Financial services, Tax and ESG

PwC insight on how a focus on Tax and ESG can create value for financial service organisations.

April 2023

Contents

Foreword 2

What did the financial services industry tell us? 3

Our key recommendations 4

Part 1: Tax and ESG – charting progress so far 5

i. Tax's engagement with the organisation's ESG strategy.
ii. Preparing the groundwork.
iii. Measurement, reporting, disclosure and engagement.
iv. Capturing ESG tax data points.
v. ESG practices.

Part 2: Defining ambition and setting strategic direction 16

i. Mapping levels of ambition for E, S and G.
ii. Showcasing the value of tax and ESG.
iii. Building a value bridge to increase C Suite engagement.

Part 3: Building a roadmap for execution 19

i. PwC's tax ESG management Maturity Model (T3M).
ii. What might the start of your roadmap look like?
iii. Building a value bridge to increase C Suite engagement.

PwC contacts 21

Appendix 1 – Related PwC reports 22

Appendix 2 – The increasing reporting burden 23

Foreword

ESG is a framework that measures not only the impact of the three ESG factors[1] on an organisation's performance but also the wider impact that an organisation has on the planet, people and the broader community.

Historically, the tax implications of the ESG agenda have focused primarily on tax transparency. However, there is now a wider appreciation for the myriad of ways in which tax and ESG are interlinked and present opportunities for value creation within a business, including:

- Consideration of tax in a business' wider sustainability reports.
- Ensuring robust tax governance frameworks are in place to ensure the organisation's tax affairs are being managed in a manner consistent with its broader purpose and strategy.
- Assessment of the impact of green taxes and incentives on the business at a corporate and product level.

More broadly, considering tax through an ESG lens can show how an organisation's total tax contribution is connected to its broader role in society. Tax is an increasingly important element of the 'E','S' and 'G' pillars:

- Environment – tax is now a fiscal tool used to drive sustainability activities in businesses. Carbon pricing measures, environmental taxes such as plastic packaging tax, and taxation of resources and pollution are all designed to encourage businesses to embrace sustainability.
- Social – there are tax implications across a range of social issues. For example, employment taxes will be affected by the move to a more remote and digital workforce and the rise of the 'gig' employment model. This wider agenda also encompasses issues including diversity and inclusion, fair pay and supply chain visibility. More broadly, the question of whether companies are paying their 'fair share' of tax is attracting growing scrutiny and businesses should be prepared to face greater challenge on any aggressive tax planning undertaken.
- Governance – there are increasing numbers of mandatory obligations being levied on boards in relation to the articulation of their tax strategy and various other aspects contributing to overall tax transparency. Financial services businesses must be able to provide reliable tax information for ESG ratings, including for their products.

The pace of change in the breadth of tax relevant ESG regulation is high (see further detail in Appendix 1). Taking action now to ensure the business is in a position to navigate these regulations is key. Taking an approach of 'waiting for the dust to settle' poses the risk of missing opportunities, and falling behind competitors in building trust with stakeholders. Now is a time for action.

PwC providing insight

PwC has been at the forefront of thought leadership for more than 17 years around the theme of tax transparency[2]. This report continues this trend.

This report provides quantitative and qualitative data that maps the current maturity of financial services businesses' engagement with tax in an ESG context. We surveyed 56 financial services organisations, spanning the banking, asset management and insurance sectors.

To what extent do they now view tax through an ESG lens – and what policies and practices have they put in place accordingly?

We highlight the actions that can be taken to minimise the risks of value erosion from a failure to keep up with the changing landscape and providing insights into the ways that ESG and tax can create significant additional value for financial services businesses.

[1] Environmental, Social and Governance. Note, the terms ESG and sustainability are used throughout this report and can be considered interchangeable in this context.

[2] See PwC's work on gender pay gaps for example.

[3] The annual Total Tax Contribution study of the 100 Group of Finance Directors has provided robust data to inform the public debate. The PwC Building Public Trust Awards programme includes an annual review of the tax disclosures of the FTSE100 and the key trends involuntary tax reporting are included in the Building Public Trust Through Tax Reporting publication.

What did the financial services industry tell us?

1. **Lack of integration** of tax within the organisation's wider ESG strategy.
   Only **23%** of respondents say that tax has been integrated into their organisation's wider ESG strategy.
   A **lack of internal communication may be a driving factor** behind the slow integration of tax into the ESG strategy, with 52% of respondents not being invited to, or made aware of, ESG discussion groups within the organisation.

2. **Limited awareness of tax's impact** on the execution of an organisation's ESG agenda.
   Many respondents currently overlook opportunities for tax to have an impact on the ESG agenda within their organisation. **43%** of the respondents only believe tax has a role to play in the organisation's ESG agenda at a corporate level, failing to appreciate the value that can be added in a product context, or in relation to employees.
   Only **12.5%** are actively aware of the potential financial impact and opportunities arising from green taxes and incentives. Closing these gaps will be essential to ensuring an organisation's ESG strategy is sustainable from a tax perspective and that all opportunities are being maximised.

3. **Often no clear responsibility for tax and ESG within an organisation.**
   There is a clear lack of consensus in the sector today on who should take responsibility for key ESG issues relating to tax. Only half of respondents said the tax department had any responsibility for environmental taxes and related compliance, **with 20% of respondents indicating that no responsibility has yet been assigned.**
   This may be a symptom of stretched resource levels in FS tax teams overall.
   It may also reflect the fact that taxes attach to all transactions, which can lead to fragmented controls over total taxes at times.

4. **Businesses recognise the imperative to improve tax transparency but are slow on the uptake.** Just under **2/3** of respondents currently report, or have considered reporting, on taxes other than corporation tax, but the percentage who state their total tax contribution with detailed supporting narratives is much lower, at **20%**.
   Similarly low numbers of respondents have considered adopting voluntary reporting initiatives - the Global Reporting Initiative seems to be the favoured regime amongst those who have.

Our key recommendations

Our recommendations are:

1

Set your level of ambition with regard to tax and ESG. Do you want to be a leader with full incorporation of tax into the business' wider ESG strategy through a corporate and product lens or are you aiming to simply comply with your obligations? Understanding your end goal is crucial for building an appropriate and realistic roadmap.

2

Ensure you have a detailed understanding of your current and expected future compliance and reporting obligations. This should include both obligatory requirements and any wider voluntary frameworks the business has signed up to.

3

Build a tax value bridge which articulates the business opportunities and benefits associated with investment in tax and ESG integration, as well as the risks of value erosion from a failure to take action. This should be used to communicate with internal stakeholders and support C Suite buy-in for resources and a seat at the table.

4

Undertake a gap analysis and map out the resources required to reach and maintain your target state, including data, technology, people and training.

5

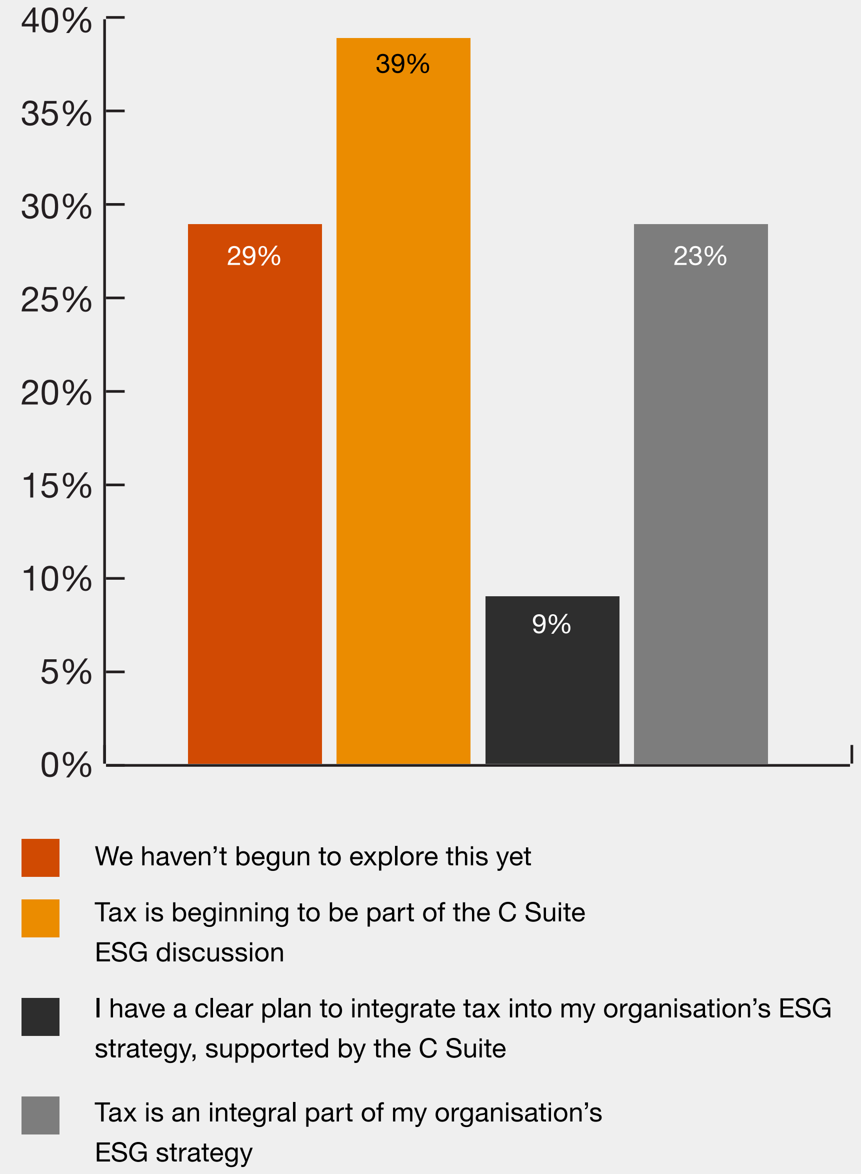
Implement a robust system for ongoing monitoring of new or changing compliance obligations, including green taxes and reporting standards.

