TAX

A comparative study of 68 Dutch listed companies

TRANSPARENCY BENCHMARK 2016

Tax Transparency Benchmark 2016

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Preface

Angélique Laskewitz
Executive Director VBDO

Fuelled by revelations such as the Panama Papers and investigations by the European Commission, the issue of 'tax behaviour' has taken center stage in the global public debate. Both multinational companies and governments find themselves increasingly under scrutiny, and in some cases even criticism, for pursuing tax policies and behaviour that are beneficial to either or both but all too often come at the expense of other stakeholders.

There is an increasing awareness of the adverse effects of such aggressive tax strategies, including a substantial reduction in global tax revenues originating from multinational companies, as well as uneven, and what many see as unfair and unsustainable, patterns of distribution of these revenues.

When companies do not pay their taxes where they actually add value to economies, it becomes increasingly difficult to sustain the favourable environments which attracted them to do business there in the first place. Furthermore, the growing public perception that multinational companies are allowed to determine where and how much taxes they pay, threatens to undermine the credibility of both the tax system and the principle of fair competition. In short, it looks like the debate about 'good tax governance' and 'paying your fair share in taxes' is here to stay.

The Tax Transparency Benchmark aims to contribute to this debate by presenting a clear picture of the state of socially responsible tax governance by multinational companies listed in the Netherlands. As a general trend it can be concluded that the companies in scope are becoming increasingly transparent on tax. Nevertheless, still more than one third of the examined companies ranks in the lowest transparency bracket, demonstrating that a lot of work remains to be done.

From a strategic perspective, multinational companies need to see taxes not merely as a 'technical' matter but as part of the wider business picture, more specifically, as part of the role they have to play as corporate citizens. Not only because the growing public outcry indicates that tax behaviour has emerged as a serious reputational risk - 'if a company is not transparent about its taxes, it must have something to hide' - but also because creating shared value for both company and society is the only sustainable way to do business.

By including tax behaviour in corporate social responsibility strategies and being transparent about profits and tax remittances, multinational companies can demonstrate their commitment to fair distribution of tax revenue in the global economy. Fair distribution of tax revenues is a key factor in fostering the business climate and economic growth that both multinational companies and societies need to thrive.

Transparency is the first requirement for an informed and constructive dialogue on fair taxation by multinational companies. I trust this second edition of VBDO's Tax Transparency Benchmark will make a meaningful contribution to meeting that requirement.

Angélique Laskewitz
Executive Director VBDO

Tax Transparency Benchmark 2016

Overall ranking

Rank	Company	Listing	Ops*	Score Benchmark 2015	Score Benchmark 2016 (max 39 points)
1	**DSM**	AEX		21	28
2	**Unilever**	AEX		22	25
3	**Shell**	AEX		20	23
4	**Randstad**	AEX		17	22
5	**Aegon**	AEX		14	21
6	**ING Group**	AEX		19	20
6	**KPN**	AEX		22	20
6	**NN Group**	AEX		3	20
6	**Rabobank**	**		18	20
6	**Vastned**	AMX		7	20
7	**ABN Amro**	AEX		NA	19
7	**BinckBank**	Other		5	19
7	**Heineken**	AEX		18	19
7	**Kendrion**	Other		18	19
8	**Ahold Delhaize**	AEX		11	18
8	**Philips**	AEX		18	18
9	**ASM International**	AMX		5	17
9	**BAM Group**	AMX		14	17
9	**Brunel**	Other		12	17
9	**Corbion**	AMX		6	17
9	**Delta Lloyd Group**	AMX		10	17
9	**PostNL**	AMX		6	17
10	**Flow Traders**	AMX		NA	16
10	**Telegraaf Media Group**	Other		3	16
10	**Van Lanschot**	Other		16	16
10	**Wessanen**	Other		16	16
11	**Arcadis**	AMX		14	15
11	**ASML**	AEX		10	15
11	**RELX**	AEX		11	15
11	**Vopak**	AEX		4	15
12	**AkzoNobel**	AEX		15	14
12	**SBM Offshore**	AEX		5	14
12	**Wolters Kluwer**	AEX		10	14
13	**Boskalis Westminster**	AEX		8	13

