Socially responsible reporting for tax purposes

Družbeno odgovorno poročanje za davčne potrebe

PhD. Student, Aleksandra Vehovar
University of Maribor, Faculty of Business and Economics
Department of Accounting, Auditing and Taxation
Razlagova 14, SI- 2000 Maribor
Aleksandra.vehovar@student.um.si, www.epf.um.si

Assoc Prof, Lidija Hauptman
University of Maribor, Faculty of Business and Economics
Department of Accounting, Auditing and Taxation
Razlagova 14, SI- 2000 Maribor
lidija.hauptman@um.so, www.epf.um.si

Abstract

The purpose of this paper was to examine the development of socially responsible reporting for tax purposes. The theoretical part presents the legal framework for tax reporting purposes. In the empirical part of the paper we present various forms of socially responsible reporting on the case of selected foreign companies. The conclusions of the research are that there is not only one definition for the concept of social corporate responsibility, but the concept depends on the geographical location and period. Different companies have different reporting systems on taxes or provisions regarding the preparation of reports on taxes. Companies prepare their reports on taxes voluntarily in the way that is most appropriate according to their size and activity. Socially responsible reporting for tax purposes is gaining importance, but the regulatory requirements are more demanding. In Slovenian enterprises the area of socially responsible reporting for tax purposes is rather underdeveloped, the development in this area is modest.

Keywords: social responsibility, socially responsible reporting for tax purposes, disclosure of tax information, Slovenia.

1 Introduction

Socially responsible reporting for tax purposes (Pennon Group PLC, 2012; PwC, 2012a; Rio Tinto, 2012; The Rank Group, 2011, 2012) as recommendations, guidelines (PWC, 2011; EU Action Plan - EC, 2012; ISO 26000, 2010) and requirements (Directive 2004/109/EC of the European Parliament and of the Council; the EU Commission Directive 2007/14/EC; the EU Council Directive 2011/16/EU) is becoming more and more important.

In Slovenia, socially responsible reporting for tax purposes it is not defined by legislation as mandatory, but companies can opt for it voluntarily. However, companies make general reports on socially responsible practices of their business, but the tax aspect is not particularly highlighted in these reports.

The purpose of this paper is to show the development of socially responsible reporting for tax purposes, whereby it examines what forms of socially responsible reporting for tax purposes exist.

This paper consists of the introductory part followed by a short theoretical presentation of the problem. In the third part, are presented examples of good practices of three selected companies. In the fourth part, is presented a model of socially responsible reporting for tax purposes in Slovenia. Conclusions are presented in the sixth part of the paper.

2 Socially responsible reporting for tax purposes

The international standard ISO 26000 (ISO, 2010) and the EU Action Plan for enhanced fight against tax fraud and tax evasion can be classified among the main guidelines of socially responsible reporting. The latter consists of three fundamental aspects, namely: exchange of information, transparency and fair tax competition (EC, 2012a). It is considered that the Directive[1] 2004/109/EC of the European Parliament and of the Council, the EU Commission Directive[2] 2007/14/EC and the EU Council Directive[3] 2011/16/EU are also important for socially responsible reporting. These and other basic legislation constitutes the legal framework of corporate social responsibility for tax purposes.

The sustainable responsible reporting for tax purposes, whereby companies prepare special tax reports, is becoming an increasing trend. In Slovenia, this type of reporting is extremely rare, it can only be found in some companies which have foreign owners and are a part of large multinational companies.

In the following section, the importance of the guidelines and recommendations related to the reporting for tax purposes is presented.

