact of carbon taxes and the need to align supply chains with ESG goals.

Tax incentives can act as a catalyst to adopt sustainable measures

Respondents view tax incentives to be relevant or highly relevant in encouraging corporate sustainability endeavours.

93% of respondents surveyed believe tax incentives are relevant or very relevant for the adoption of ESG practices.

86% agree that preserving the environment will be a key focus area where companies would like to invest if they receive tax incentives. This shows a strong consensus among the participants on the importance of incentives to drive ESG practices and environmental sustainability.

5 PwC India - Tax and ESG: https://www.pwc.in/consulting/esg-consulting.html

Policy measures and incentives can drive ESG adoption

Governments and regulatory bodies around the world are rolling out tax and regulatory initiatives to boost adoption of sustainable practices – an approach that has found favour with CXOs. A majority of them believe that policymakers could be real changemakers by incentivising ESG practices to boost adoption.

59% of participants believe that there is a need for policymakers to incentivise ESG practices.

Such policies can provide the necessary impetus for companies to prioritise ESG investments, foster responsible tax conduct, and pace climate change mitigation and adaptation, as well as contribute towards sustainable economic development.

Need for embracing tax transparency-related disclosures voluntarily

The survey shows there is room for improvement in tax transparency-related practices, as a significant number of companies are not utilising standardised frameworks for tax disclosure.

75% of respondents do not have a publishable tax transparency report, indicating a gap in tax transparency-related practices.

Only 23% of companies use Global Reporting Initiative (GRI) 207/other standardised tax transparency-related practices.

By adopting a standardised framework for tax transparency related disclosure, companies can ensure consistency and comparability in reporting tax-related information, making it easier for stakeholders to assess and monitor a company's tax practices.

Responsible tax behaviour can help companies build trust

The survey findings highlight that tax transparency can shape perceptions. Tax transparency disclosures can enhance a company's reputation by demonstrating its commitment to fair and responsible practices.

47% of respondents say that tax transparency disclosures could improve a company's reputation by portraying it as engaging in responsible tax behaviour.

44% of respondents opine that tax transparency can increase a company's ESG profile, score and credibility.

34% of respondents believe that tax transparency is an opportunity to shape a positive narrative for a company.

Stakeholders are increasingly seeking tax transparency

The survey reveals a growing interest among stakeholders, particularly shareholders and regulators, in tax transparency practices as an important aspect of responsible corporate behaviour.

Over 70% of participants feel that shareholders and regulators are interested in tax transparency practices of a company.

50% of participants surveyed consider employees to be interested in keeping a tab on their company's actions on tax matters.

This indicates that stakeholders are likely to advocate greater transparency and accountability in tax practices as part of the broader ESG considerations. Shareholders, as the owners of the company, are interested in understanding how companies manage their tax affairs and contribute to society. Regulators, on the other hand, look forward to transparent disclosures that provide better understanding of the tax practices of companies and sectors.

Tax strategy and total tax contribution (TTC) are key disclosures of tax transparency

Our findings suggest that disclosure of tax strategy – an organisation's group-wide tax policy, strategy or principles that reflect its approach to taxation[6] – and TTC[7] are key elements of tax transparency. The TTC framework[8] helps companies communicate their contribution to the public finances, with the intent of improving tax transparency. It combines corporate income tax and other relevant business taxes while making a clear distinction between taxes borne by the company and taxes collected on behalf of governments from employees, customers, etc.

The survey results underline the need to provide clear and comprehensive information on these matters.

Scan the QR codes to find out more about tax strategy and the TTC framework:

47% of survey respondents identify tax strategy as the most important disclosure for tax transparency, while **43%** opine that TTC is a key disclosure for tax transparency.

Going forward in the next three years, **48%** of respondents believe that disclosures on TTC will be important tax disclosures, while **32%** opine that tax strategy will be a key disclosure for tax transparency in the next three years.

Tax governance structure can help companies to build trust

The survey reveals that a tax governance structure is crucial for demonstrating a company's accountability, credibility and trustworthiness to various parties, including governments, citizens, investors and customers.

61% of respondents have a tax governance structure in place. This indicates that companies are recognising the importance of building effective systems and processes to ensure responsible tax practices and compliance with tax regulations when it comes to sustainability reporting.

6 Tax strategy: https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/esg-tax-transparency.html

7 A study of the largest companies in the EU and EFTA: https://ebtforum.org/wp-content/uploads/2019/12/Total-Tax-Contribution-A-study-of-the-largest-companies-in-the-EU-and-EFTA-Full-report.pdf

8 Total Tax Contribution Framework: https://www.pwc.com/gx/en/tax/pdf/total-tax-contribution-framework-2021.pdf

Analysis of the survey findings

50% of surveyed businesses have committed to net-zero goals

The net-zero[9]/decarbonisation commitment of companies refers to their pledge to reduce their greenhouse gas emissions as much as possible and to remove the balance emissions through nature-based solutions or carbon capture and storage. These commitments not only demonstrate the company's environmental consciousness and commitment to sustainability but also serve as reputational advantages, attracting environmentally conscious consumers and investors.

Net-zero commitments take on added complexity in the context of India. India is one of the world's largest emitters of greenhouse gases due to its population size and economic activities.[10] However, per capita carbon emissions of India are low when compared to China (less than one-fourth) and approximately one-sixth of the US.[11] As a developing nation, India faces a unique challenge of balancing growth and climate sustainability at the same time. Despite the challenges, India has set an ambitious goal of generating around 50% of its installed electric power capacity from non-fossil fuel-based energy resources by 2030.[12] Moreover, in November 2021, India announced at the 26th Conference of Parties (COP) that it would achieve net zero by 2070,[13] with an important milestone of achieving 100% cumulative electric power from non-fossil fuel sources. This long-term commitment showcases India's dedication to combating climate change despite its unique developmental challenges. The New Delhi Leaders' Declaration at the G20 summit of 2023 reiterates the need for collective action by governments and commitment towards reaching the climate goals as defined under the Paris Agreement and the need to scale investment, particularly for developing countries, for their needs to implement their Nationally Determined Contributions (NDCs).[14]

It is also important to highlight that the Government of India (GoI) has been implementing regulatory measures to achieve decarbonisation. The Energy Conservation (Amendment) Act of 2022,[15] for example, introduces concepts such as the carbon credit trading system and mandates the use of non-fossil fuels and energy-efficient standards to accelerate the transition to cleaner energy sources and support the achievement of the Sustainable Development Goals (SDGs).