Rank	Company	Listing	Ops*	Score Benchmark 2015	Score Benchmark 2016 (max 39 points)
13	**KAS Bank**	Other		7	13
13	**NIBC**	Other		NA	13
14	**Achmea**	Other		NA	11
14	**ASR**	AMX		NA	11
14	**Beter Bed**	Other		9	11
14	**Fugro**	AMX	🌍	10	11
14	**GrandVision**	AMX	🌍	NA	11
14	**Ordina**	Other		4	11
14	**Unibail-Rodamco**	AEX		NA	11
15	**Gemalto**	AEX	🌍	10	10
15	**NSI**	Other		9	10
15	**OCI Nitrogen**	AMX	🌍	7	10
16	**Aperam**	AMX	🌍	5	9
16	**IMCD**	AMX	🌍	NA	9
16	**Sligro**	AMX		7	9
16	**Wereldhave**	AMX		10	9
17	**Acomo**	Other	🌍	1	8
17	**ArcelorMittal**	AEX	🌍	5	8
17	**BE Semiconductor Industries**	AMX	🌍	7	8
17	**Eurocommercial Properties**	AMX		3	8
17	**TKH Group**	AMX	🌍	2	8
18	**Aalberts Industries**	AEX	🌍	1	6
18	**Heijmans**	Other		4	6
18	**Holland Colours**	Other	🌍	2	6
18	**Intertrust**	AMX	🌍	NA	6
19	**Altice**	AEX		NA	5
20	**AMG**	Other		6	4
20	**TomTom**	AMX	🌍	NA	4
21	**Air France - KLM**	AMX	🌍	3	3
21	**Airbus Group**	**	🌍	7	3
21	**Galapagos**	AEX		NA	3
22	**WDP**	AMX		NA	2
23	**Accell Group**	Other		2	1
23	**Nedap**	Other	🌍	1	1

Figure 1: Overall ranking of 68 companies on tax transparency

🌍 * Company with global operations (ops). A 'global company' is defined as a company that is active in more than 10 countries of which at least 3 non-OECD.

** Not listed in Amsterdam (AEX, AMX, AScX).

Executive Summary

In this report we share the results of the second Tax Transparency Benchmark. The study ranks 68 Dutch multinational companies on the transparency that they provide regarding their responsible tax strategy and its implementation. The methodology of this benchmark is based on the six Good Tax Governance principles, which were published in 2014 by the VBDO and Oikos. (VBDO & Oikos, 2014)

These principles are as follows:

A. Define and communicate a clear tax strategy
B. Tax must be aligned with the business and is not a profit centre by itself
C. Respect the spirit of the law. Tax compliant behaviour is the norm
D. Know and manage tax risks
E. Monitor and test tax controls
F. Provide tax assurance

Key findings include:

- 76% of the companies are transparent on their tax strategy.
- 69% of the companies state that business operations are leading in setting up international structures.
- A 41 percentage point increase – to 65% – of companies reporting on the effective tax rate in a detailed way.
- Country-by-country reporting on corporate income tax increased with 14 percentage point to 25%.
- A 26 percentage point increase – to 29% – of companies explicitly describing their tax risk appetite.
- A 26% point increase – to 54% – of companies who mention tax in the control section of the annual report.
- Companies scored lowest on Principle F – 'Provide tax assurance'.

An independent jury has named DSM as the winner of the Tax Transparency Award 2016 and acknowledged the improvement of NN Group, BinckBank and Vastned on the Tax Transparency Benchmark 2016.

Our research has included discussions with multinational companies, governments, NGOs, tax advisory firms and investors. Based on this, we are able to offer the following recommendations:

To multinational companies

Governance

- Organise a proactive dialogue about your tax strategy, with the different stakeholders, such as investors, NGOs, trade unions, governments and clients, and ensure that this is an ongoing process.
- Keep the Executive Board up to date and share knowledge about the tax strategy.
- Incorporate your tax and CSR strategy in the decision-making processes.

Strategy

- Do not treat tax 'in isolation' when designing a tax strategy, see tax as part of both your broader business and your CSR strategy.
- Include tax in the business control and governance risk framework.

Implementation

- Based on the tax strategy, create tax criteria that are implementable (design them in a way that you can actually work with them in your daily operations).
- Implement, execute and monitor the tax strategy and criteria in the company's business operations and include KPIs for the tax department.
- Raise awareness around tax and the strategy, by organising training and communication programmes on an ongoing basis.
- Provide comfort to stakeholders on the execution of the tax strategy (including risk management) by communicating in a clear way via publicly available documentation.