2.1 The European Union action plan

The common objective of the EU Member States national tax systems is efficiency and fairness, i.e. to collect sufficient revenues in a fair manner according to democratic decisions

[1] Official Gazette of the EU 390/38. 2004. Directive 2004/109/EC of the European Parliament and of the Council.
[2] Official Gazette of the EU 69/27. 2007. EU Commission Directive 2007/14/EC.
[3] Official Gazette of the EU 64/1. 2011. EU Council Directive 2011/16/EU.

of an individual state. This objective is threatened by fraud, tax evasion and aggressive tax planning, which are often associated with tax havens (EC, 2012b, 4). For this reason, the European Commission issued the Action Plan for enhanced fight against tax fraud and tax evasion in 2012. An essential component of the action plan are practical measures through which all Member States can achieve concrete results; in particular, these measures may be helpful to the Member States to which the recommendations on the need to improve tax collection were addressed in the context of the European Semester 2012 (EC, 2012a, 2).

One of these measures is the improvement of the information exchange. Information exchange gives tax administrations valuable information on the received income and property of taxpayers, which may be especially useful for risk analysis and can be used as an incentive for voluntary compliance with tax. The Commission has developed electronic forms for income from savings and is currently developing new forms for income, covered by Council Directive 2011/16/EU to implement secure and advanced automatic information exchange within the EU. The European Union has a key role in promoting its standard of automatic information exchange in order to support the development of international standards of transparency and information exchange in tax matters (EC, 2012c, 7). The European Union also supports the principle of 'fair tax competition' which is supported through internal code of corporate taxation (EC, 2012c, 11-12).

In the European Union action plan, the aforementioned Council Directive 2011/16/EU provides for the adoption of standard forms for the information exchange upon request, spontaneous information exchange, communication and feedback. The Commission has adopted an implementing regulation which provides for such standard forms that will improve the effectiveness and efficiency of information exchange. Moreover, the Commission has developed information technology in all languages of the European Union for these standard forms (EC, 2012a, 8).

2.2 PWC guidelines - Tax transparency and country-by-country reporting

The PwC guidelines list three frameworks of socially responsible reporting for tax purposes: *The Extractive Industries Transparency Initiative - EITI*, *Dodd-Frank Wall Street Reform and Consumer Protection Act – Dodd-Frank Act*, and *Proposals for EU Directives on Transparency and Accounting*. The document also lists two other proposed by the Organisation for civil society: *The Publish What You Pay proposals - PWYP* and *Country by country reporting proposals - CbyC.*

The key elements of good reporting for tax purposes are: who must report, materiality, reporting basis, requirement of audit, timing of reporting, where is certain data to be published and level of aggregation of data. *The Extractive Industries Transparency Initiative (EITI)* is a globally developed standard that provides and enables transparency of revenue at the local level. The reporting requirements are defined by individual countries. The EITI only provides a reporting framework, it does not provide any concrete reporting requirements. The objective of such reporting is to strengthen governance in countries rich in natural resources by improving transparency and accountability in the extractive industry. The EITI supports improved governance through various checks and full publication of tax payments. The registration in the EITI system is voluntary.

Dodd-Frank Wall Street Reform and Consumer Protection Act – Dodd-Frank Act does not provide for exceptions in the disclosure of information for businesses in the extractive

industry in the event that the law of the home country, where the company is located, precludes this or because the information is commercially sensitive.
Proposals for EU Directives on Transparency and Accounting present proposals for the amendments to current European directives on accounting requirements and transparency of reporting. Proposals for the amendments to the European directives on accounting requirements and transparency are comparable to the American Dodd-Frank Act; however, there are three fundamental differences between them. Within the framework of mandatory reporting in the oil and gas industry and mining, the forest industry is added to the proposals for the European directives on accounting requirements and transparency. The rules laid down by European directives apply to large companies the shares of which are listed on the stock exchange as well as to those the shares of which are not listed on the stock exchange, while the rules in the United States of America (Dodd-Frank Act) are limited only to the extractive industry. Moreover, the European directives preclude the publication of representation of any payment where such public disclosure is prohibited by law. The Dodd-Frank Act does not allow exceptions.

