



ADVISORY[®]

INDEPENDENT TAX CONSULTING



Communicating Taxes in the 21st Century

- When Tax Matters Affect Corporate Reputation



ADVISORY®

INDEPENDENT TAX CONSULTING

Agenda

- The current landscape
- Potential consequences
- Examples
- Thinking strategically about tax
- Take-aways

Current landscape

- International environment increasingly interested in tax matters (Media, politicians, NGOs and activists, OECD, G20, EU and most developed countries).
- Towards full transparency in tax matters (DAC 6 (MDR), rulings, CbCR).
- More emphasis on responsible tax (better notion than fair taxation).
- BEPS introduced a lot more complexity (in an already system).
- Much and increasing uncertainty.
- Increasing controversy.
- “Aggressive” scrutiny.
- Poor quality in the tax legislation.

Potential consequences

- International business has become increasingly exposed.
- Impact:
 - Severe reputational damages,
 - Lost public and private costumers,
 - Significant drops in share prices.
- Obviously, some businesses are more exposed than others.
 - Rule of thumb:
 - Consumer oriented,
 - Public clients,
 - Dependent on public grants or subsidies.
- Top management can increasingly be held publicly accountable and be forced to appear in public to explain themselves on tax matters.

Examples

- Vodafone
 - E.g. Mannesmann acquisition - sale of share in Verizon through NL - using Luxembourg structure.
- International mobile operating company “3”:
 - Facts
 - Luxleaks
 - European subsidiaries financed through loan from Hong Kong through Luxembourg.
 - Effective taxation of interest received in Luxembourg was limited to 5.2 %.
 - Interest deduction – arm’s length.
 - Combined with massive investments in network and marketing a tax loss was generated in Denmark.
 - Massive condemnation and indignation.
 - Leading politicians are quoted for the following [my translation]: “3 is cheating its customers for taxes, which could have financed welfare, childcare and eldercare”.
 - Another politician expressed to find herself in a state of shock and indignation and encouraged consumers to reconsider using the company’s services.
 - The most far reaching reaction has been the claim from two socialist parties to ban the company and its big 4 advisors as a service provider to the public sector.



ADVISORY®

INDEPENDENT TAX CONSULTING

Question

- *Have any of you experienced public attention (positive or negative) on tax matters?*

Strategic tax

- **Background:**
 - Historically companies did not develop a tax policy or a tax strategy exceeding a few high level statements on the corporate website.
 - Minority have developed a distinct strategy, which is anchored in top management.
- **Tendency:**
 - Experience increased interest in such tax strategies and strategic thinking of tax matters.
 - Need for companies to approach taxes in a strategic context and to communicate clearly on tax matters.
 - Most realize that they have to be responsible in their tax matters as well as in other areas.
 - Development and communication of tax policies and tax strategies, which set out guidelines for their corporate behavior.
 - Several corporates introduce systematic processes to handle the requirements.

Strategic tax

- **Best practice tax policies and strategies:**
 - A good tax policy can demonstrate to the public, how taxes are handled by the company.
 - Inspiration from the B team principles:
 - Principle 1. Accountability & Governance
 - Principle 2. Compliance
 - Principle 3: Business Structure
 - Principle 4: Relationships with Tax Authorities
 - Principle 5: Seeking & Accepting Tax Incentives
 - Principle 6: Supporting Effective Tax Systems
 - Principle 7: Transparency
 - Many MNE's develop an internal tax strategy, including guidelines for the daily tax work as well as for long term tax work.
 - Content:
 - Approach to tax planning, compliance, risk appetite, public disclosure, media attention, communication about taxes and tax audits.
 - Concrete initiatives.
- **Does not have to be a big task.**
 - Make this as practical and hands-on as possible, while ensuring buy-in within the organization.
 - Value is best ensured through alignment within the tax team, with the CFO, the Audit committee, the Board of Directors and the media/communications team.



ADVISORY®

INDEPENDENT TAX CONSULTING

Question

- *Have any of you developed tax policies and strategies?*

Take aways

- **Acknowledge:**
 - Overall increased focus on tax matters:
 - New legislation, audits, double taxation etc.
 - Risk of reputational impact, loss of costumers, share price.
- **Imperative to think strategically about taxes, including the communication hereof.**
 - Development of tax policies and tax strategies.
 - Many pitfalls in this.
- **Handling tax in the 21th century**
 - Technical analysis as the starting point.
 - GAAR assessment.
 - Reporting obligations (MDR).
 - Alignment with tax policy.
 - Assessment of civil society reactions.



ADVISORY®

INDEPENDENT TAX CONSULTING

JAKOB BUNDGAARD

MANAGING DIRECTOR
PROFESSOR, HONORARY PROFESSOR, M.SC., PH.D.

CORIT ADVISORY P/S
LYNGBY HOVEDGADE 17, 2. SAL
2800 KONGENS LYNGBY
DENMARK

WWW.CORIT-ADVISORY.COM

P: +45 40 42 22 84
E: JB@CORIT.DK