Accountability

- Consider reporting on your corporate income taxes and other taxes, such as VAT, wage taxes and withholding taxes, on a country-by-country basis. Give a more complete picture by including information on revenues, profits, assets and FTEs on the same basis.

To tax authorities

- Increase the transparency of compliance management strategies and accountability on tax affairs with companies.
- Be transparent about how rules are applied.

To NGOs

- Create an open and constructive dialogue with companies and focus on encouraging them to change. Differentiate in approach for the leaders and the laggards.
- Provide companies with best practices regarding responsible and transparent tax behaviour.
- Do not only focus on multinationals and tax advisors but also on tax administrations.
- Enter into dialogue with governments to promote transparency.

To tax advisory firms

- See tax in a broader context, not only from a legal perspective.
- Promote responsible tax behaviour and support tax transparency initiatives of companies. Dare to have a robust dialogue on this topic.
- Apply the firm's tax code of conduct.
- Ensure alignment of tax advice with the clients tax strategy.

To investors

- Design and implement a tax strategy (with criteria) that applies to a) your own organisation, b) your investments and c) how you structure your investments.
- Integrate tax in the valuation of investee companies by including it in investment and ESG policies. Collaborate with stakeholders to develop common standards.
- Enter into a dialogue with portfolio companies on the public and political debate on responsible and transparent tax behaviour.

1 Introduction

Tax is vital to society and by paying taxes companies contribute to society. However, some companies perceive taxes only as a cost. According to the European Commission, these companies use aggressive tax planning strategies to minimise their tax burden. By exploiting loopholes in tax systems and mismatches between national rules, they reduce their tax bill (European Commission, 2016).

This undermines the credibility of the tax system. In general, people want the tax burden to be shared fairly amongst taxpayers. However, this is not the case if some companies and citizens have to carry a disproportionate share of the tax burden. This undermines the ethical and voluntary compliance by all taxpayers (OECD, 2013). In recent years, there has been a large public outcry regarding companies that use aggressive tax planning strategies. This was fuelled by revelations from Luxleaks in 2014, Swissleaks in 2015 and the Panama Papers and Bahama Papers in 2016. The investigations by the European Commission on illegal state aid to Starbucks, Apple and others are still fresh in our minds.

The Panama Papers

'The Panama Papers' refer to the exposure of documents from the internal administration of a Panama-based law firm, Mossack Fonseca. This company sets up offshore companies for clients in locations where their assets are limitedly taxed (International Consortium of Investigative Journalists, 2016). Not all activities uncovered in the Panama Papers were illegal and even though the journalists who broke the news had a relatively nuanced stance, all companies mentioned in the Panama Papers seemed to be perceived as 'guilty' by the general public.

The Panama Papers resulted in the resignation of the prime minister of Iceland and officials in different countries, indicating that they were beginning investigations into possible malfeasance, from money laundering to tax evasion (New York Times, 2016).

Furthermore, companies that evade or avoid taxes can gain a competitive advantage over companies that pay their taxes. It therefore undermines fair competition between businesses (European Commission, 2016).

Finally, aggressive tax strategies reduce government revenues, which are used to provide society with public services. A study commissioned by the European Parliamentary Research Service claimed that the revenue loss amounted to EUR 50 – 70 billion (17 – 23%) of corporate income tax (CIT) revenue in 2013 (European Commission, 2016). According to the OECD/G20 BEPS report, an empirical analysis estimates that the scale of global CIT revenue losses could be between USD 100 and 240 billion annually at 2014 levels (OECD, 2015).