The Publish What You Pay proposals (PWYP) refer to companies operating in the extractive industry and their reporting on payments to government and published in their revised financial statements on the basis which varies from country to country. They emphasise that all financial flows that bring benefit to the government should be disclosed.

Country by country reporting proposals (CbyC) apply to all multinational companies, including those in the extractive industry. *Tax Justice Network* is one of the supporters of these proposals. It promotes social and democratic justice for a fair and effective tax system. It fights tax evasion, tax fraud and unfair tax competition.

Proposals for reporting by individual countries are particularly important for stakeholders located in developing countries. Such reporting should therefore provide significant benefits to developing countries by reporting to the tax authorities, civil society and other regulatory agencies. People in places where multinational companies have business units would thus know exactly what a particular multinational company is doing in a certain area, what revenue it has and how much tax it pays to governments of individual countries.

3 Case studies of socially responsible reporting for tax purposes

3.1 Case study 1 – Rio Tinto Group

The RIO TINTO group is a British-Australian leading company in the field of mining and metals; the main headquarters of the group is in London. The Rio Tinto company has incorporated sustainable development into its overall business, i.e. in all activities it performs on different continents and countries. The company is also oriented to socially responsible reporting for tax purposes. For this purpose, it annually issues reports on the taxes paid in the previous financial year in addition to annual reports and reports on sustainable development. Our study was based on the company report Taxes paid in 2015[4]. It is stated that as a part of its ongoing commitment to transparency the report combines information on payments to governments in each country where the company operates and information on taxes and net revenues of business units and tax information for the entire company. The report presents an overview of tax strategies and management which stem from the company policy, the analysis

[4] Taxes paid in 2015 - http://www.riotinto.com/investors/taxes-paid-16634.aspx

of tax payments according to types of taxes, countries and business units. The strategy defines that the Rio Tinto group is committed to ensuring fiscal transparency regarding the payment of taxes to governments. The report states that the company has voluntarily decided for more detailed reporting on tax payments to governments and that it wants to publish this information annually and thus contribute to the development of better and public and more socially responsible reporting for tax purposes.

The second substantive section contains information on the distribution of revenues according to various interest groups. In the following (in the third substantive section), the report presents the tax strategy and management of the company. To support its overall business strategy and objectives, the Rio Tinto strives to such a tax strategy that is principled, transparent and sustainable in the long term. The fourth substantive section titled Fiscal transparency and reporting states that the company is a big supporter of the Extractive Industries Transparency Initiative - EITI. The fifth substantive section covers taxes paid, namely the analysis of taxes according to countries and types of tax is presented. Various types of taxes that the company publicly discloses are: tax on corporate income, licence fees, payroll taxes paid by the employer, other taxes and payments, total tax burden, payroll tax on the salaries of employees and total taxes paid. In the sixth section presents tax in financial statements. The seventh section presents disclosures in financial statements and the eighth section contains an independent auditor's report.

3.2 Case study 2 - Rank group

The Rank Group is a leading European company in the field of betting and gambling with headquarters in the UK. The company incorporates sustainable development in its entire business and it advocates for socially responsible reporting for tax purposes. Already in 2010, the company issued the report titled Responsible Taxation: Fairness, Responsibility and Sustainability which defines a simplified and coherent regime for betting and gambling. The report contains essential guidelines and methods of socially responsible reporting for tax purposes, while concrete reporting on taxes is included in annual reports of the company.

The document Responsible Taxation: Fairness, Responsibility and Sustainability lists suggestions and proposals made by the company to achieve the government's objectives. The Rank group includes the voluntarily disclosed information in the annual report which describes the tax strategy, through which the company plans tax matters in order to reduce the tax and the effective tax rate according to the applicable legislation. In the report, the company lists types of taxes and graphically displays them according to the following types: various taxes for individual types of gambling, output tax, input tax, tax on corporate income, cash tax, employment tax, value added tax, tax on gambling and betting and tax on profit.