Part 1: Tax and ESG – charting progress so far

Forward-thinking financial services organisations take a strategic approach to tax in the context of ESG, recognising the potential to drive a trust dividend – and to promote value creation and impact.

They are focused on future-proofing their approach in order to align tax policy and practice with stakeholders' expectations of the business.

How do you see the tax function fittinginto your organisation's broader ESG agenda?



i. Does tax's engagement with the organisation's ESG strategy meet the scale of the ambition?

Many tax functions are now determined to step up their engagement on ESG issues – but in many cases, this work is at a relatively early stage. Tax functions' execution, in other words, does not always match the scale of the business's ambition.

For example, while one in five respondents (23% feel able to say that tax is now an integral part of their broader ESG strategy, the majority lack such confidence. Many are only just beginning to discuss what that might mean in practice or to plan for integration and a significant proportion of financial services businesses (29% concede they have not even started to explore what this might mean for them.

Similarly, many financial services businesses concede they are only just beginning to consider the tax impacts of their organisations' ESG initiatives. Just 12.5% have fully grasped this issue – and 25% admit they have not thought about such impacts. As the ESG agenda continues to accelerate, this will become ever more crucial work.

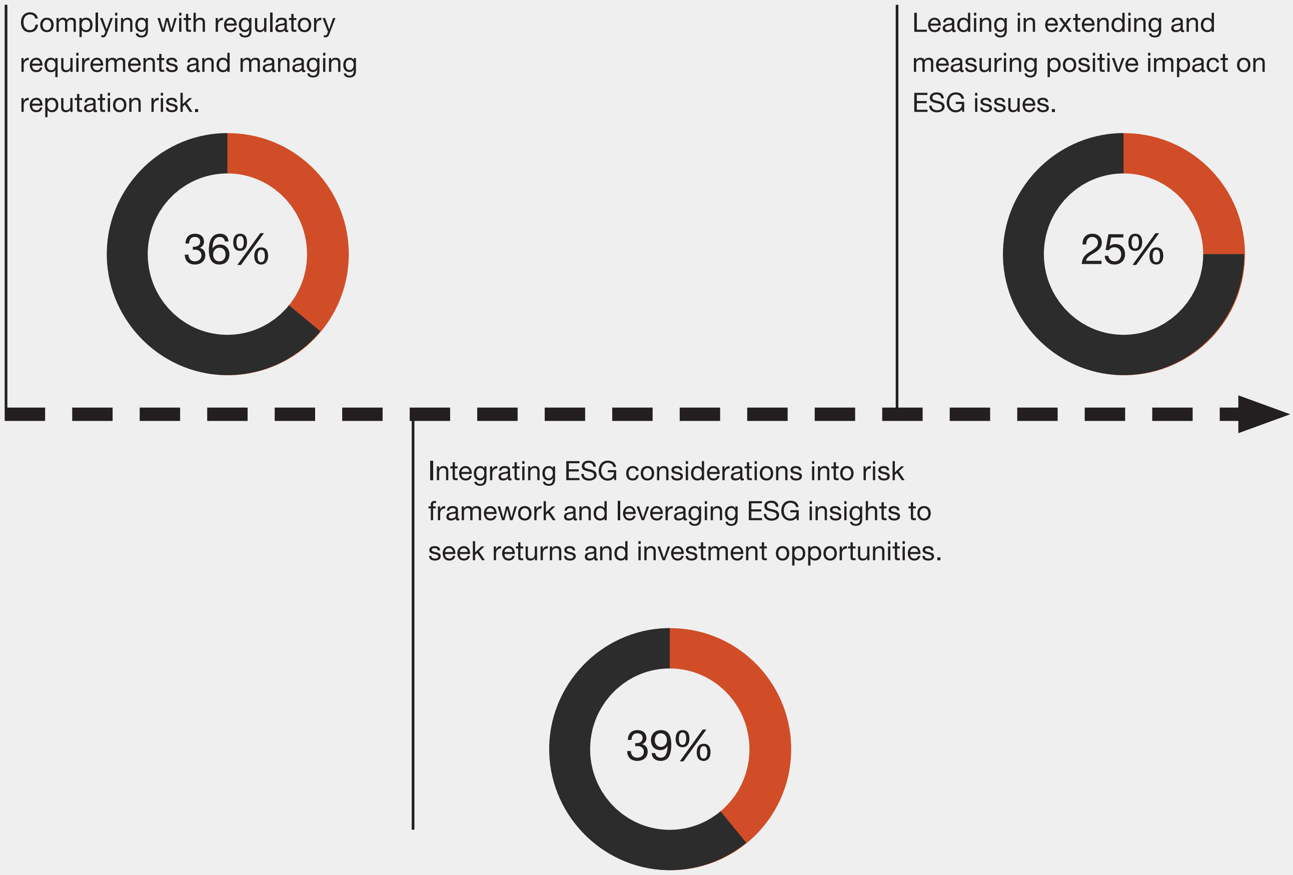
To move forward, the question that financial services businesses must ask themselves now is how ambitious they want to be. Will the approach to ESG and tax be more defensive, or an opportunity to get on the front foot?

A quarter (25%) say they want to be leaders in terms of measuring and extending the positive impact of tax on ESG. A further 39% say ESG considerations can help them identify returns and investment opportunities.

Others are less ambitious; more than a third of respondents to this research (34%) say their target today is to comply with their regulatory responsibilities and to manage reputational risk – and for those in the early stages of integrating tax and ESG, the importance of this first target (and the work required) should not be discounted.

Financial services businesses should also recognise that the most forward-thinking investors are focusing on this issue. These investors are accessing businesses' currently publicly available tax data to assess its total tax contribution, tax policies and governance surrounding ESG goals. It is therefore imperative that all tax reporting is consistent with company-wide ESG disclosures to minimise inconsistencies and controversy.

Where does your organisation want to be in relation to ESG and tax



It is becoming ever-more important that financial services businesses take a more holistic view of ESG and tax.

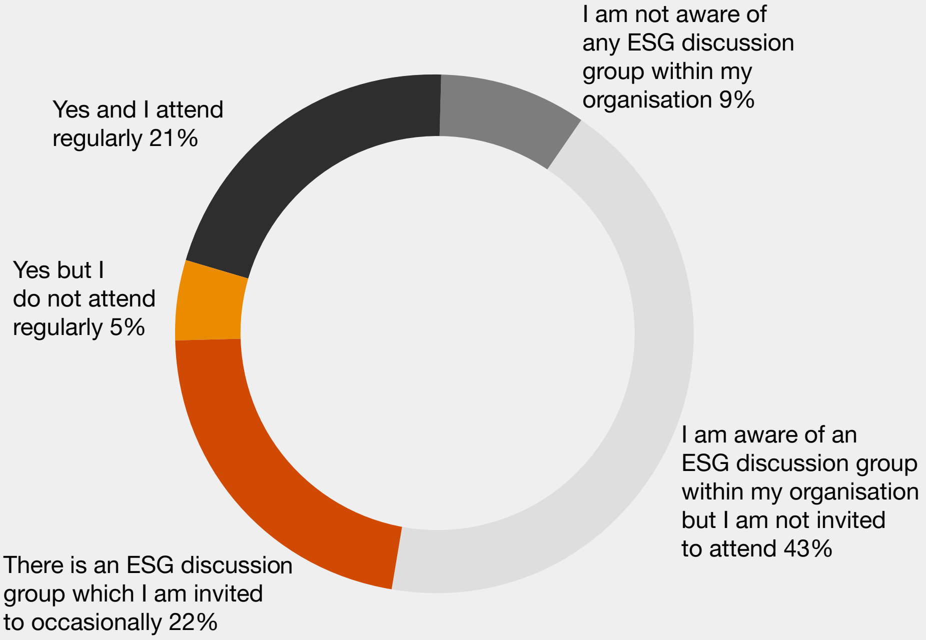
The sector is only just beginning to recognise this. **Today, 43% of the respondents to this research describe the tax function as fitting into the organisation's broader ESG agenda purely at a corporate level. Far fewer believe tax is integral to ESG in a product context.**

The danger is that the tax function may be left out of important conversations in this regard. With the ever increasing prevalence of green taxes and related incentives[4] which can impact financial products, it is important that the tax function is involved in the product development process to ensure that such incentives are being appropriately applied, risks are being managed and the application of such incentives is consistent with the legislative intent in which they have been established.

Many financial services businesses now operate ESG forums within their organisations which enable people from across the business to share information, views and support on issues that cut across their functions. Leaving tax to sit on the sidelines looks increasingly untenable.

There are growing signs that more financial services firms feel this way - more than a quarter of respondents (27%) say that they take part in an ESG discussion group at their organisation, either regularly or on occasion. However, the larger number (63%) say they are not routinely invited to attend these discussions.

Are you a member of any regular ESG forums within your organisation?