When respondents were asked if their company had made a net-zero commitment, 50% said they had committed to net zero. Among the 50% who made a net-zero commitment, 48% aim to achieve their goals by 2030, indicating a strong inclination to undertake decarbonisation measures at an accelerated pace. Interestingly, a similar trend was also observed in another BRICS economy, i.e. Brazil: According to a recent PwC Brasil publication based on a survey of 120 Brazilian companies, 45% of participating companies have made a net-zero commitment and 51% aim to achieve this by 2030.[16]

For more information on PwC Brasil's tax ESG publication, please visit:

9 Net-zero commitments: https://www.un.org/en/climatechange/net-zero-coalition#:~:text=What%20is%20net%20zero%3F,oceans%20and%20forests%20for%20instance.

10 Top 10 countries with the highest CO_2 emissions in the world: https://worldpopulationreview.com/country-rankings/co2-emissions-by-country

11 Ibid.

12 India target of achieving 50% electric power installed capacity from non-fossil fuel-based energy resources by 2030: https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1913467

13 PIB release: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1945472

14 G20 New Delhi Leaders' Declaration: https://www.mea.gov.in/Images/CPV/G20-New-Delhi-Leaders-Declaration.pdf

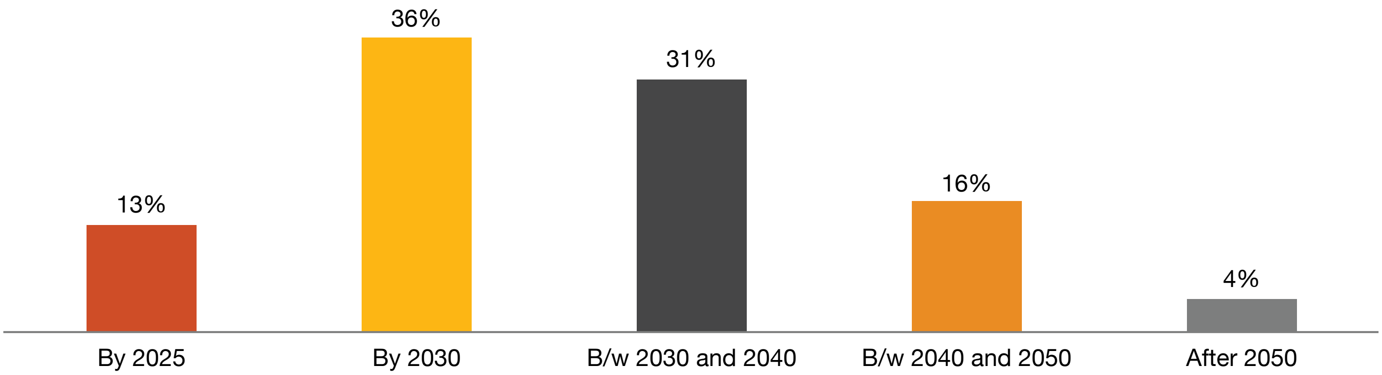
15 Energy Conservation (Amendment) Act of 2022 on Carbon Credit Trading Systems: https://prsindia.org/billtrack/the-energy-conservation-amendment-bill-2022#:~:text=The%20Bill%20amends%20the%20Energy,needs%20from%20non%2Dfossil%20sources

16 PwC Brasil Tax ESG Report: https://www.pwc.com.br/pt/estudos/servicos/assessoria-tributaria-societaria/2022/TAX-ESG_EN_PwC_Brasil.pdf

Chart 3: 50% of respondents have made a net-zero commitment

50%
of participating companies have made a net-zero commitment

48%
of companies who have made a net-zero commitment aim to achieve it by 2030



Source: PwC survey (Question: Has your company made a net-zero commitment? If yes, when does it aim to achieve this goal?)

The survey results of Indian businesses demonstrate a strong sense of urgency to tackle climate change and make the shift to a low-carbon economy by Indian businesses. These measures can include various actions such as overhauling supply chains, promoting sustainable innovation, integrating ESG considerations into their daily operations, among others. The survey findings highlight that companies are becoming conscious of environmental challenges and eager to adopt ESG practices to join the movement and support India's efforts to tackle climate change as awareness of the advantages of net-zero commitments increases. These actions can boost a company's reputation, strengthen its bonds with stakeholders and increase its long-term viability. It can be inferred that by setting ambitious goals and taking tangible actions to reduce emissions, businesses can drive positive change and contribute to a low-carbon economy.

> *Tax has two sides like a coin – on the one hand, it is a mandatory social contribution and on the other, it is a cost like any other cost. Businesses discharge their obligation by paying their fair share of taxes while optimising their tax costs. This balancing act requires a high level of governance and strategic approach which businesses follow. When shared transparently with the public at large through a Tax Transparency Report, it becomes the 'tax story of the company'."*

Sanjay Tolia
Chartered Accountant

Businesses are concerned about the potential impact of carbon taxes on their supply chain

Addressing climate change and lowering GHG emissions have gained prominence in recent years. Governments are using carbon taxes as an effective tool to address carbon emissions and combat climate change. Carbon taxes such as the EU's Carbon Border Adjustment Mechanism (CBAM) will require companies to proactively assess their implications across different jurisdictions, including potential cost increases, compliance requirements and shifts in consumer behaviour.

In the first phase, CBAM[17] will cover carbon-intensive imports in the EU in six sectors, namely aluminium, cement, electricity, fertilisers, iron and steel, and hydrogen, and impose reporting requirements on importers (commencing October 2023). From 1 January 2026 onwards, it will be necessary to purchase CBAM[18] certificates. CBAM imposes a fair price on the carbon emissions connected with items entering the EU market, equivalent to the carbon price of domestically produced commodities, computed using the carbon price in the EU's Emission Trading System (ETS). Given the potential cost escalations, businesses may need to reorient their production with a stronger emphasis on sustainability and greening of their supply chains.

Scan the QR code for more information on CBAM:

When respondents were asked about their perception of the potential impact of carbon taxes in different jurisdictions on their supply chain, 67% said their supply chains would be impacted.