3.3 Case study 3 – Pennon group

The Pennon group invests and operates in the field of water extraction and management waste and sewerage. The Group pennon is also one of the leading companies in the field of renewable energy. The Pennon group discloses its tax information in the annual report (section Taxation and policies); namely, it discloses tax strategy and individual types of taxes paid for the previous fiscal year and general information on the company management. The fiscal objective of the Pennon group tax strategy is to strengthen or improve the shareholder value by legally reducing taxes taking into account the long-term relationships with tax authorities.

4 Model of socially responsible reporting for tax purposes for Slovenian companies

An unified model for social responsibility reporting for tax purposes does not exist. As already mentioned, many guidelines, requirements and initiatives exist, which contribute to quality, fair, transparent and responsible tax reporting. A company itself must define criteria for preparing and publishing disclosed tax information, regarding the size of the company, its activity, number of employees, business strategy, method of company management and other factors.

Slovenian companies include socially responsible reporting in their annual and interim reports. Tax information is disclosed according to applicable Slovenian legislation which includes laws and generally accepted regulations and guidelines complying with the European legislation. Companies are obliged to disclose tax information to the Financial Administration of the Republic of Slovenia, the Statistical Office of the Republic of Slovenia and other national authorities upon their request and to stakeholders that are directly or indirectly involved in the company.

In the following, we state some recommendations that may be taken into account by medium-sized and large companies in the disclosure of tax information on a voluntary basis and thus contribute to greater transparency of the presentation of tax information. We recommend Slovenian companies to identify their fiscal strategy before writing socially responsible tax reports, since the whole tax operation is based on this strategy and is also reflected in the socially responsible reporting for tax purposes. They should define all methods used for the calculation of various data, indicators, shares, etc. They should also identify or state according to which requirements and guidelines they shall prepare their socially responsible report for tax purposes.

Companies should choose how to disclose taxes paid in the previous financial year according to their activity and diversification of business in several areas. This can be done according to types of taxes or countries in which a company has its business premises. In our opinion, the most appropriate way of reporting in cases when a company is large and its product and service operation programme is diversified in several different countries, as seen in the case of the Rio Tinto group, is to report and disclose tax information in both ways, namely according to the types of taxes and individual countries.

Companies must also decide where to publish the disclosed tax information since there are several different options: the information may be included in annual reports or published in the report on sustainable development or issued in a special report on disclosed tax information. We do not recommend to publish the disclosed tax information in the annual report of the company or the report on sustainable development due to the lack of transparency of data. We believe that a company would reach greater transparency by issuing an independent report covering comprehensive tax information (Table 1) which the company wishes to disclose. It is recommended that an auditor reviews and evaluates the annual report of the company with disclosed tax information. The independent auditor's report and opinion should be attached to the report.

Table 1: Model of socially responsible reporting for tax purposes for Slovenian companies

	Obligatory disclosures according to Slovenian legislation	Voluntary disclosures
Introductory presentation	✓	✓
General information on company management	✓	✓
Definition of tax strategy	X	✓
Defined applicable statutory framework for reporting	X	✓
Disclosure of tax information (tax payments):		
- according to types of taxes	X	✓
- according to countries	X	✓
Defined reporting template	X	✓
Glossary of key fiscal terms	✓	✓
Independent auditor's report attached	✓	✓
Where should companies publish disclosed tax information:		
- in an independent report	X	✓
- in the company annual report	✓ only certain tax information	X
- in the report on sustainable development	X	X

Source: Vehovar, 2013, 35-36

5 The findings and conclusions of the paper with thoughts and suggestions for further research

We believe it is very important to encourage socially responsible reporting for tax purposes in Slovenia, since only with socially responsible actions in the accounting and payment of taxes companies affect the sustainable development of the environment in which they co-exist and in this way gain or maintain their reputation and strengthen their competitive position. Based on the examined, it would be reasonable to explore and analyse further the disclosure of tax information in the annual reports of public companies and determine how different factors affect reporting.

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