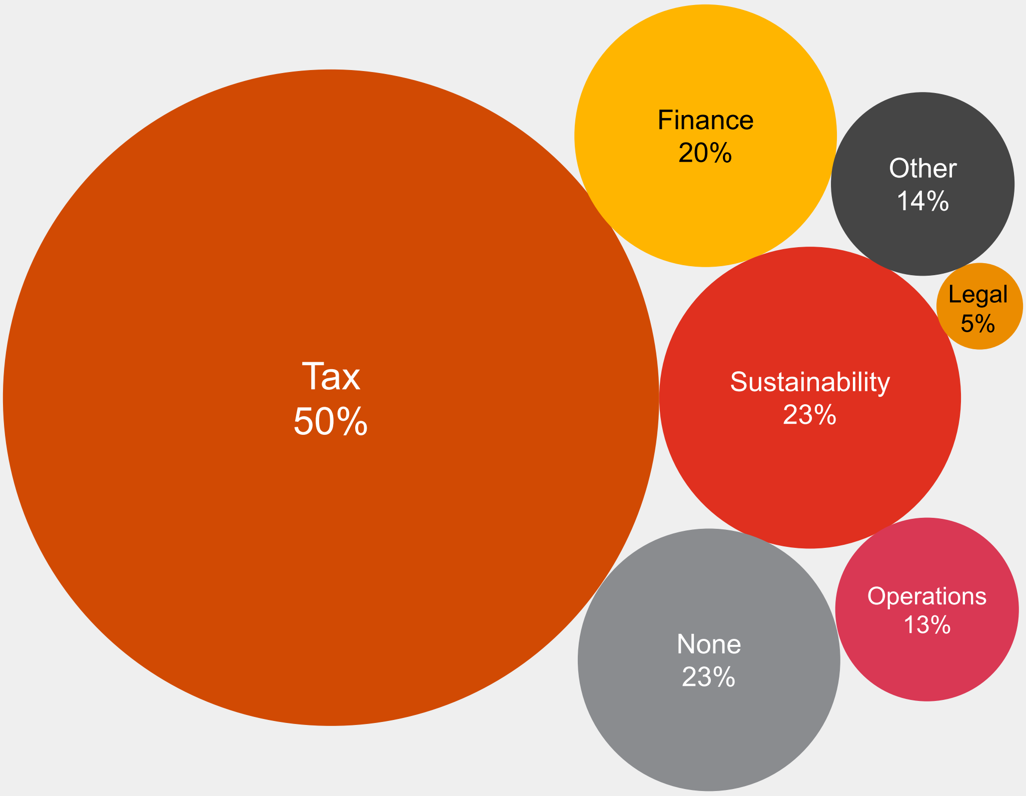
Nor is tax taking part in ESG discussions with external stakeholders with any great frequency. While some respondents do actively engage with industry working groups, the vast majority (54%) are not taking part in conversations with other groups focused on ESG. This is a missed opportunity to bring tax into the ESG debate.

[4] See PwC Green Taxes and Incentives Tracker

Leadership will be crucial in this regard. The lack of consensus in the sector today on who should take responsibility for key ESG issues relating to tax is striking.

On environmental taxes and related compliance, tax is involved or leading at half of the businesses responding to this report (50%), but the sustainability team is often responsible for leading at 10% of firms. Indeed, the range of responses to this question is very wide and 20% of respondents indicated that no responsibility has yet been assigned.

Who has responsibility for environmental taxes and related compliance within your organisation?



One factor holding financial services organisations back, and which may go some way to explaining the lack of direction around tax ESG issues internally, is a lack of resources allocated to ESG. In this research, almost a third of respondents (20%) say their tax function professionals spend no time at all working on ESG issues – and the remainder say less than 25% of staff spend any of their time on ESG.

To do list
NB★ GROWTH
22+11=33✓
2017-1352=X
70%+15=?

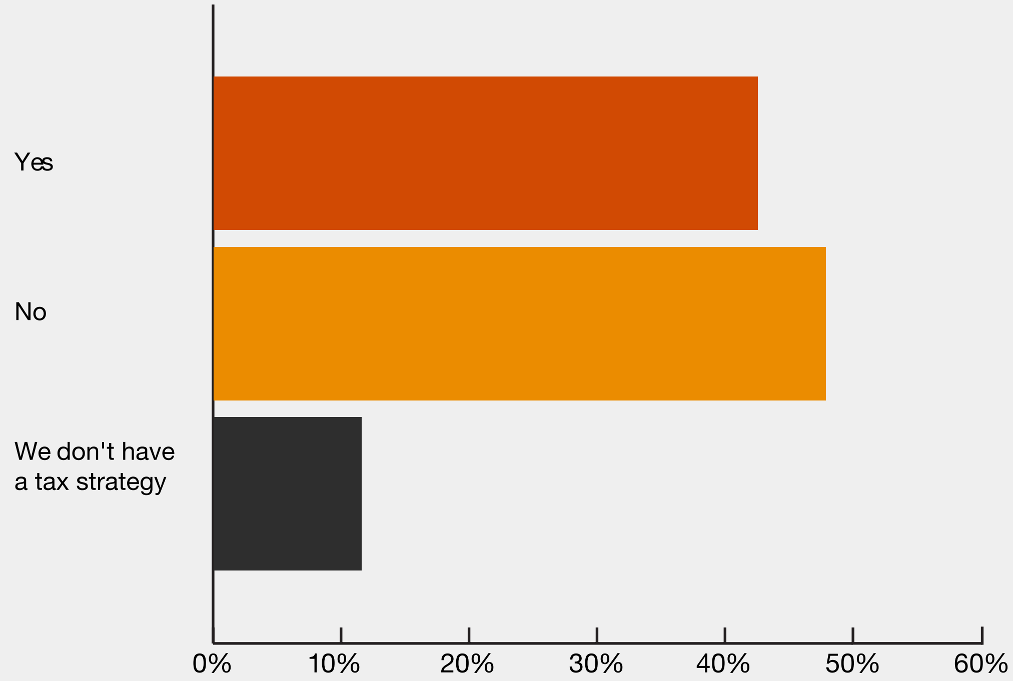
ii. Preparing the groundwork

Why is the tax function struggling to engage with the rest of the organisation on ESG issues? One possible answer is that ESG is not yet embedded in the organisation's tax strategy. There is no formal recognition of ESG in a tax context.

Under a half of businesses (41%) say they have given consideration to ESG within their tax strategy.

But almost half the respondents to this research (48%) say that while their business has a tax strategy, it does not consider ESG issues. Having a published tax strategy is evidence in itself of an ESG-aligned approach to tax and provides a good starting point for businesses to build the public narrative around their tax affairs. But there is more that can be done to unlock the full value of an ESG-aligned tax strategy.

Has your organisation given consideration to the ESG agenda when drafting their tax strategy?

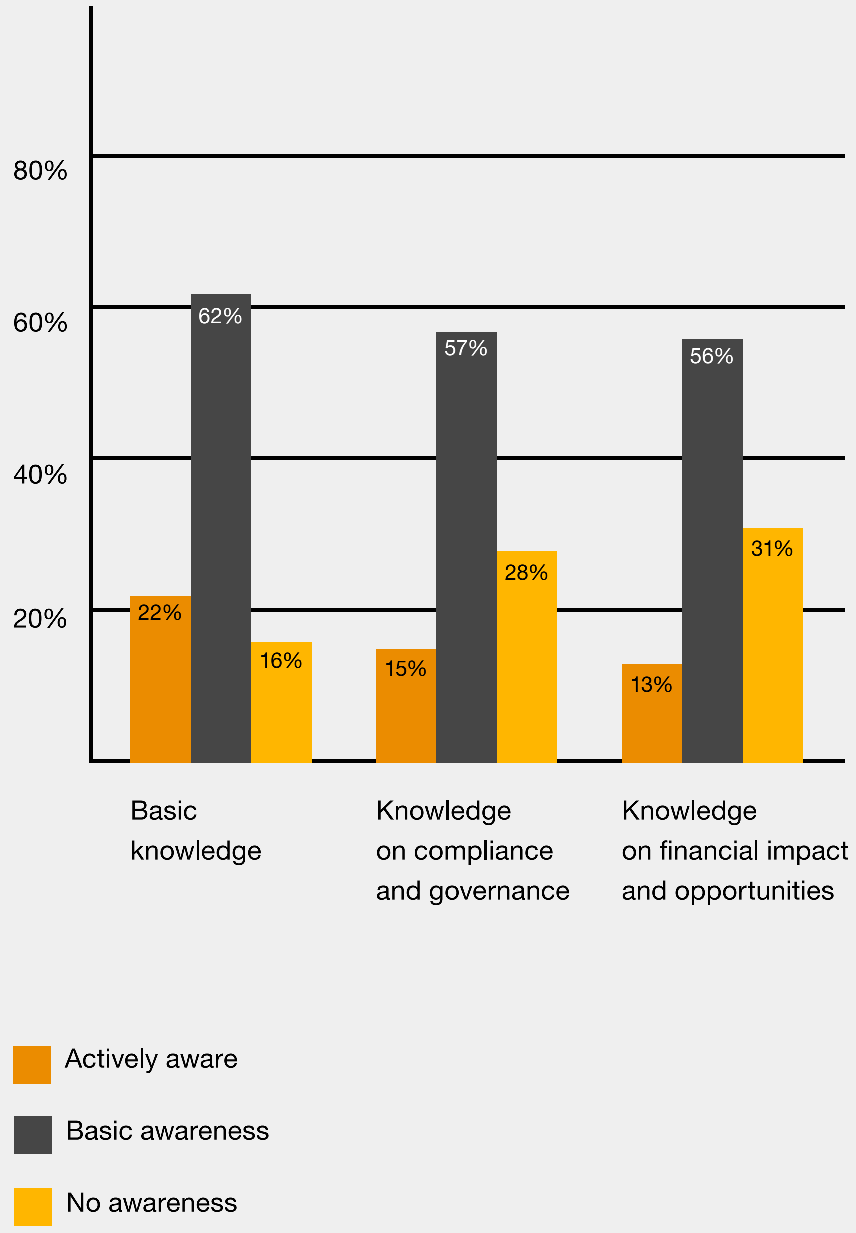


Environmental taxes, perhaps one of the most obvious intersections between tax and ESG, are a good example of where there are gaps to be closed. PwC's green taxes and incentives tracker demonstrates the breadth of this landscape, covering more than 800 taxes and 600 green incentives in almost 90 countries and regions. With hundreds of green taxes and incentives now in operation worldwide, including the current US 'Inflation Reduction Act' relating to climate and clean energy provisions, the potential for material financial impact on financial services businesses is significant. Yet awareness of this impact is strikingly lacking.