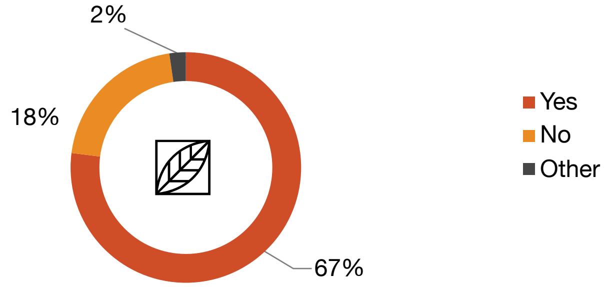
17 Carbon Border Adjustment Mechanism: https://www.pwc.in/assets/pdfs/tax-knowledge-hub/carbon-border-mechanism-cbam-adjustment.pdf

18 Carbon Border Adjustment Mechanism(EU): https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

Chart 4: A majority of respondents are concerned about the impact of carbon taxes on supply chain

67%

of respondents state that carbon taxes in various jurisdictions are likely to impact their supply chain



Source: PwC survey (Question: Do you think carbon taxes in various jurisdictions are likely to impact your supply chain?)

The survey results indicate that companies are recognising the relevance of carbon taxes and their potential impact on supply chains. This serves as a call to action for businesses to integrate sustainability practices, including transparency on taxes paid across jurisdictions to mitigate risks, and support companies to navigate evolving carbon tax frameworks which often come with stringent reporting and compliance requirements.

As governments throughout the world step up their efforts to battle climate change, businesses too can align their strategies with sustainability goals and prepare proactively for any other regulatory changes that could impact their operations and supply chains. In addition, businesses may also consider implementing digital solutions for strategically assessing carbon emissions and managing related tax incentives in order to achieve long-term cost advantages. By taking a proactive stance, businesses can reduce risks and take advantage of opportunities presented by changing carbon tax regimes.

Businesses would like a mix of policy interventions comprising both environmental taxes and incentives

Policy interventions play a critical role in encouraging ethical and sustainable corporate practices. Governments may undertake policy interventions with a view to addressing market failures, promoting long-term sustainability and innovation, standardising reporting, ensuring a level playing field, and meeting stakeholder and consumer expectations, among others. These policy interventions can be in the shape of market processes, disclosure laws, regulatory frameworks or the introduction of tax incentives, and so on. While policy interventions are crucial, by implementing tax policies that incentivise adoption of ESG practices, governments can support businesses in achieving decarbonisation commitments, addressing income inequality or promoting diversity and inclusion, thereby underpinning all elements of ESG transformation for businesses.

In this context, we asked respondents which policy interventions would be beneficial for their respective industry. 34% of respondents believe that combining environmental taxes and incentives can help implement sustainable practices.

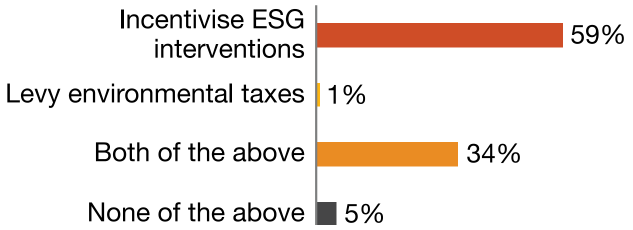
Chart 5: A majority of respondents believe that there is a need to incentivise ESG interventions

59%

of respondents state that there is a need to incentivise ESG interventions

34%

state that both incentivising ESG interventions and levying environmental taxes may be considered



Source: PwC survey (Question: To effectively implement ESG practices, what policy interventions would be helpful in your industry?)

According to the survey results, 59% of participants acknowledge that there is a need to incentivise ESG interventions through various policy interventions. This emphasises how crucial it is to put policy interventions – including tax incentives – in place in order to support environmentally friendly business practices.

implement ESG practices and encourage the decarbonisation of the economy, a combination of carbon taxes and incentives is needed. This viewpoint represents a well-rounded strategy that combines incentives and regulatory measures to encourage implementation of ESG practices, and aid in the economy's overall decarbonisation.

Significance of tax incentives

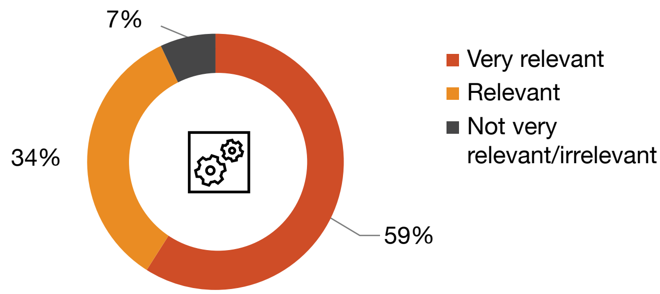
93% of respondents state that tax incentives – such as financial benefits and lowering economic barriers – can significantly promote adoption of ESG practices by businesses. Such benefits can incentivise businesses to adopt environment-friendly practices and promote investments in renewable technologies.

Tax incentives therefore can contribute to the achievement of net-zero emissions targets. Most businesses would like to reallocate the benefits of tax incentives towards preservation of the environment, followed by inclusion and diversity.

Chart 6: 93% of respondents state that tax incentives are relevant for ESG adoption

93%

of respondents surveyed consider tax incentives relevant or very relevant for adoption of ESG practices

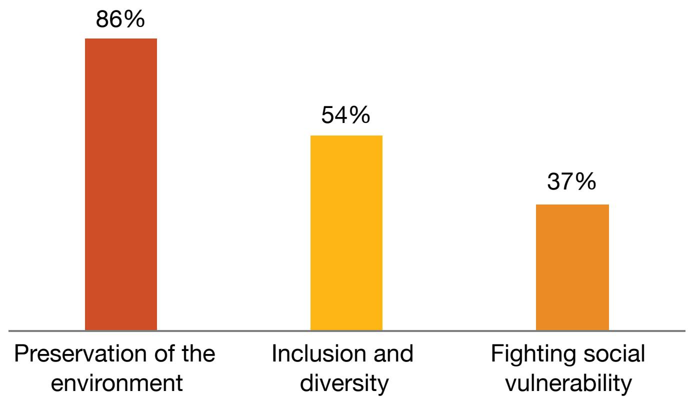


The preferences expressed by respondents further emphasise the role of tax incentives in driving environmental preservation, inclusion, diversity and addressing social vulnerabilities.

