Part 2

Have our tax practices embraced ESG?

This article is the second in a two-part series of articles that seeks to discuss whether the tax practices in Ghana have evolved to meet the demands of ESG requirements.

In the first article, we briefly discussed the history of ESG, the adoption of its principles in certain countries including Ghana. Regulatory institutions such as the Bank of Ghana and the Ghana Stock Exchange require institutions registered by them to meet certain set ESG practices and reporting.

In this article, we seek to analyse if there is an intersection between tax principles and those of ESG.

Where is the intersection between Tax and ESG?

It has become imperative for most modern tax legislations and regulations to align their provisions to some level of consciousness around ESG. With this, businesses are compelled to adapt ESG practices in order to remain tax compliant. Investors and consumers too expect businesses to promote sustainability and remain tax transparent. These expectations have caused many businesses to be meticulous in their dealings, and ensure that at every stage of the value chain, resultant tax implications are taken into consideration. This would be expressed in the computation of the correct taxes, declaration and payment of taxes to the tax authority.

A critical component of any financial consideration and reporting involves tax. It is important for companies to align their tax planning strategies and disclosures with the global, regional and national ESG requirements where they conduct business.

One of the low hanging fruits that promote ESG involves tax transparency. Tax transparency can be connoted to any practice that promotes clarity and openness in tax reporting and disclosures and a true and fair representation of a company's tax position that is devoid of any misrepresentation or misleading information.

When thinking about tax transparency, a taxpayer may ponder on whether the business is taking advantage of tax amnesty programmes that promote self assessment and encourage voluntary disclosure of tax liabilities to the tax authority.

Is the business staying up to date on their monthly and annual tax obligations, and adhering to record keeping requirements? Is the business practising openness, collaboration and cooperation during tax audits and disputes? Does the business seek the services of professional tax advisors to challenge its tax policies and provide an independent view of its tax positions? These are a few practices that may promote tax transparency.

The intersection between tax and ESG goes beyond good tax transparency practices, with tangible benefits for businesses.

The race towards ESG compliance

Governments across the world have put in place strategies to promote net-zero transition, sustainable value creation, renewable infrastructure and responsible investment. Tax statutes have been put in place in most parts of the world to encourage emission reductions in the production process causing many businesses to review their practices and disclose measures they have taken to mitigate further environmental damage.

Businesses whose activities are considered to be harmful to the environment and society are subjected to high environmental taxes to match the level of harm caused by their practices.

In encouraging businesses to implement ESG-friendly policies, a myriad of tax incentives and punitive measures have been introduced especially on cross-border transactions.

In the same regard, businesses have been challenged to promote sustainability, respect and diversity in the workplace embracing the foundations of "S" and "G". Proponents of ESG say that businesses should incorporate ESG into their practices to comply with regulations and best practices to avoid sanctions, while contributing to socio-economic development. Embracing ESG practices within an organisation promotes productivity and facilitates adaptation to evolving technology and new regulations.

ESG-transparent companies are inclined to attract more investors and talent, as investors can reap the benefits of funding such companies, while also saving money on any taxes payable. These companies may also qualify for tax credits which can be used to offset the costs associated with the investment.

Conversely, critics of the ESG concept view it as a progress- hindering ideology where businesses cannot reach their full potential due to the compliance requirements. There exists the issue of a non-uniform standard of measurement for ESG related activities. ESG standards differ from country to country, and from company to company. This makes it difficult to measure the progress being made towards ESG. From our analysis, persons both natural and corporate, stand to gain more from adopting good ESG measures.

In conclusion, it is evident that tax principles, practices and reporting requirements are not estranged to the ESG requirements whether in the regulated industries or other general-business organisations. We therefore encourage all businesses to self-audit on their current ESG implementation vis-a-vis the gap to achieving any net zero goals set.

Want to know more? Let's talk.

For a deeper discussion of how ESG might affect your business, please contact:

Ayesha Bedwei Ibe
Partner
+233 (30) 2761500
ayesha.a.bedwei@pwc.com