Just 21% of financial services businesses felt they had an active awareness of how green taxes and incentives might impact them at a corporate or product level; and only 12.5% are actively aware of the potential financial implications (e.g. the impact on returns from portfolio investments subject to green taxes). Knowledge on compliance and governance is also relatively limited.

The result is that many financial services businesses may be missing opportunities to deal effectively with green taxes and to secure green incentives. Just 4% of respondents to this research say their organisation has complete oversight of howit monitors and forecasts tax incentives globally, 43% do not track or report on incentives at a global level.

Are you aware of the impact of green taxes and incentives on your organisation at either a corporate or product level?



This is a common theme. In wider research recently conducted by PwC into awareness of the EU's Green Deal, 60% of organisations said they were unfamiliar with its detail.

iii. Measurement, reporting and disclosure and engagement

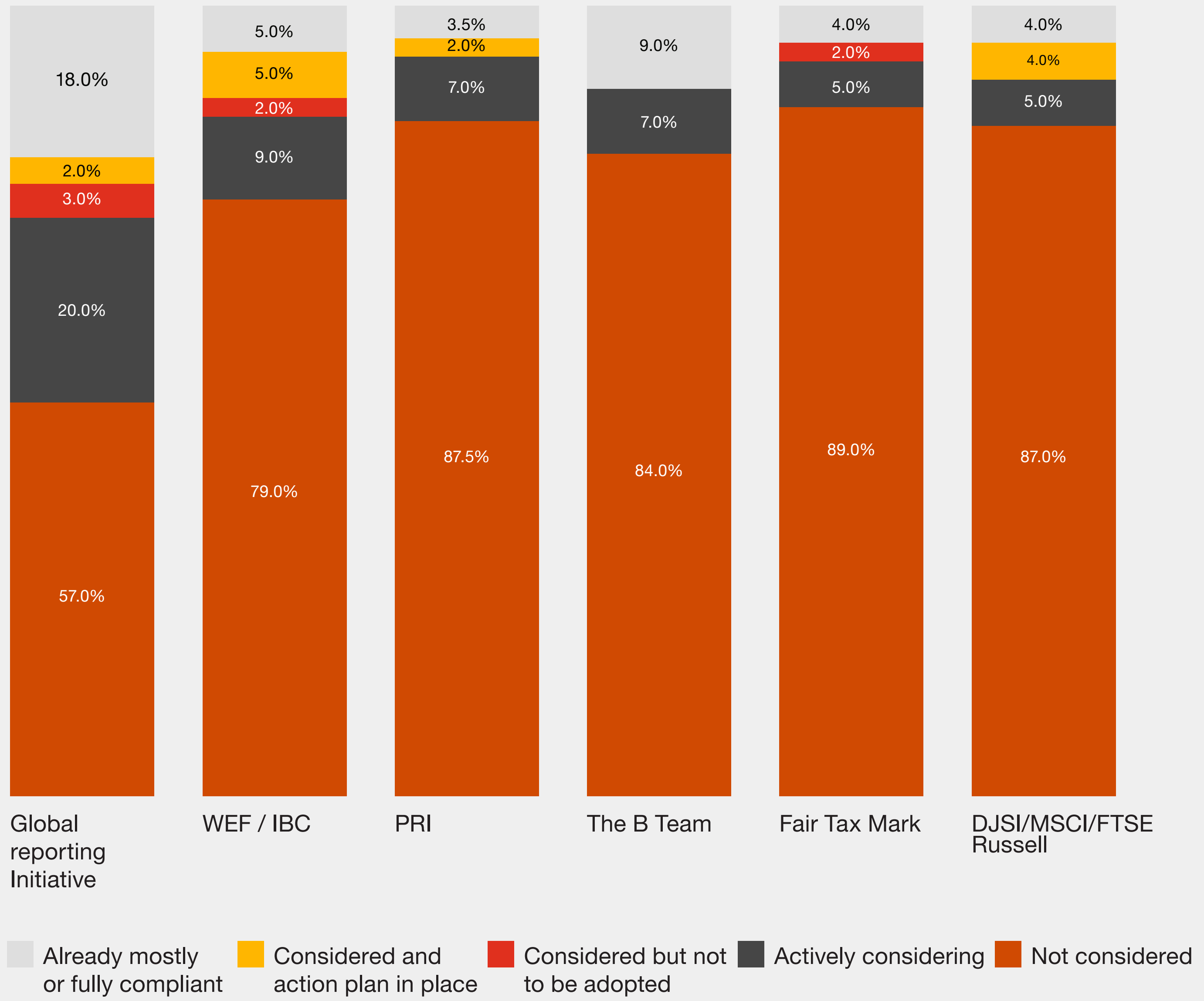
As the maturity of financial services businesses' tax and ESG integration grows, the aim should be to set out a more holistic picture of the taxes that the organisation is paying in the jurisdictions in which it operates (underpinned by more sophisticated methodologies for monitoring tax and reporting and disclosure).

However, as in other areas, the evidence of this research is that work remains at a relatively early stage for many in the industry. They recognise the imperative to do more, but have yet to act.

Tax reporting is a good example. The total tax contribution Framework has now been in operation for more than a decade; though voluntary, it provides businesses with a standardised model for reporting on their entire tax contribution, rather than focusing narrowly on corporation tax when making disclosures. **However, 37.5% of respondents say their organisation has not even begun to consider reporting on taxes other than corporation tax. Just one in five (20%) are providing details of their TTC with a detailed narrative explanation.**

Commitment to voluntary reporting standards is also relatively low across the Financial Services industry with, for example, only 18% of respondents compliant with GRI although a further 20% are actively considering it.

To what extent have you considered adopting each of these voluntary reporting initiatives?



It is also crucial to recognise that regulatory change in other areas will bring implications for tax:

- The Task Force on Climate Related Financial Disclosures ("TCFD") is a prime example of this. One of the outputs from the TCFD work is a climate impact toolkit, containing a high-level scenario analysis informing material climate-related and transitional risks and opportunities. Under the risk assessment, companies need to consider both physical and transition risks. As part of the transition risks, policy and regulatory risks need to be considered and it is in this context that tax policy issues would be appraised[5]. Transfer pricing issues may also need to be considered when identifying and attributing value to ESG activities across a group.
- Similarly, the SEC proposals for disclosures around climate related metrics, governance and management process and risk mitigation will require similar consideration of tax policy factors influencing the transition as well as the impact of impairments or other physical transition risks on the recognition and recoverability of tax assets such as losses.
- In addition, the EU Corporate Sustainability Reporting Directive ("CSRD") will require levels of detail in sustainability reporting that goes beyond any regulation currently in place. This includes data points across all aspects of ESG, forward looking targets and progress against these and information about an organisation's operating model, including tax. Reported information will also require a level of assurance by external auditors.
- Finally, the global policy landscape with regard to the volume of green taxes and incentives is expected to increase and we are seeing the beginnings of this with, for example, the introduction of the US Inflation Reduction Act which brought with it a large array of green incentives. It remains to be seen exactly how the dynamics will play out on the international stage; whether large commitments such as those made under the US Inflation Reduction Act will push others to do the same or prompt retaliatory protectionist measures. Either way, the need to close the current funding gap required to support the net zero transition will likely drive an increase in incentives and taxes across the globe.