According to the survey, 86% of participants would invest in environmental preservation. when it came to the distribution of tax incentive benefits. This shows that tax incentives and environmental objectives are highly aligned. Additionally, the survey results show that there is significant interest in using tax incentives for diversity and inclusion initiatives (54%) and addressing social vulnerability (37%).

The findings suggest that tax incentives can serve as catalysts for companies to promote social responsibility alongside environmental sustainability and that Indian companies are increasingly considering social cohesion when allocating tax incentives, indicating a possible shift towards adopting responsible tax practices that benefit society. In fact, responsible tax behaviour by Indian businesses can complement the Organisation for Economic Co-operation and Development (OECD)

Chart 7: Areas in which companies would invest if tax incentives are provided



Source: PwC survey (Question: If provided with tax incentives, in which of the following areas would your company mainly invest in?)

BEPS[19] Pillar 2, which focuses on a global minimum tax rate framework. It's important to highlight that the OECD has been at the forefront in efforts to enhance tax transparency and mitigate tax avoidance by businesses globally, with initiatives such as Base Erosion and Profit Shifting (BEPS).

19 Tax Transparency(BEPS): https://www.oecd.org/tax/beps/tax-transparency/

75% of respondents do not have a publishable Tax Transparency Report (TTR)

A TTR is a specially made document to communicate an organisation's societal contribution by way of taxes, its commitment to responsible tax behaviour and a narrative on tax matters of importance to stakeholders.[20]

It offers a unique opportunity to businesses to communicate a tax narrative that can build trust by demonstrating that the tax decisions have been viewed through a strong governance and control framework. While there can be upfront efforts associated with improving tax transparency, the long-term benefits in terms of reputation can play a significant role in building stakeholder trust and accountability, demonstrating a commitment to sustainability, improving customer loyalty, and showcasing social responsibility.

75%

of companies surveyed do not have a publishable TTR

Source: PwC survey (Question: Does your company have a publishable TTR?)

Taxes are becoming a powerful indicator of how a company sees its role in society and how committed it is to its purpose.

Scan the QR code to find out more about TTR:

The survey results show that currently, 75% of surveyed companies in India are not publishing their TTR. Evidently, there is a significant gap in tax transparency reporting among companies in the country. This finding highlights a lack of clear communication and transparency regarding tax practices, which can impact stakeholder trust and reputation. As TTR is currently a voluntary disclosure in India, it can be inferred that addressing this gap may require a policy push.

20 Tax and ESG: https://www.pwc.in/assets/pdfs/consulting/esg/tax-and-esg.pdf

Global Reporting Initiative (GRI) 207: Tax and other reporting frameworks

In recent years, various organisations, including the Sustainability Accounting Standards Board (SASB), the OECD, the Task Force on Climate-related Financial Disclosures (TCFD), and the World Economic Forum (WEF), have emphasised the pivotal role of taxes within the broader framework of ESG.

The OECD, through its BEPS initiative, calls upon companies to report their country-by-country tax[21] information privately to tax authorities. The International Business Council[22] of the World Economic Forum (WEF-IBC) has published a set of key metrics, which include reporting of taxes paid as a 'core metric' and the taxes collected and paid as a 'recommended metric' for stakeholders/ESG considerations.[23]

This highlights the growing importance of tax transparency in the context of ESG. Furthermore, the Principle for Responsible Investment (PRI) encourages investors to advocate for fairer public policy on tax and integrate tax issues into their voting policies,[24] strengthening the alignment between responsible investment practices and tax-related disclosures.

PwC has recently published a survey report covering 56 financial services organisations spanning banking, asset management and insurance sectors.

Scan the QR code to find out more about how a focus on Tax in ESG can create value for financial service organisations:

Notably, the EU public country-by-country reporting directive and the EU corporate sustainability reporting directive (CSRD) aim to promote transparency and accountability within businesses operating in the EU. CSRD incorporates the use of GRI 207,[25] which facilitates the reporting of tax-related information, further enhancing the comprehensive disclosure of financial and sustainability-related data. These rules are intended to ensure companies are held accountable to higher standards of disclosure[26] and contribute to the EU's larger objectives of sustainability and corporate responsibility.

21 Country-by-country reporting: https://www.oecd.org/tax/beps/beps-actions/action13/
22 Total tax framework - World Economic Forum: https://www.weforum.org/stakeholdercapitalism/our-metrics
23 Tax is a crucial part of the ESG conversation: https://www.pwc.com/gx/en/services/tax/publications/tax-is-a-crucial-part-of-esg-reporting.html
24 Tax fairness and importance to investors: https://www.unpri.org/governance-issues/what-is-tax-fairness-and-what-does-it-mean-for-investors/9077.article
25 EFRAG-GRI Joint statement of interoperability: https://bit.ly/49ZtmH9
26 Financial services, tax and ESG: https://www.pwc.com/gx/en/services/tax/assets/financial-services-tax-and-esg-report-april.pdf

In addition, driving sustainable and responsible business practices is one of the key objectives of the B Team, which is a global non-profit initiative of leading companies. It has developed a framework for responsible tax practices, i.e. 'The B Team Responsible Tax Principles', in consultation with leading companies and with the involvement of civil society leaders, investors and representatives from international institutions. It makes a case for transparent, responsible tax strategies and highlights key tax principles[27] for businesses to follow. The principles include accountability and governance, adherence to tax regulations, relationship with tax authorities, seeking and accepting tax incentives, and transparency in reporting to stakeholders, among others.

In this context, the GRI Sustainability Reporting Standard, GRI 207: Tax, emphasises the need for comprehensive disclosures on tax management and governance which consider disclosure of tax matters ranging from strategy, governance, risk and contribution in each country.[28] While GRI 207 is a widely recognised framework that empowers organisations to report on tax-related matters to stakeholders, including investors and analysts, it's important to note that various alternative approaches exist. These include frameworks proposed by entities such as the B Team, among others.

23%

of companies use GRI 207 for tax transparency-related reporting

Source: PwC survey (Question: Does your organisation use GRI Standard 207 in reporting of tax?)

In our survey, we asked respondents if they have adopted GRI 207: Tax to report on tax-related matters. The survey results revealed that only 23% of companies adopted this standard. There's a clear need then for more widespread alignment with international reporting frameworks/standards to enhance stakeholder trust.