Guiding principles for Good Tax Governance

In 2014, the VBDO and Oikos published a report entitled 'Good Tax Governance in Transition'. The intention of the report was to create awareness of good tax governance. Good tax governance aims to take the interests of all stakeholders into account when drafting and implementing the company's tax strategy, rather than simply minimizing the corporate tax burden by all means within the boundaries of the law. The report provides a set of guiding principles, which were developed with the intention of helping to create a common understanding and language on what good tax governance could be. The good tax governance principles are as follows (VBDO & Oikos, 2014):

A. Define and communicate a clear tax strategy
B. Tax must be aligned with the business and is not a profit centre by itself
C. Respect the spirit of the law. Tax compliant behaviour is the norm
D. Know and manage tax risks
E. Monitor and test tax controls
F. Provide tax assurance

Following the introduction of the Good Tax Governance Principles, the VBDO published the first edition of the Tax Transparency Benchmark in collaboration with PwC in 2015 (VBDO, 2015). The aim was to benchmark 64 Dutch listed companies on their level of transparency on tax, based on the publicly available documentation of 2014. The methodology was based on the six guiding principles for good tax governance. For the overall ranking of the Tax Transparency Benchmark 2015, refer to the overall ranking on page 8.

VBDO asks questions on tax transparency to stock-listed companies

Each year the VBDO attends the Annual General Meeting (AGM) of the largest Dutch companies. Good tax governance and tax transparency have been one of the three focus themes in the period 2013 - 2016. The VBDO asks companies whether they are willing to adopt the good tax governance principles.

The impact of addressing this theme for the fourth year is high; 29 out of 37 analysed companies (78%) have a responsible tax policy in place to which they comply, going beyond national and international regulations. If exactly the same companies are compared to those of last years, this percentage increases to 90%, compared to a mere 13% in 2013.

Nevertheless, the number of companies that report on a country-by-country basis as well as on their total tax rate is still lagging behind. Adopting country-by-country reporting seems to be a smaller step to firms with a local (Dutch) scope of activities (e.g. Sligro). However, most multinational companies are concerned that country-by-country reporting will reveal competition-sensitive information. In addition, they argue that they lack precedents of comparable companies with country-by-country reports. It appears that the main driver for companies to start country-by-country reporting would be a mandatory requirement (e.g. enforced by legislation). The awareness and relevance of reporting a total tax rate in their annual reports still need to be emphasized further for most of the analysed companies.

Several companies have committed to VBDO to increase their tax transparency next year. Randstad committed to follow international CSR guidelines on tax, which will lead to increased transparency compared to their current reporting on tax. RELX will update its tax policy, including a clear link between tax and corporate social responsibility and following the spirit of the law. VBDO is glad that these companies were willing to make commitments to increase tax transparency and will follow-up on the realization of these commitments next year (VBDO, 2016).

Tax Transparency Benchmark 2016

As with the 2015 version of the Tax Transparency Benchmark, the 2016 version examines to what extent Dutch listed companies are transparent about their responsible tax strategy and tax payments. By conducting this study for the second time, and by using almost the same methodology, it becomes possible to make comparisons with last year's results. This report is structured as follows: Chapter 2 provides an overview of motivations for corporate tax transparency. Chapter 3 gives an introduction to the (international) developments regarding good tax governance and tax codes of conduct. Chapter 4 describes the methodology of the Tax Transparency Benchmark 2016. Chapter 5 will give an overview of the results of the benchmark. Finally, in chapter 6 we present our recommendations for the next steps that need to be taken by the different actors in the field.

2. Motivations for tax transparency

There are different reasons why a company should consider becoming more transparent about its taxes. These can be split into two groups. The first of these is of a legal/financial nature, and the second is from ethical perspective. Both are relevant for the company and it should take both perspectives into account when deciding on developing or improving the tax strategy. Because using only one perspective could lead to professional deformation and specialist professionals making only one dimension absolute (Gribnau, 2016), a more holistic approach on tax strategy is needed. We provide an explanation of both lines of reasoning below.

Legal/financial perspective

In recent years there have been various international developments by intragovernmental organisations and countries to improve tax transparency. This is not expected to decline in the coming years. According to Holland et al, there are two different approaches in the new legislation on tax transparency (Holland, Lindop, & Zainudin, 2016).

The first is the initiative of the Organisation for Economic Cooperation and Development (OECD), which started the project on Base Erosion and Profit Shifting (BEPS) in 2013. BEPS refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. The project aims to create a single set of consensus-based international tax rules to address BEPS, and hence to protect tax bases while offering increased certainty and predictability to taxpayers. A key focus of this work is to eliminate double non-taxation (OECD, 2014). This project recommends increasing disclosure between companies and the specific tax administrations. Here the focus is not on improving 'external' tax transparency, but to assist tax authorities both in administering existing tax laws more efficiently and effectively, and responding to developments in a timelier manner (Holland, Lindop, & Zainudin, 2016).