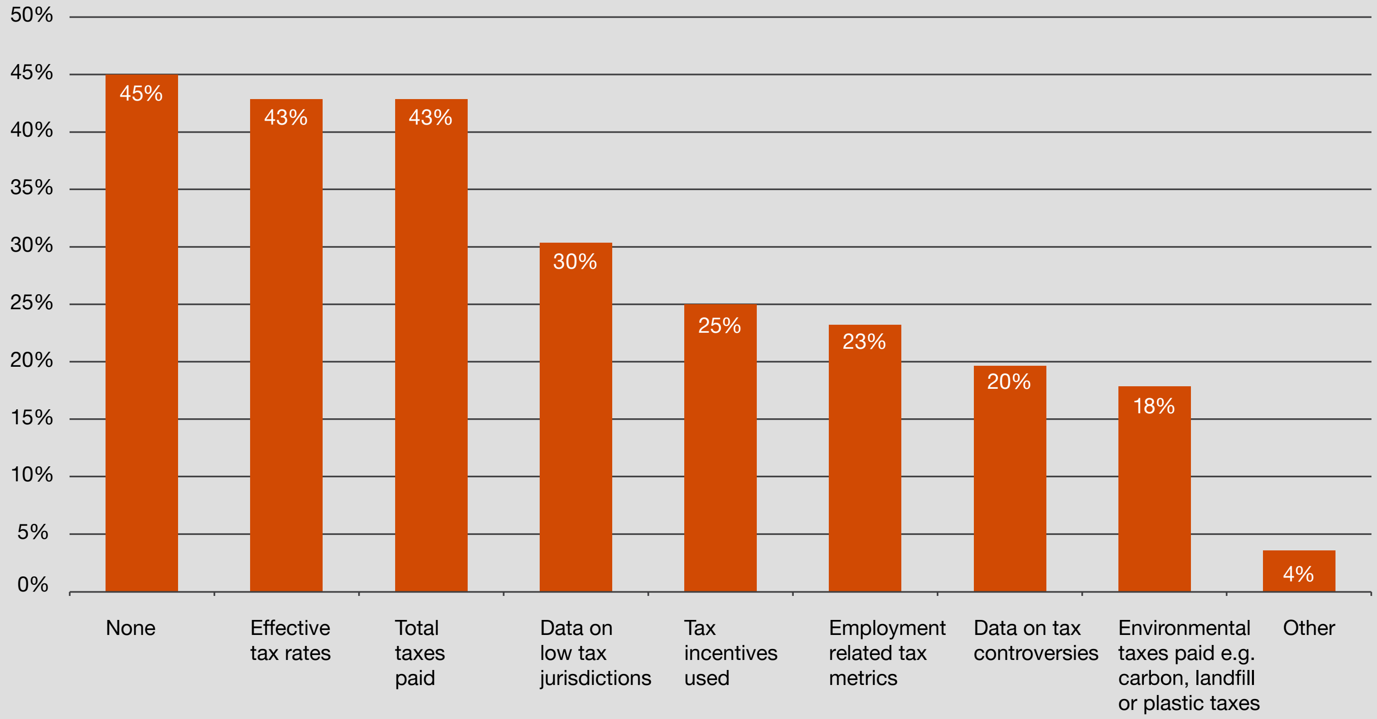
Financial services firms need to think about how to present themselves. For example, how will public data on the business's country-by-country reporting be interpreted – what additional data will be required? What are the most relevant external metrics to align to, given the organisation's ESG strategy? What are the key messages the organisation wants to communicate – and how does tax take the lead on that?

[5] **Carbon pricing is a good example. Almost a fifth of financial services businesses (18%) say they already purchase or trade in carbon credits.** There may be differences in the legal and tax treatment between different types of carbon credit – for example, mandatory versus voluntary – and between the jurisdictions. they are traded in. This is particularly likely with voluntary credits where there may be a less obvious legal treatment in some cases. It will be important to be aware of any potential differences in treatment across operating jurisdictions.

iv. Capturing ESG tax data points

The other challenge is to build scalable, flexible and repeatable processes for gathering data and insight required.

ESG tax data points and the percentage of respondents who currently collect them.



Relatively few financial services businesses are currently capturing other tax-specific ESG data on issues such as low-tax jurisdictions and effective tax rates. Indeed, 37.5% of respondents say they are not capturing any of this information at all.

Naturally, this will make it difficult to develop a reporting strategy for these metrics, potentially putting businesses at odds with stakeholders looking for more detail. Technology may prove useful – though no respondents in this research currently use tools in their tax functions specifically for ESG activities.

One catalyst for financial services businesses broadening their data capture activities could be a decision to join one or more of the voluntary reporting initiatives in the ESG space. Many of these initiatives require tax disclosures that businesses might struggle to make currently, given the data to which they currently have access.

Of these initiatives, the Global Reporting Initiative, overseen by the Global Sustainability Standards Board, is attracting most interest from financial services businesses.[6]

[6] Refer to Appendix 1

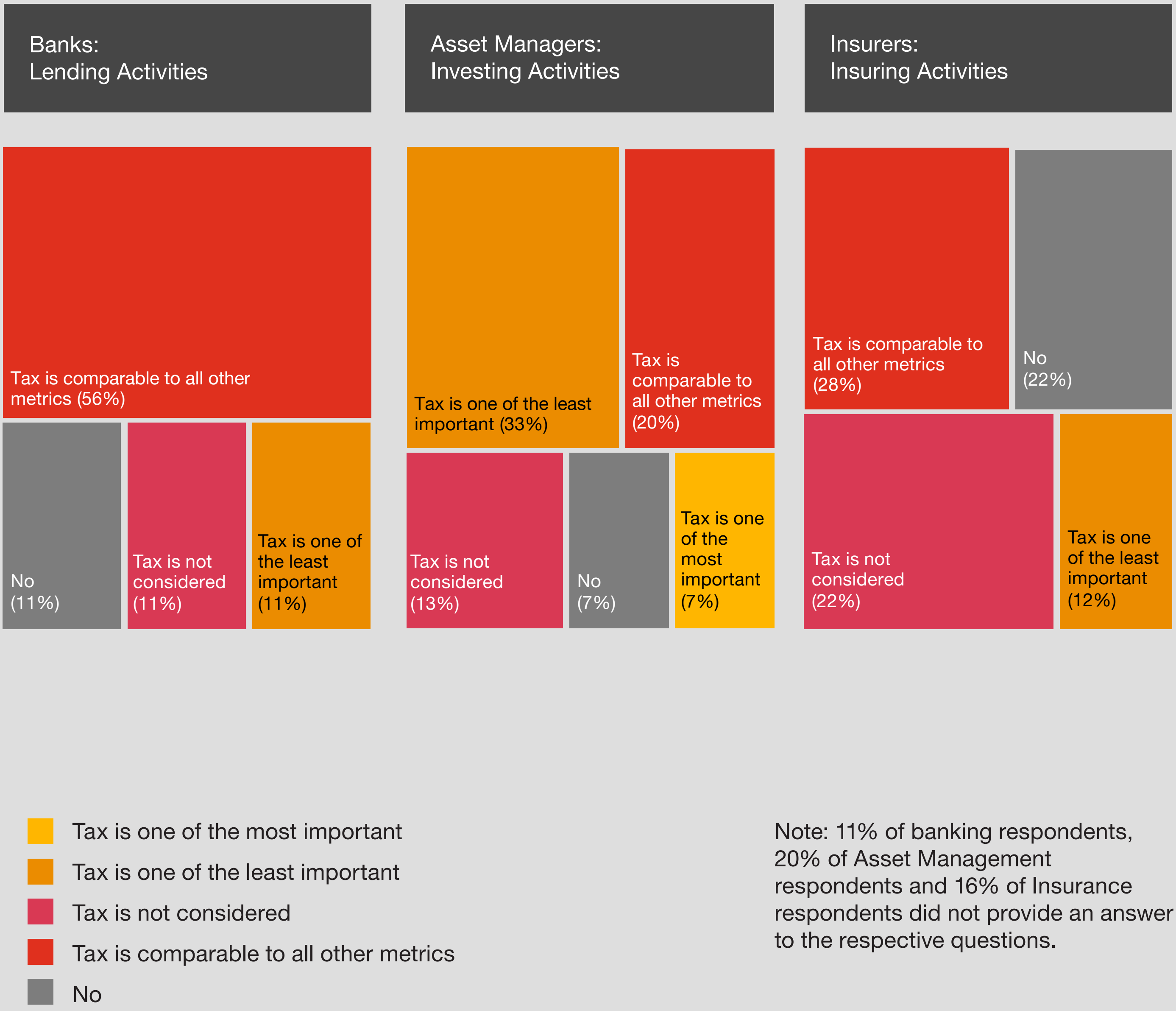
v. ESG practices

An interesting question for financial services businesses is to what extent tax will simply become another key ESG metric – routinely considered as the organisation conducts business as usual? Our research suggests that is beginning to happen, particularly in certain parts of the industry.

On lending, for example, **two thirds of banking respondents (67%) say that tax is at least considered as an ESG metric. For asset managers considering investment activity, the figure is similar at 60%** – reflecting perhaps the strong trend towards ESG investments in recent times and the focus of pension fund investors, particularly in continental Europe, on tax metrics as they consider allocating capital.

Amongst Insurers, by contrast, tax is a much less widely considered metric – only 41% cite it as a consideration for their insuring activities, and in a third of those cases, it is regarded as one of the least important ESG metrics.

Are you aware of the extent to which your organisation considers tax as an ESG metric when evaluating the following?



Note: 11% of banking respondents, 20% of Asset Management respondents and 16% of Insurance respondents did not provide an answer to the respective questions.

Nevertheless, the pressure is rising for more active consideration of tax as a key ESG issue. Respondents say every single group of stakeholders is now more focused on this.

Most strikingly, **53% of respondents say their shareholders** are now more focused on the tax aspects of ESG, with 14% noting a significant increase – and almost as many say the same of their customers.

In any case, many financial services businesses are making changes to their policies and perspectives from an ESG standpoint that will inevitably have tax implications.

For example, 34% of financial services businesses have already started to link their remuneration strategies to ESG goals – and a further 27% are considering doing so.

Tax functions may also be called upon to grasp ESG issues as investors and wider stakeholders turn to external rating agencies to assess their behaviours. These agencies currently consider the factors set out in the table below. In future, we expect the tax information considered to continue to expand as more publicly available data becomes available.

Areas of focus for rating analysis

	ESG Analyst 1	ESG Analyst 2	ESG Analyst 3	ESG Analyst 4	ESG Analyst 5
Approach to tax	✓	✓		✓	✓
CbC	✓	✓		✓	✓
Effective tax rate / cash tax rate	✓	✓			✓
Governance and risks / board oversight	✓			✓	✓
Tax controversies		✓	✓		

Today, just under a third (30%) of respondents use such an agency at either a corporate or a product level. Over time, as stakeholders look for more intelligence on the ESG practices of the sector, these numbers are likely to increase.