"Tax transparency-related disclosures on a voluntary basis by businesses, based on global best practices, may serve as an effective tool to demonstrate responsible tax behaviour and its societal contribution. Voluntary disclosure of key tax metrics by leading companies shall put pressure on the peer group to make similar disclosures and conform to responsible tax approaches in the matter of taxation, fostering better and fair tax practices and compliance with limited use of the regulatory stick."

Rahul Garg
Chartered Accountant

27 A new bar for responsible tax: https://bteam.org/assets/reports/A-New-Bar-for-Responsible-Tax.pdf
28 GRI 207: https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf

Need for a tax governance structure

A tax governance structure refers to the framework, policies and processes that companies establish to effectively manage their tax-related activities and ensure compliance with relevant laws and regulations. It serves as a crucial component for promoting tax transparency and accountability, building trust among stakeholders, and mitigating potential risks associated with non-transparent tax practices. The adoption of a robust tax governance structure enables companies to adopt a sustainable taxation policy and meet tax compliance requirements. By implementing clear policies, responsibilities and processes for tax management, a well-designed tax governance structure assists companies in operating in a transparent and accountable manner.

In our survey, we asked respondents whether their companies have a tax governance structure/body in place. According to the survey results, it is evident that Indian corporates recognise the importance of a tax governance structure in fostering a good governance framework.

61%

state that they have a tax governance structure in place

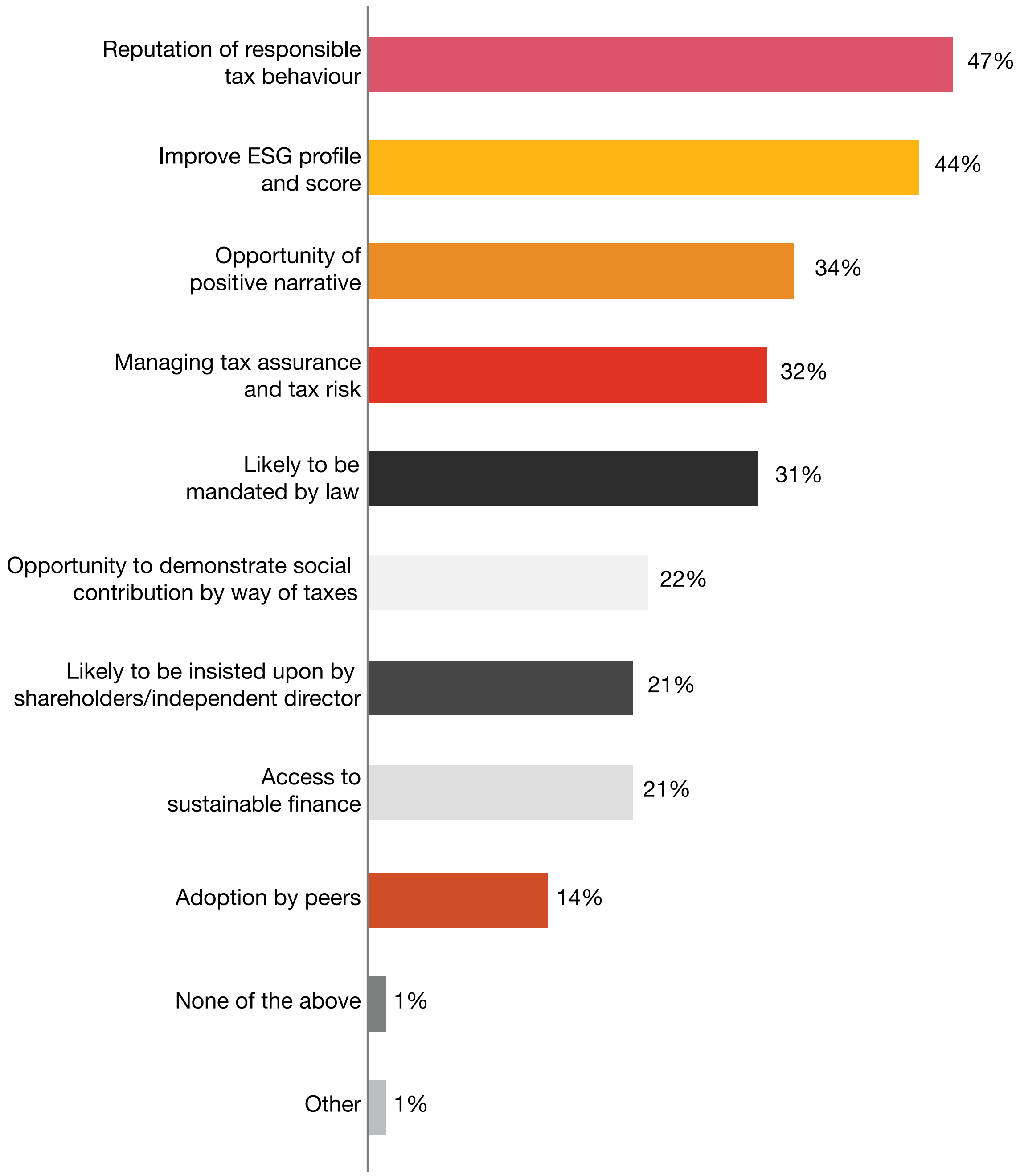
Source: PwC survey (Question 7: Does your organisation have a tax governance structure/body?)

61% of respondents state that they already have a tax governance structure in place. This suggests that Indian companies consider tax as a vital metric for governance purposes, emphasising its significance in business decision making and building trust among stakeholders. This shift towards embracing a tax governance structure may be attributed to the increasing scrutiny of companies' tax practices and the growing emphasis on responsible business conduct.

Top drivers of tax transparency

External or internal factors could often motivate companies to be more transparent about their tax practices. When companies are transparent about their tax affairs, they provide clear and comprehensive information about their tax payments, tax strategies, and compliance with tax laws and regulations. In the survey, respondents were asked to identify the top three drivers of tax transparency from among various drivers such as regulatory requirements, peer adoption, stakeholder expectations, reputation concerns, competitive advantages, and ethical considerations.

Chart 8: Top drivers of tax transparency



Source: PwC survey (Question: What are the top three drivers for tax transparency in your business?)

