KPMG Meijburg & Co Tax & Legal

ESG Tax Seminar: Guidance to explore ESG

ESG is a trend that will alter the business environment beyond recognition in the near future. To better understand how ESG will impact tax, KPMG Meijburg organized the ESG Tax Seminar: Guidance to explore ESG, on Thursday, June 15, 2023. Sharing the latest ESG insights and developments, KPMG Meijburg delved into the world of ESG and Tax and explained why ESG is a trending topic that should be at the top of every corporate agenda.

How to approach ESG & Tax?

One important question we should ask ourselves first: what is the relationship between ESG and Tax? The environmental pillar in ESG relates to environmental taxes, such as carbon tax, energy tax and plastic tax, in order to use these taxes as a means of influencing behavior and environmental resilience. Taxation is fundamental to the social contribution made by companies through paying their fair share of tax and thus providing countries with the resources they need to fulfill their human rights obligations. 'Paying your fair share' has become increasingly important—especially since taxation already has high public awareness. However, the ESG tax landscape has brought certain challenges to the fore:

- Tracking and monitoring the ESG taxation landscape
- Modeling existing and future ESG reporting rules
- Setting up an internal governance and compliance process
- Data availability, technology, and data management

Your ESG journey

Chris Shrubsole, Tax Director and UK Tax ESG Lead, explains that Tax and ESG are inextricably linked. 'At its core, it's a social issue, but we've seen that tax will touch every aspect of ESG. It's a vast area. With resources and budgets quite tight, what should you focus on? Getting some insights into other businesses and their approach is always helpful. However, it's important to remember that everyone is on their own journey. The key takeaway is: what is your organization's ESG journey, and how is your business partnering with those people, leading that workstream?' Business partnering is essentially the essence of ensuring the success of your ESG journey.

According to Shrubsole, many organizations still find it challenging to articulate the value of the tax function and ensure it is understood throughout the organization. 'Because, as Merijn alluded to, often tax is not thought of when a project is initiated and when workstreams are set up. Find out the key material ESG workstreams in your organization so that you can bring value to the table. Top of your To Do list is understanding the key workstreams within your organization and finding out how to best partner with the leaders of that workstream.'

Update Green Taxation

We are in the midst of a global environmental tax wave. The last few years have seen numerous press releases on environmental taxes and how the introduction of those taxes is progressing. Senior Manager Nicole de Jager gives some examples. 'One of the most notable ones that you might have seen recently is the EU's Carbon Border Adjustment Mechanism (CBAM). The number of plastic tax regulations in existence is also rising, as are global mandatory carbon pricing instruments.'

The European Union is in the process of setting more ambitious climate goals by implementing new regulations and revising existing legislation. Specific to green taxation is the strengthening of the existing EU emissions trading system (ETS), which is a European market for emission rights based on a cap-and-trade system. As ETS targets are tightened, the price of the emissions allowances increases, which has led to concerns around carbon leakage in the EU and whether this will see producers moving their production facilities to a country that has less strict emission requirements or cause purchasers to switch suppliers and procure their goods from outside the EU, where a lower (or no) carbon price is levied.

De Jager explains: 'To counteract potential carbon leakage the EU introduced CBAM, which operates on the principle of creating a level playing field: regardless of where products are produced, the same carbon price will be levied on the embedded emissions contained within specified goods. So, whether companies operate within or outside the EU, everybody will pay the same carbon price.' Because it is no longer just a European issue and affects European trading partners, it is vitally important for companies to assess whether CBAM impacts them.

Then there was also the threat of a green tax trade war between Europe and the US. The US introduced its Inflation Reduction Act in August last year containing many significant tax incentives to drive decarbonization. The EU was concerned that companies would relocate to the US because of these significant tax benefits. However, De Jager adds that it's not all bad news for companies in Europe that are faced with carbon pricing instruments. 'The European Union announced their Green Deal Industrial plan in February this year. This aims to look at upskilling the European workforce to support the green transition, introducing new benefits such as easing access to tax incentives and faster access to funding to encourage European companies to stay in Europe. When exploring decarbonization

Tax Transparency and Reporting

Why does tax transparency matter? Bernard van Gerrevink, Partner at KPMG Meijburg, explains: 'Tax transparency is all about fostering trust from your stakeholders and specifically investors. Nowadays, investors value the business impact on society and how companies contribute to a better world by paying tax.' The clear trend is towards more tax transparency; something stakeholders and investors now demand from companies. Van Gerrevink: 'We see more and more tax transparency reports; or tax contribution or tax impact reports, as we call them. We've noticed that there is more and more reporting on taxes and that both qualitative and quantitative data are nowadays being reported prior to mandatory CbCR becoming effective.'

Tax transparency has become a hot topic. Van Gerrevink: 'The trend we see in the market is that our clients would often like to benchmark their transparency initiatives against their peers. This is often being done with a gap analysis. Once it is decided to publish quantitative data, the data sourcing is often a challenge. We also have discussions about internal tax governance frameworks and how to improve them. This also ties into the context of a report, which in our view is critical when publishing a report. Last but not least, we see more and more tax assurance being provided on data, compliance with sustainability standards and a company's own tax strategy/ governance framework. With the CSRD requiring limited assurance, we expect more assurance will be required in the future.'

Key Takeaways

- Don't try to organize every new obligation separately. Instead, start bundling the obligations and ask your organization who is responsible overall.
- Don't just look at current environmental taxes but be prepared for what is coming in the future. Who is going to be responsible for environmental taxes?
- Tax Transparency and Reporting is still a journey that will evolve gradually – unless it is mandatory.
- Establishing a central ESG context and finding this context within taxes is important to ensure your tax requirements are met.

Contact

Would you like more information about our ESG Tax Services? Meijburg & Co's specialists would be happy to discuss this with you. Feel free to contact one of the specialists listed below.

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