Part 2: Defining ambition and setting strategic direction

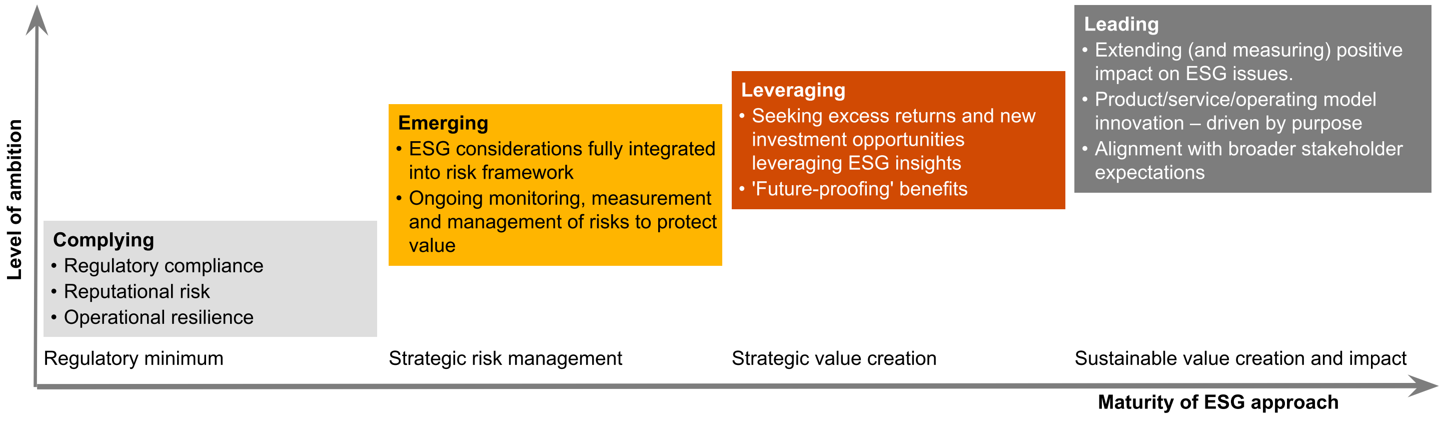
The evidence of PwC's research is that financial services businesses are currently in very different places. Some have developed mature capabilities, with tax firmly embedded in the organisation's ESG policies and practices. Others are at a much earlier stage in this journey, but at least have a clear direction of travel. And some are only beginning to engage with the idea that tax is central to the ESG debate.

How, then, do organisations move forward from their current position? The challenge is particularly difficult for financial services businesses because their activities as a corporation and their product offerings both expose them to tax issues that may prove relevant from an ESG perspective.

i. Mapping levels of ambition for E, S and G

Defining the organisation's ambition provides a basis from which to build a plan of action. That ambition may change over time – as organisations reach one level of competency, they may reset their targets, or it may be that key stakeholder groups' expectations change, including those of regulators and policymakers in a position to impose mandatory behaviours. They may also move their focus from one particular pillar of ESG to another. Nevertheless, defining ambition is the starting point.

This graph shows what different levels of ambition may look like in practice, with some examples of what the different maturity levels could represent for some tax metrics.



Complying
- Regulatory compliance
- Reputational risk
- Operational resilience

Emerging
- ESG considerations fully integrated into risk framework
- Ongoing monitoring, measurement and management of risks to protect value

Leveraging
- Seeking excess returns and new investment opportunities leveraging ESG insights
- 'Future-proofing' benefits

Leading
- Extending (and measuring) positive impact on ESG issues.
- Product/service/operating model innovation – driven by purpose
- Alignment with broader stakeholder expectations

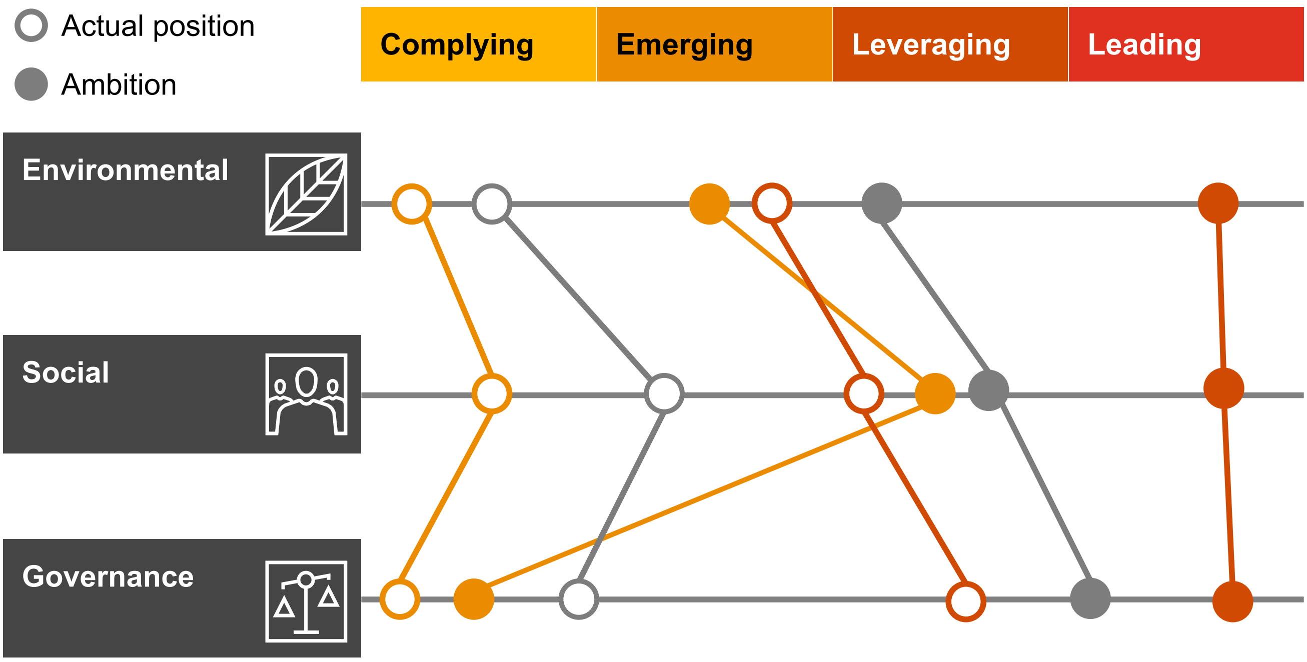
No tracking of global liability to green taxes and informal administration.	Ad-hoc reviews of exposure to green taxes, with some allotted responsibility for administering.	Regular and active monitoring of green tax exposure at a corporate level, with clear roles and responsibilities assigned.	Establishment of a dedicated team for formal and systematic tracking of green taxes at a corporate and product level.
No consideration of or engagement with tax transparency frameworks beyond mandatory obligations.	Started to collect taxes paid or collected data, however it has not been reviewed, sense checked or made public.	Publicly reports on some taxes other than corporation tax, broken down by taxes borne and collected.	Detailed qualitative and quantitative reports prepared showing total tax contribution and breaking down taxes paid by jurisdiction.
Tax is not considered in the organisation's wider ESG strategy.	Tax implications have been discussed in respect of the wider ESG strategy but not formally recognised or documented..	Tax is aligned with the overall ESG strategy and there is some evidence of this in public disclosures.	Tax is fully integrated in the overall ESG strategy, with full alignment to the tax goals, objectives and KPIs and has C-suite buy-in.

At the very least, every financial services business must deliver compliance – meeting minimum standards on regulation and tax, minimising reputational risk from a tax perspective and ensuring operational resilience. But this more limited ambition may prove restrictive – it may mean the business holds back from actions that unlock value creation and competitive advantage. For example, working more strategically to assess environmental taxes and incentives may unlock new investment opportunities for the corporate, or give rise to new product opportunities.

ESG is too disparate a theme for any single approach to work in the same way across all three pillars and therefore, the ESG tax strategy may play out differently under each pillar, with organisations having different levels of ambition for each depending on the current priorities of the business.

This is illustrated by the diagram below, which presents the hypothetical examples of different organisations and their potential ambition levels, with circle colour representing a different organisation:

- Yellow – An Asset Manager whose focus is on improving ESG-related incentives for its executives through pay and bonuses, increasing workforce diversity and beginning to understand the business' exposure to environmental taxes.
- Grey – An Insurer aiming to improve across all pillars, with a particular focus on increasing tax reporting and transparency.
- Orange – A large global bank with ambitious ESG targets at a firm level which requires the business to aim for a market-leading position across all pillars.



From an environmental perspective, for example, there is a balance to be struck between leveraging ESG-related tax incentives and applying them in a manner consistent with legislative intent. Financial services organisations will be involved in the design of products that offer ESG related tax incentives. But it is important that they are not seen to be exploiting loopholes or taking advantage of incentives in a way not deemed appropriate by stakeholders.

The society conversation is similarly nuanced. Above all, financial services businesses will be expected to manage their tax affairs in a responsible and transparent manner, paying their fair share of tax and contributing to the societies in which they operate. Any positions taken will need to withstand external scrutiny and be subject to robust governance.

As for governance, the onus is now on financial services business to ensure they have an effective tax governance framework in place to deliver their environmental and social objectives. With support from senior management and effective ongoing monitoring, the goal is to set out an approach to managing tax that is communicated and embedded across the organisation.