Another approach can be seen in the Finance Bill 2016 (FB 2016) of HMRC. It requires large companies to publish their UK tax strategy. This section of the FB 2016 is designed to change behaviour around 'tax planning'. The Financial Reporting Council (FRC) has called for increased tax disclosure in companies' annual reports, because shareholders will then be able to better assess the companies' future tax liabilities and risks (Holland, Lindop, & Zainudin, 2016). Comparably, under the European Capital Requirements Directive IV financial institutions are obliged to publish their country-by-country-reporting. Currently, the European Commission is debating whether all companies should publish their country-by-country-reporting or not (European Commission, 2016). The focus of this kind of legislation is to increase transparency by forcing companies to make more information publicly available to all stakeholders.

Institutional investors are shareholders or bond owners of companies. Increasingly, these investors integrate environmental, social and governance criteria into their investment decisions to create a better risk-adjusted return (termed ESG integration) (VBDO, 2014). When a company is not transparent on tax, it is not possible for an investor to assess whether a company is in control of its (tax) strategy and if it has risk and control mechanisms in place regarding legal, financial and reputational tax risks.

Two of the most highly regarded best-in-class indices have included tax in their assessment to determine which companies perform best regarding sustainability. Tax transparency is one of the four main governance themes in the FTSE4Good-indices (FTSE Russel, 2016) and Dow Jones Sustainability Index. Both ask questions regarding tax strategy, tax reporting, tax governance and risks, and media and stakeholder tax strategy (RobecoSAM, 2016). Furthermore, in engagement meetings between companies and investors and during Annual General Meetings (AGMs), responsible tax behaviour and tax transparency are increasingly becoming topics of debate (Eumedion, 2016).

Some companies fear that becoming tax transparent, will lead to a distortion of competition. However, much of the data is already publicly available and it consists of basic information on the difference between financial and tax accounting (Van der Enden, 2016). The European Commission has looked into the costs of tax transparency and concluded that disclosure of more information will not lead to serious additional administrative costs (European Commission, 2014). From a risk management perspective, non-transparency to avoid financial or reputational risks is not a sign of good corporate governance. This is because the company cannot know if its tax tactics will become public in the next Luxleaks, Panama Papers or Bahama Papers. By being transparent about the tax strategy and tax control framework, the company demonstrates to its stakeholders that tax risks are being avoided and managed (Van der Enden, 2016).

Another problem for corporations is that in the public debate emphasis is being placed on preventing tax avoidance, while companies have to deal with double taxation. Increased transparency could lead to a fairer payment of taxes (Van Aalst, Vellenga, & Reijngoud, 2015). It is expected that increased transparency would deter companies from aggressive tax planning and result in a fairer spread of taxable income among countries. The issue of double taxation will not automatically disappear. However, transparency offers an opportunity for companies to confront the public and politicians on the bad behaviour of tax administrations in the case of double taxation or aggressive behaviour (Van der Enden, 2016).

Ethical perspective

In the past, tax authorities only judged the company on its compliance with the law. However, the tax discussion's ethical dimension also landed at the tax administration's office (Gribnau, 2016). In assessing the risk of non-compliance by taxpayers, tax ethics is now also taken into account by tax officials. Therefore, companies should not only take the opinions of the general public and NGOs into account, but viewpoints of tax administrations as well.

While tax avoidance consists of legal means of planning, various groups within society are challenging the social acceptability or legitimacy of tax avoidance (Holland, Lindop, & Zainudin, 2016). This negatively affects the licence to operate of a company and results in the increase of reputational risks for the company.

For the average citizen, it is difficult to understand that companies report profits and at the same time have low tax expenditure. There can be very good reasons why companies have a lower effective tax rate, such as specific rules and incentives, loss relief or different tax systems and tax rules that do not match between the countries (Van Aalst, Vellenga, & Reijngoud, 2015). The general opinion regarding companies that appeared in disclosures such as the Panama Papers appeared to be: 'if the company is not transparent about its taxes, it must have something to hide'. NGOs and journalists will keep publishing such information in a format over which companies have no control. Voluntary transparency can result in more public and political understanding of the tax strategy of companies. The company will therefore have more control over which information is shared and in what format. This can result in more public and political understanding of the tax strategy of (transparent) companies (Van der Enden, 2016).