According to the survey, 47% of respondents believe that the reputation of responsible tax behaviour is the primary driver for tax transparency. This indicates that nearly 50% of companies in India value the importance of tax transparency in building the reputation of a company. Further, 44% of respondents consider improvement in the ESG profile and score as a key driver for promoting tax transparency, reiterating the fact that tax transparency is a material factor which companies must consider as intrinsic to their overall sustainability strategy. Interestingly, only 34% of respondents perceive the opportunity to shape a positive narrative as an important driver for tax transparency. This indicates that many companies are still unaware or reluctant to acknowledge the potential benefits of proactively sharing information about their tax practices to influence public perception and maintain a favourable narrative.

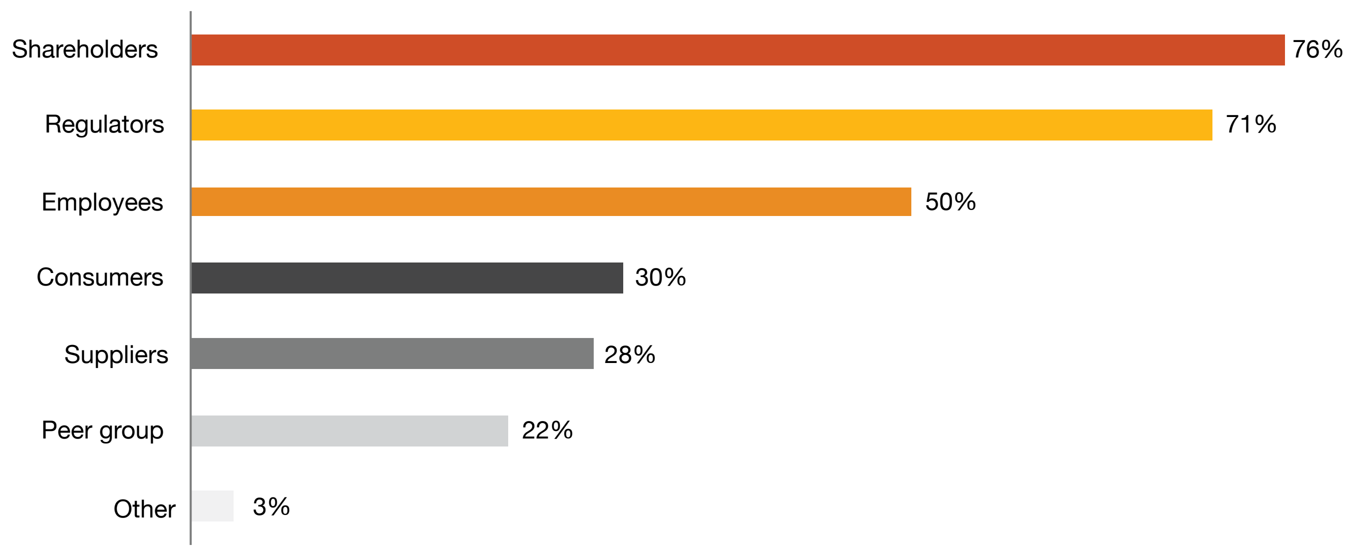
Moreover, 32% of respondents pay heed to managing tax assurance and tax risk as a key driver, while 31% of respondents feel that tax transparency is likely to be mandated by law in the future, indicating the potential influence of regulatory requirements on driving transparency.

Alongside factors such as reputation, ESG considerations, shaping a positive narrative, managing tax risk, and potential future regulatory requirements that have been driving companies in India to be more tax transparent, there is a growing emphasis on corporate responsibility, sustainability and accountability in the tax practices of companies. By voluntarily disclosing their tax practices and engaging in responsible tax management, companies can build trust and contribute to a more transparent tax environment.

Stakeholders understand the need for tax transparency

The scrutiny surrounding tax practices has intensified in recent years, leading stakeholders to emphasise the need for organisations to adopt transparent taxation policies. Such transparency allows stakeholders to assess reputational risks, tax disputes and harmful tax behaviours. These factors can impact investments, compliance with laws and the overall health of the economy.

Chart 9: Stakeholders interested in tax transparency



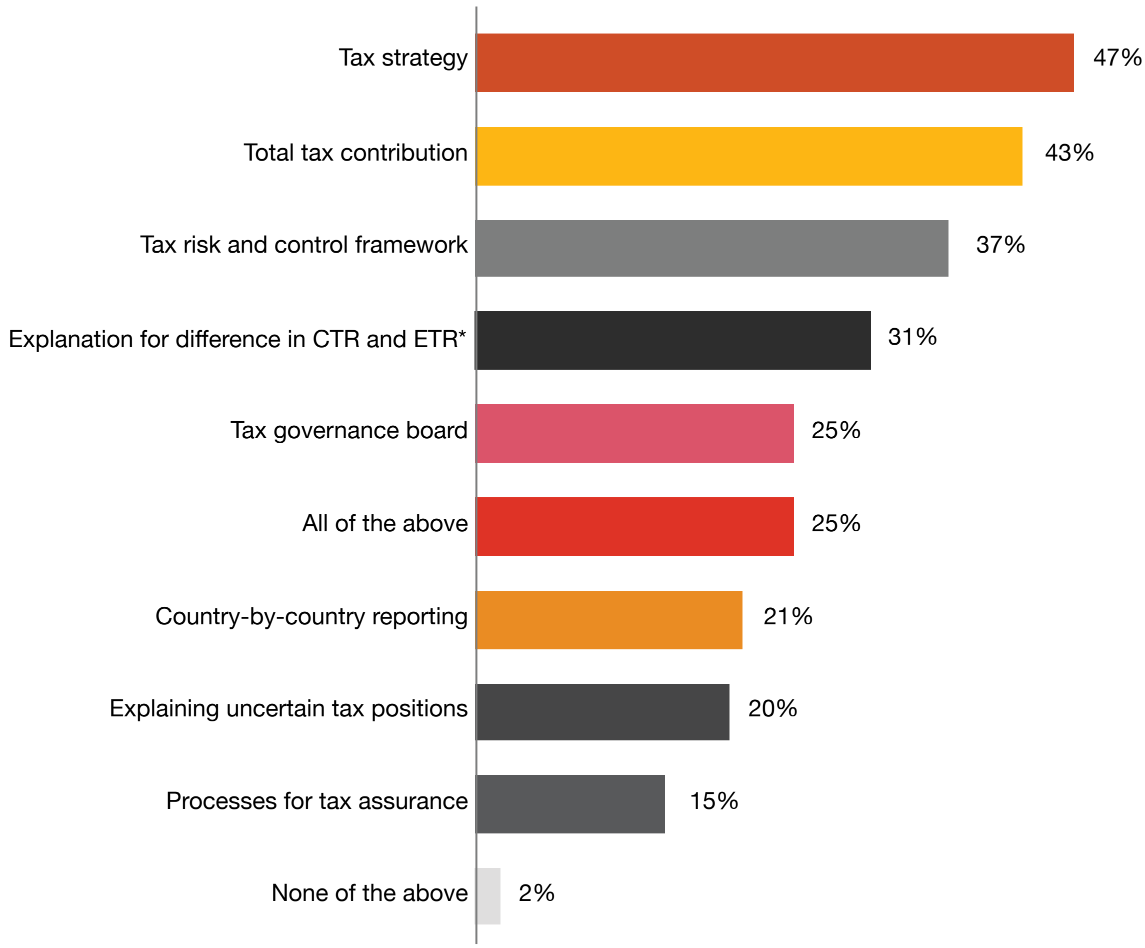
Based on the survey conducted, the three primary stakeholders in India with a keen interest in tax transparency are shareholders (76%), regulators (71%) and employees (50%). Shareholders (76%) expressing a desire for tax transparency aligns with India's evolving corporate governance norms and the increasing emphasis on accountability and transparency in financial reporting. Shareholders being key investors are keen to assess the tax practices of companies to evaluate long-term financial viability and risk associated with non-compliance. Regulators' substantial interest (71%) reflects the government's prioritisation of tax compliance and its efforts to combat tax evasion.