Putting those principles into practice will not always be straightforward. There may be different considerations in each jurisdiction in which the business operates. Maintaining focus across both corporate activity and the product set will be challenging. Plus, of course, the external environment, from the demands of regulation to the practices of peers and competitors, will continue to evolve.

ii. Showcasing the value of tax and ESG

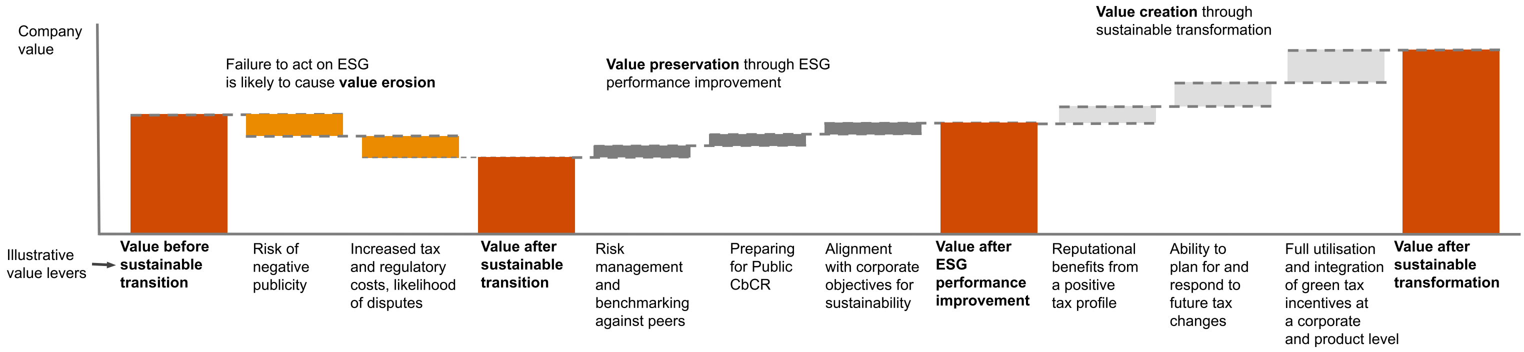
Building a value bridge to increase C suite engagement.

Once an organisation is clear on their level of ambition with regards to ESG and tax, engaging internal stakeholders to obtain their buy-in and ensure tax has a seat at the table in wider ESG initiatives is critical.

This could involve development of a **value bridge** to highlight the value-preservation and value-add insights tax can provide to further the organisation's overall ESG agenda.

Many financial services businesses will already have identified growth areas where significant tax impacts have a key role to play – social taxes, green tax reliefs and incentives, and more.

An example of what the value bridge may look like can be seen below. The focus should be on drawing out the risks of value erosion, mitigating actions that can be taken to preserve value and opportunities for value creation. It will be important for financial services businesses to think about this through both the corporate and the product lens.



A clearly articulated value bridge can serve as a tool to obtain C-suite support for the ESG tax agenda, access resources and be the foundation from which to build a roadmap for execution.

Part 3: Building a roadmap for execution

With agreement on direction in place for embedding tax within ESG, the focus moves to execution. This will require an approach that addresses strategy, transformation and reporting requirements in respect of tax and ESG in a coordinated manner.

Organisations will need to identify where they are missing important competencies and to start to close those gaps – from resourcing to data collection to reporting.

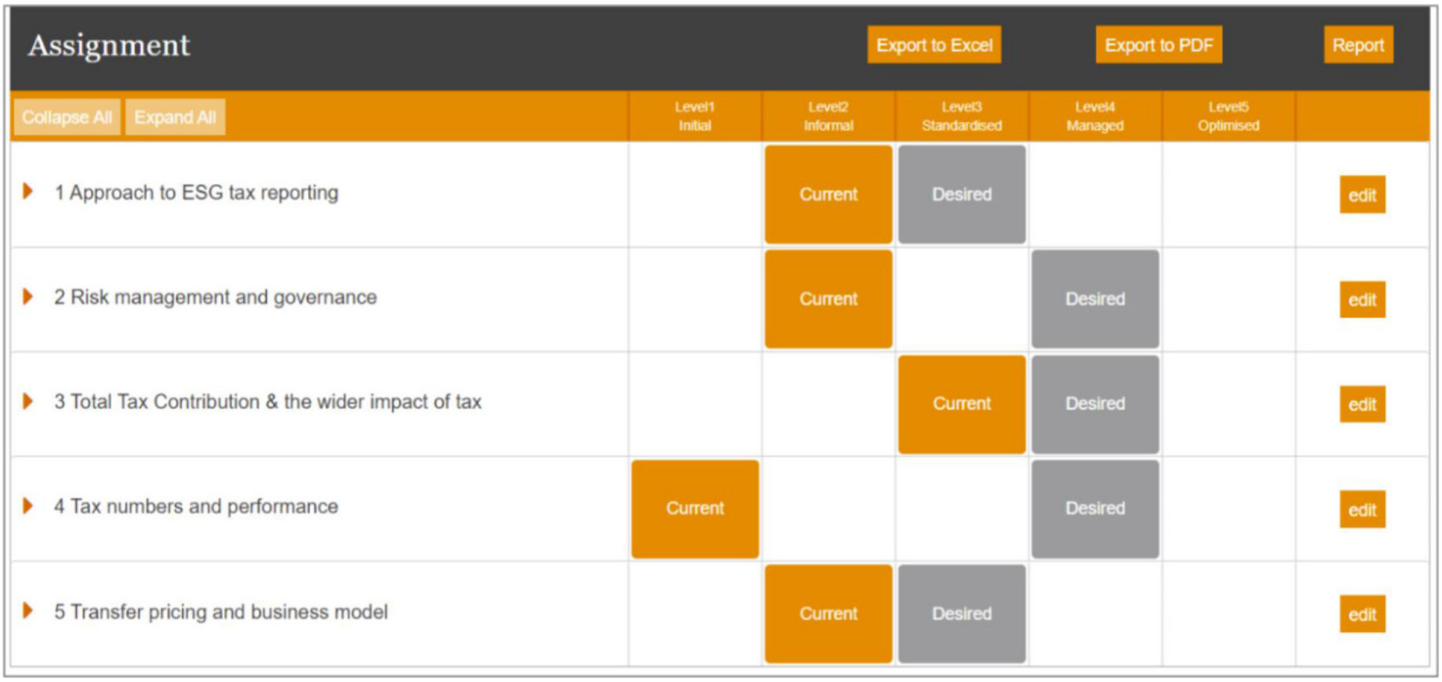
PwC's Tax ESG Management Maturity Model (T3M)

PwC has developed the **Tax ESG Management Maturity Model (T3M).** This framework has been designed to help organisations to assess their current level of maturity across a range of tax related ESG areas and provide practical steps to support businesses addressing the gaps required to get to their desired position on ESG and progress on moving up their value bridge.

The model is built with 5 maturity levels ranging from Initial to Optimised, and can provide the necessary tools to enable businesses to assess and identify potential next steps required to ensure:

- Tax is fully integrated within the organisations wider ESG strategy.
- Increased awareness of the influence that tax can have on the execution of an organisation's ESG agenda.
- Agreement of responsibility for tax ESG matters within an organisation.
- Increase the imperative to see tax as a key component in driving ESG linked value creation.

Snapshot of the T3M platform



Assignment

Collapse All Expand All	Level1 Initial	Level2 Informal	Level3 Standardised	Level4 Managed	Level5 Optimised	
1 Approach to ESG tax reporting		Current	Desired			edit
2 Risk management and governance		Current		Desired		edit
3 Total Tax Contribution & the wider impact of tax			Current	Desired		edit
4 Tax numbers and performance	Current			Desired		edit
5 Transfer pricing and business model		Current	Desired			edit

Areas to focus on in moving this forward include:

Benchmarking – Make a baseline assessment of the business's current approach, including their products including an assessment against peers.

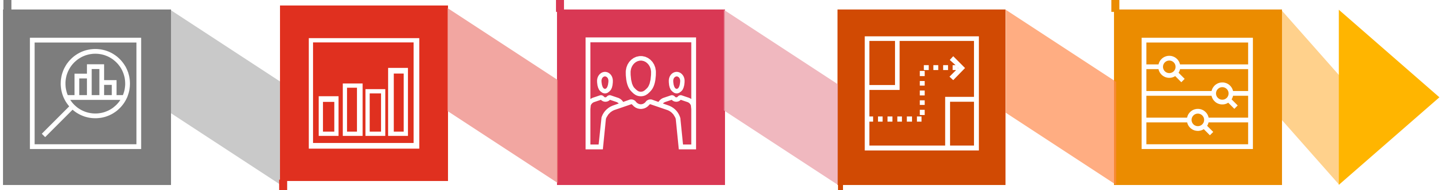
Strategy development – Ensure tax leaders have a seat at senior levels to ensure they can understand organisation-wide ESG strategy and can integrate tax into the wider sustainability strategy, linking it to ESG and sustainable development goals (SDGs).

Tax operations and governance – Take steps to update existing governance and risk management processes to incorporate an assessment of ESG matters e.g. green taxes and incentives both at the company and product level, reflect appropriate allocation of roles and responsibilities as well as addressing the resourcing requirements required to integrate tax into the firm's wider ESG approach.

Data and reporting, technology enablers - Managing how tax data is tracked, controlled, monitored and assured; being aware of what data points are publicly available and what this means for ratings on ESG indices.

What might the start of your roadmap look like?

The practical and granular details of each organisation's roadmap will be unique depending on their access to resources, current maturity levels and ultimate level of ambition regarding ESG and tax. However, this diagram provides a high-level illustration of some initial steps an organisation may want to consider on their journey to complete tax and ESG integration.



Consider your wider ESG tax strategy and level of ambition

Understand your wider firm's ESG strategy, including business growth areas with significant tax impacts, and the level of integration you want to have as the tax function.