As stated in the Tax Policy of Unilever: *'Addressing public concerns that some multinationals are not paying their fair share of tax requires not only technical international tax reforms but also better efforts to improve public understanding and awareness. Providing user-friendly information about a company's tax position to a broad range of stakeholders plays an important role in this.'* (Unilever, 2016)

Transparency is the first requirement for an informed and constructive dialogue of fair taxation by multinational companies. However, if transparency is seen as preventing tax optimisation, and therefore as a competitive disadvantage, then the question is: "How does this relate to a company's tax governance and corporate social responsibility strategy?" (Van der Enden, 2016). The company's tax governance should be more aligned with the corporate social responsibility strategy of the company.

When it comes to society, the benefits of increased tax transparency are evident. When companies become more transparent, it will enable citizens, NGOs and journalists to assess tax strategies and the contribution to society by multinationals. Furthermore, it can help the public to engage with corporations in order to change their behaviour. The public expects large companies to play by the same rules as ordinary taxpayers. Increased tax transparency is a means to explain one's tax behaviour.

3. International developments on good tax governance

This chapter discusses the most important international developments on good tax governance and is inspired by the article: 'Tax Codes of Conduct: Fit for Purpose?', published in the Bulletin for International Taxation.[1] It demonstrates that the international developments around good tax governance are emerging quickly. But how to respond to these developments as a company? We will provide a brief explanation on how good tax governance could be embedded in a company's tax function (Van der Enden, 2016).

Definition of Good Tax Governance and Tax Code of Conduct

Before going into detail on the international developments of good tax governance, it is key to define corporate governance, as tax governance is a derivative. While there is no universal definition of corporate governance, the OECD states that:

> *'Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability (…) Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.'* (OECD/G20, 2015, p. 9)

From corporate governance, it is possible to go down a level to a code of conduct that embodies the rules of behaviour within a company. Generally, corporate governance and codes of conduct are non-binding 'soft law' instruments.[2] While there is no universal definition of a code of conduct, the International Federation of Accountants describes it as:

> *'Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations.'* (International Federation of Accountants, 2007)

[1] This chapter and the country practices are inspired by the article: 'Tax Codes of Conduct: Fit for Purpose?', published in the Bulletin for International Taxation (Van der Enden, 2016).

[2] Soft law is a generic term referring to a category of social norms that are not legally binding per se as a matter of 'law', but which nevertheless have a certain legal relevance in influencing the conduct and decisions of state and non-state actors.

Specifically, a tax code of conduct provides guidance and sets rules on how to behave as a company with respect to tax compliance, transparency, dealing with tax authorities and general principles to ensure robust risk governance, including monitoring and accountability.

Good tax governance – OECD and country practices

Some tax administrations and NGOs are recommending – and in some cases even legally requiring – specific Tax Codes of Conduct, which could make good tax governance possible.[3] Although good tax governance is not yet tangible in the Netherlands[4], we see that it is tangible in many other parts of the world. A more detailed view on this subject from the OECD, and detailed information on countries with specific tax codes of conduct, is described below.

OECD – 'Co-operative compliance: Building better Tax Control Frameworks'

The OECD's latest report, 'Co-operative compliance: Building better Tax Control Frameworks', is inspired by the common standards on general and financial risk management, such as COSO (The Committee of Sponsoring Organisations of the Treadway Commission). It recommends the following six building blocks of a tax control framework (OECD, 2016):

1. A clearly documented tax strategy that is "owned" by the senior management and/or Board;
2. That is applied comprehensively, i.e. the TCF must be able to manage the full range of business activities, and embedded in daily operations;
3. That is applied responsibly, i.e. the role and responsibilities for the design, implementation and effectiveness of TCF should be clearly defined;
4. Documented governance, i.e. risk management; testing, i.e. there is regular monitoring, testing and maintenance of the framework;
5. Assurance that tax risks are under control and that tax returns can be relied on, as a result of implementing all of the components noted in (1) to (5).