The noteworthy interest displayed by employees (50%) reveals a growing awareness among the workforce in India regarding the broader impact of tax practices on the organisation's image, financial stability, business valuation and individual livelihoods. Employees now perceive tax transparency as a reflection of an organisation's commitment to ethical practices, sound governance and responsible citizenship. Moreover, consumer interest (30%) in tax transparency reflects a shift in consumer behaviour, particularly among the younger generation. When making purchasing decisions, responsible tax behaviour and positive reputation attracts next-gen customers who value ethical business practices that prioritise a company's ESG performance. Transparency can then influence consumer behaviour and bolster customer loyalty, particularly among next-gen customers.

Importance of tax-related disclosures

As stakeholders become more informed and demand more transparency about tax-related disclosures, companies can proactively disclose tax information to build trust and ensure compliance with regulations. In this regard, disclosures such as tax strategy, TTC, tax risk and control framework and country-by-country reporting can pave the way for organisations to share their contribution made to society. Respondents were asked about the three most important disclosures for tax transparency.

Chart 10: Important disclosures for tax transparency



Source: PwC survey (Question: Which disclosures are important for tax transparency? Select all applicable.)
*CTR: Corporate tax rate | *ETR: Effective tax rate

47%
Tax strategy

43%
TTC

37%
Tax risk and control framework

From an India perspective, these results may be analysed as follows:

Tax strategy (47%): Given the increasing focus on tax governance and compliance in India, it is crucial for companies to have a well-defined tax strategy. According to the survey, 47% of the respondents identified tax strategy as the most important disclosure for tax transparency. Tax strategy includes principles, approach, planning and risk management, ensuring responsible tax practices that align with regulatory requirements. If this result is benchmarked against a recent study of PwC on tax reporting by 269 companies listed in the UK, Switzerland, Spain, South Africa, Ireland, Germany, Brazil and Austria based on the GRI 207: Tax 2019 standard, S&P Global CSA, OECD and WEF specifications, it is observed that due to statutory country-specific disclosure requirements, close to 97% of Spanish and 96% of the UK as well as 70% of South African companies publish their tax strategy documents. However, in countries without such disclosure requirements, 33% to 66% of companies publish such information.[29]

Scan the QR code to read PwC's Tax Transparency and Sustainability Reporting Study conducted in 2023:

TTC (43%): According to the survey, 43% of the respondents believe TTC as an important disclosure for tax transparency. The survey results indicate that there is a growing demand for transparency in tax contributions made by businesses. Stakeholders in India would likely be interested in understanding the total global tax borne by these companies and the tax collected by the company.

Tax risk and control framework (37%): In our survey, 37% of the respondents believe that tax risk and control framework is an important disclosure in tax transparency and given the complex tax environment in India, having robust tax risk management and control frameworks is important for companies. Disclosure of such frameworks can provide assurance to stakeholders and demonstrate that the company is effectively managing its tax risks.

29 Tax transparency and sustainability reporting in 2023: https://www.pwc.com/gx/en/tax/pdf/tax-transparency-and-sustainability-reporting-in-2023.pdf

Tax information that companies disclose publicly/plan to disclose in the next three years