Benchmarking and gap analysis

Understand how you compare to the wider industry by undertaking a benchmarking exercise and understand the resources, technology and data needed to help you reach your desired state.

Assign clear roles and responsibilities

Ensure these are articulated for tax's engagement with all parts of the business e.g. sustainability, finance, risk for ESG-related activities at a corporate and product level and maintain regular, formal channels of communication.

Develop a governance, risk and control framework

Map the opportunities and risks associated with developing your tax and ESG strategy and implement a roadmap that includes consideration of process and control frameworks to support your overall goal.

Consider how you will embrace tax related ESG reporting and compliance

Consider the data collection and technology requirements for accurate reporting and ensure ESG tax reporting is consistent with wider organisational ESG strategy at both product and corporate level.

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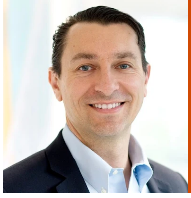

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Appendix 1 – Related PwC reports

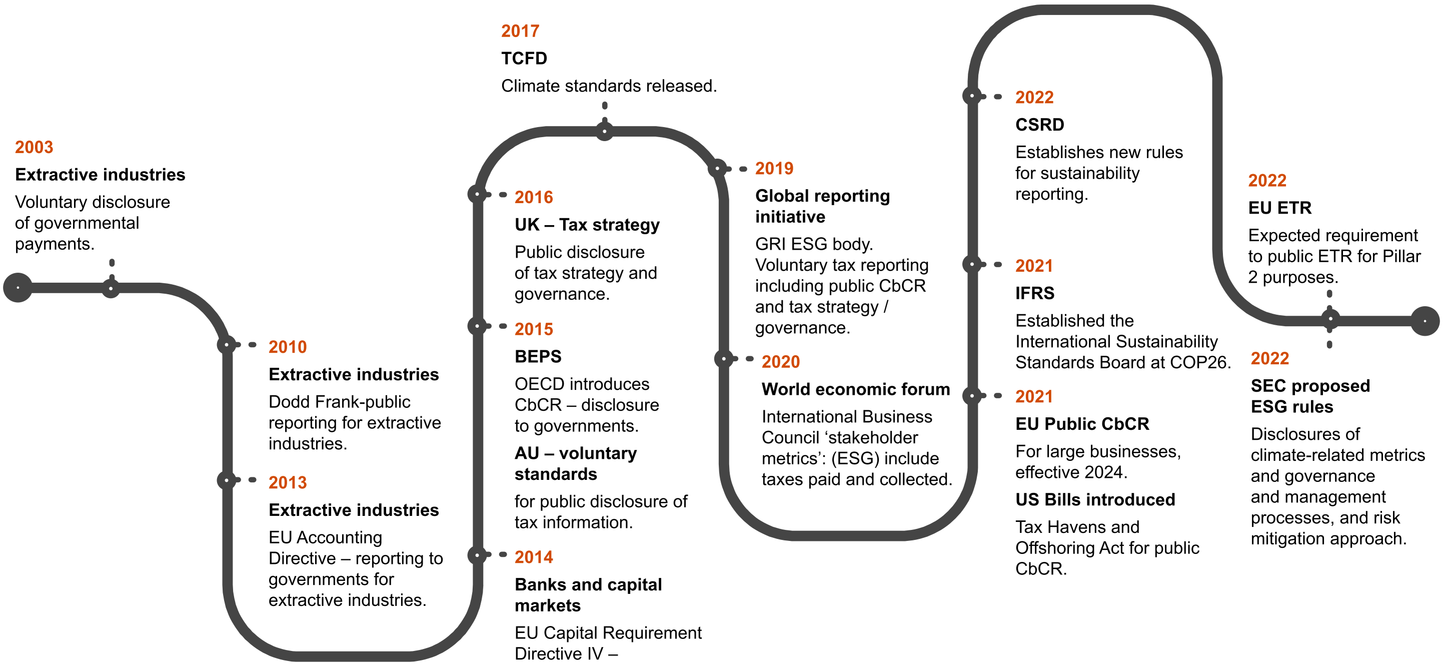
Building public trust through tax reporting: Tax transparency in an ESG era	Link
Total tax contribution of the 100 group	Link
Gender pay gap and diversity reporting in the financial services sector	Link
Are Europe's businesses ready for the EU Green Deal?	Link
Tax transparency in DACH region in 2022	Link
Why is tax an important element of TCFD?	Link
Tax is a crucial part of the ESG conversation	Link
The ESG execution gap: What investors think of companies' sustainability efforts	Link
Are your investments enabling a just transition?	Link

Appendix 2 – The increasing reporting burden

The pressure continues to increase on the financial services sector – from a long list of stakeholders[7] – to disclose more about the taxes they pay and how they manage their tax affairs0.

For over 20 years, there has been an increasing global focus on tax transparency. This timeline highlights some of the most significant developments, from an initial focus on extractive industries to the introduction of broader sustainability reporting schemes. Of these, some levy mandatory obligations on businesses, such as country-by-country reporting ('CbCR'), the EU Corporate Sustainability Reporting Directive ('CSRD') and the Taskforce for Climate-related Financial Disclosures ('TCFD'), whereas others are mostly voluntary. The latter includes frameworks such as the and the Global Reporting Initiative ('GRI') and World Economic Forum ('WEF') standards. Of these, some, like the GRI 207 standard, are tax-specific, whereas others encompass broader sustainability considerations that require consideration of the downstream tax impact. For example, what tax risks or incentive opportunities may be associated with the wider climate transition plans articulated by the business in their wider sustainability strategy, action plans and reports?

In our view, the tax departments at financial services organisations are currently focussed too narrowly on tax-specific reporting standards. There is a need to broaden their scope and engage with the rest of the business to ensure tax is represented among wider sustainability discussions.



2003
Extractive industries
Voluntary disclosure of governmental payments.

2010
Extractive industries
Dodd Frank-public reporting for extractive industries.

2013
Extractive industries
EU Accounting Directive – reporting to governments for extractive industries.

2014
Banks and capital markets
EU Capital Requirement Directive IV –

2015
BEPS
OECD introduces CbCR – disclosure to governments.
AU – voluntary standards
for public disclosure of tax information.

2016
UK – Tax strategy
Public disclosure of tax strategy and governance.

2017
TCFD
Climate standards released.

2019
Global reporting initiative
GRI ESG body. Voluntary tax reporting including public CbCR and tax strategy / governance.

2020
World economic forum
International Business Council 'stakeholder metrics': (ESG) include taxes paid and collected.

2021
EU Public CbCR
For large businesses, effective 2024.
US Bills introduced
Tax Havens and Offshoring Act for public CbCR.

2021
IFRS
Established the International Sustainability Standards Board at COP26.

2022
CSRD
Establishes new rules for sustainability reporting.

2022
EU ETR
Expected requirement to public ETR for Pillar 2 purposes.

2022
SEC proposed ESG rules
Disclosures of climate-related metrics and governance and management processes, and risk mitigation approach.

[7] Percentage of respondents who said they had seen a marginal or significant increase in each stakeholder group's interest in the tax aspects of ESG: 57% (Investors), 55% (Shareholders), 46% (Employees), 43% (Customers) and 29% (Borrowers).

Turning to some of the standards in detail, it is now seven years since the OECD and the G20 nations formally adopted country-by-country reporting (a requirement for private disclosure to tax authorities). Whilst many financial services institutions make such disclosures publically in accordance with CRD IV - Transparency initiative for Banks & Capital markets requirements, the European Union's Directive for public country-by-country reporting (PCbCR) will impact many more businesses. In tandem with the OECD's Pillar Two framework, such legislation will drive further scrutiny of organisations' tax affairs.

As noted above, wider ESG reporting requirements which will have a tax impact are also increasing such as:

- The EU's Corporate Sustainability Reporting Directive, which will require companies to report on ESG areas – such as governance and policy – which are material for their organisations and stakeholders, with tax included. Notably, for the first time -reported information will be required to be audited. The scope includes all large companies and listed SMEs (including EU subsidiaries or holding companies of non-EU headquartered groups) with first reporting expected in reports published in 2024.
- The Taskforce for Climate-related Financial Disclosures which became mandatory for listed companies in the UK for periods on or after 1 January 2021, extending to incorporate large private companies from April 2022. The TCFD framework is relevant to tax in the following three areas:
  - the future tax landscape and the scope of future environmental taxes, incentives and grants.
  - the impact on supply chains and transfer pricing policies from less carbon intensive activities.
  - the impairment of assets and the potential impacts on tax attributes sitting on company balance sheets from climate change.to tax.
- Proposals introduced by the SEC in March 2022 that would require disclosures about climate related metrics, governance and management processes and risk mitigation (and which are closely aligned with the TCDF framework).
- The launch of the International Sustainability Standards Board (ISSB) in November 2021 by the reporting standards group IFRS is likely to lead to significant new demands on disclosure and transformation. Elsewhere, the Sustainability Accounting Standards Board publishes industry-specific standards, including for financial services, where tax is an integral consideration.

Commitment to voluntary reporting initiatives is also increasing:

- The GRI standards (which more than 10,000 organisations in 100 countries use) include reporting on organisations' tax strategies and how they are formulated, the tax risk control frameworks that are in place to give effect to those strategies, along with the approach taken to manage relationships with tax authorities.
- The World Economic Forum's International Business Council, of which 120 companies are members, made tax disclosures a core component of its ESG reporting metrics, published by the World Economic Forum (WEF) in 2020.

Thank you

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