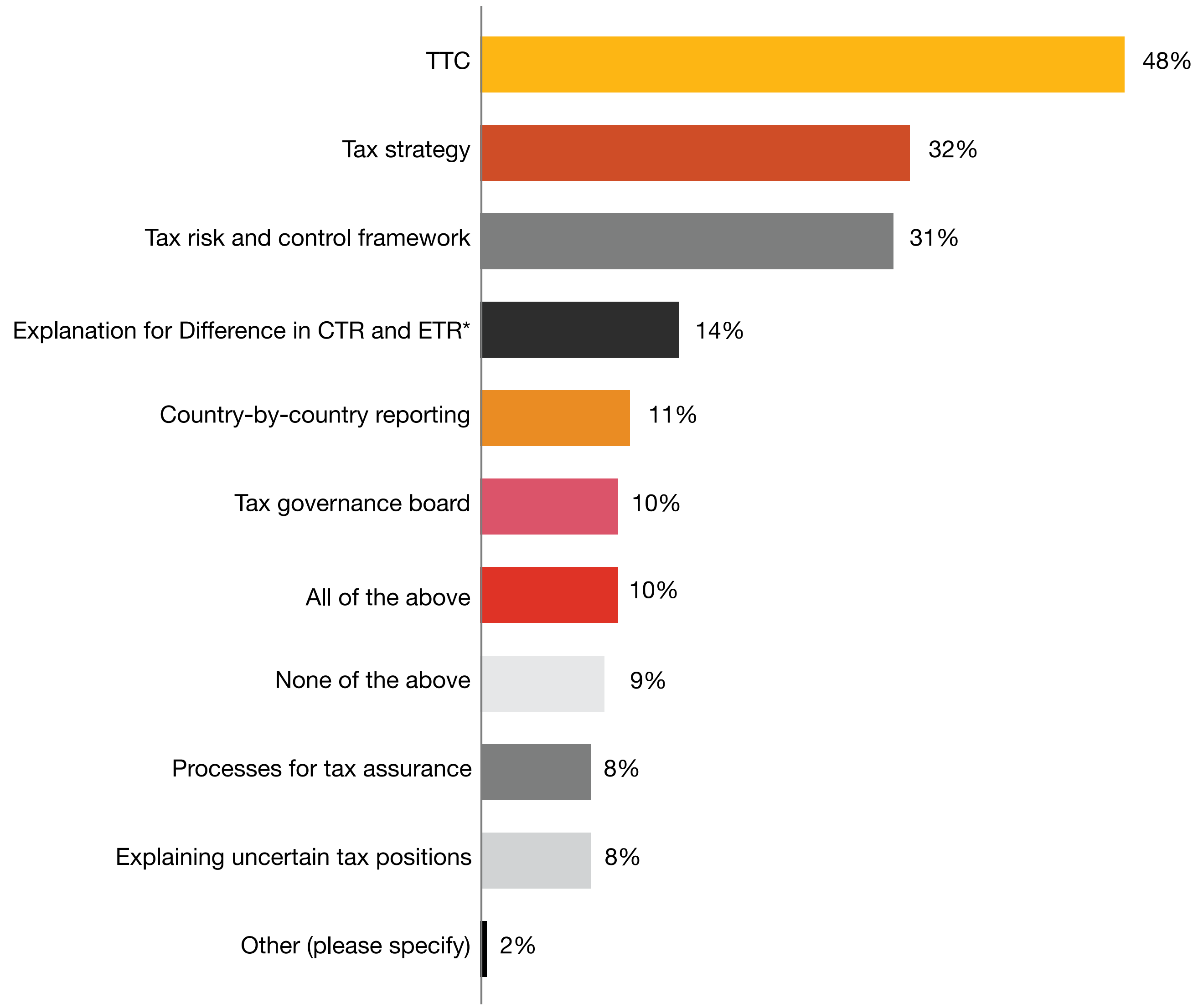
48% TTC

32% Tax strategy

31% Tax risk and control framework

Tax transparency is an essential aspect of responsible corporate governance and can contribute to a company's long-term success and sustainability. When respondents were asked what tax information the companies are disclosing publicly and what disclosures they plan in the next three years, 48% say they believe that TTC is the key disclosure on tax information which companies are either disclosing publicly or are planning to do so in the next three years.

Chart 11: Tax information that companies disclose publicly/plan to disclose in 3 years



Source: PwC survey (Question: Which disclosures does your organisation disclose publicly or plan to disclose publicly in the next 3 years? Select all applicable.)
*CTR: Corporate tax rate | *ETR: Effective tax rate

Looking ahead

Given the findings, it is evident that an organisation's approach to tax transparency should be a core tenet of its broader business strategy and sustainability commitments, including more in-depth disclosures to its stakeholders. Businesses that are able to balance transparent reporting principles with the ability to demonstrate societal contribution are the ones that will thrive in the long term. It is also important to understand that integrating sustainability practices, including transparency on taxes paid across jurisdictions, can help companies mitigate risks and capitalise on opportunities associated with evolving carbon tax frameworks.

The survey findings emphasise the need for policy interventions to incentivise ESG practices and support companies in their sustainability efforts. Coordinated policy measures, combining green taxes and incentives, are not only important but would also be effective in achieving the climate goals India has set for itself.[30]

However, while there is a growing recognition among businesses in India about the importance of tax transparency and its role in promoting responsible corporate behaviour, stakeholder trust and sustainable development, there remains a considerable gap in its implementation. The survey findings reveal that 75% of companies do not publish their TTR currently; however, 47% of respondents believe that tax strategy is an important disclosure for tax transparency. Businesses therefore may soon need to accelerate the pace of adoption of standards for reporting on tax transparency in India.

Our survey also highlights that only 23% of companies use GRI 207 in their tax transparency-related, indicating limited adoption of international reporting standards. One of the reasons for this could be the voluntary nature of such disclosures currently in India. In this regard, it is important to highlight that tax transparency in countries like the UK and Australia has already gained momentum in recent years, with governments making a concerted policy push towards enhanced tax transparency by businesses.

For example, publishing a tax strategy document is mandatory for companies and partnership firms in the UK[31] (upon fulfilling certain criteria). The tax strategy document not only promotes transparency but also aids policymakers in identifying areas that require regulatory enhancements. By adhering to these requirements, businesses in the UK can contribute to the overall integrity of the tax system and shape responsible tax practices. Australia, on the other hand, has introduced the voluntary Tax Transparency Code[32] to encourage businesses (including companies, funds, trusts and partnerships) to comply with tax regulations by publishing formal tax policies, strategies and governance summaries. This initiative aims to enhance transparency, engagement with the Australian Taxation Office (ATO) and corporate accountability.

It can thus be inferred that tax disclosures are likely to become more prominent in ESG reporting going forward and publishing tax disclosure will figure more prominently in India too. In the current scenario, companies can avoid unnecessary controversies and disputes by being tax transparent rather than waiting for these disclosures to be mandated by regulators or legislation. The findings reiterate the need for continued focus on improving tax transparency practices and disclosing important tax-related information to build trust and demonstrate responsible tax behaviour.

When businesses are transparent about their tax contributions, on the one hand, it demonstrates their commitment to support the growth and development of the country and, on the other, it encourages competing businesses to be similarly responsible for their tax matters. Thus, transparency fosters responsible tax behaviour, trust and positive public perception, ultimately benefiting both business and society.

30 Actioning trust to generate sustainable revenue: https://www.pwc.in/assets/pdfs/research-insights-hub/immersive-outlook-2/actioning-trust-to-generate-sustainable-revenue.pdf

31 UK tax strategy: https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy

32 Australian Tax Transparency Code: https://www.ato.gov.au/businesses-and-organisations/corporate-tax-measures-and-assurance/large-business/corporate-tax-transparency/voluntary-tax-transparency-code

Notes

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