3 The International Corporate Governance Network (IGCN), a network of investors that promotes effective standards of corporate governance, published in June 2016 its view on taxation as part of ICGN's overarching policy with a focus on culture, ethics and risk. The committee made tax part of its corporate governance principles, and informed shareholders how they can play a constructive role in engaging on tax policy with companies.
IGCN emphasize the understanding that dealing with tax governance is a fast moving situation to which it is necessary to return on a regular base (IGCN, 2016)..
The Principles for Responsible Investment (PRI), with the goal to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions, provided guidance to investors on how to conduct company engagement for corporate tax responsibility. Whereby they support on a more responsible corporate approach to tax practices,including better disclosure and transparency, good governance and appropriate management of tax related risks by companies resulting in achieving the right balance between controlling the tax bill and mitigating related risk (PRI, 2015).

4 The authors believe this has to do with the fact that there is no guidance by the Dutch tax administration on this topic, nor any legal or regulatory obligations on tax governance or the concept of tax control framework. According to the Dutch tax administration, the concept of tax control framework is a 'subjective dynamic open standard'. We would like to stress to Dutch companies that outside the Netherlands other views and other approaches are applicable.

The OECD poses that (a) when large companies have a TCF in place, (b) they are participating in a co-operative compliance programme, (c) the TCF is deemed effective, and (d) the company is transparent on all relevant tax items including risk reviews, the amount of tax audits performed could be decreased significantly.

United Kingdom - A frontrunner in promoting tax governance

In the United Kingdom, Her Majesty's Revenue & Customs (HMRC) has been at the forefront of actively promoting tax governance and good behaviour among taxpayers. This has resulted in a Code for Banks (2009), a consultation document to improve tax compliance for large businesses (2015), and a Finance Bill (2016).

HMRC published a Code of Practice on Taxation for Banks (the 'Code for Banks') to encourage banks to comply with the spirit as well as the letter of the law. According to HMRC, this means that banks should: (a) adopt adequate governance to control the types of transactions they enter into, (b) not undertake tax planning that aims to achieve a tax result that is contrary to the intentions of Parliament, (c) comply fully with all their tax obligations; and (d) maintain a transparent relationship with HMRC (HMRC, 2015).

In the consultation document 'Improving Large Business Tax Compliance', the HMRC sets a framework for co-operative compliance where a set of principles for both large businesses and the HMRC is implemented. Specifically, the framework outlines HMRC's expectations on the attitude of large businesses and their behaviour towards tax planning, internal governance and risk management. The level of compliance with the framework will affect a taxpayer's risk rating in HMRC's audit strategy (HMRC, 2015).

Furthermore, HMRC's Finance Act requires the annual publication of a company's tax strategy in relation to UK activities. This legislation sets out the requirements for large companies to prepare and publish their tax strategy, which should cover, (a) the approach to tax risk and internal governance, (b) the general attitude of the company, (c) the appetite for tax planning and (d) the approach to dealing with HMRC. The strategy should be published on the internet as a separate document. Notable is the "special measures regime" included in this Finance Act for large businesses that are persistently engaging in aggressive tax planning.

Finally, HMRC requires board-level responsibility for a company's tax strategy. Once the board approves and signs the document, the board becomes legally liable for the company's tax control environment and its alignment with the wider corporate governance processes (HMRC, 2016: sec 1.76).

Spain – A Code based on OECD recommendations for co-operative compliance

The Spanish Codigo de Buenas Practicas Tributarias (Code of Good Tax Practices) has been developed in line with OECD recommendations for co-operative compliance. The code is not mandatory and consists of the following three main requirements:

- Companies are to practice transparency, good faith and co-operation with tax administration;
- The Spanish tax administration, the Agencia Tributaria (AT) is to commit to transparency and legal certainty in application of the tax law and its interpretation;
- Both parties are to avoid lawsuits and conflicts.[5]

Good tax practice for companies means:

1. A reduction in significant tax risks and proper management;
2. Avoiding the use of tax structures of an opaque nature;
3. Collaboration with the AT regarding the detection of fraudulent tax practices;
4. The board is responsible for the (adoption of) the tax strategy.

In this regard, it is interesting to note the correspondence of these four elements of good tax practice with the Codes of the HMRC (UK).

Australia – Tax Transparency Code linked to Tax Risk Management and Governance Review Guide

In February 2016, the Australian government published the voluntary Tax Transparency Code (TTC), which is expected to be adopted by taxpayers in the 2016 financial year (Board of Taxation, 2015). Of particular note is that the TTC is designed to provide information to 'interested users', i.e. NGOs, media and 'people in the street' and not the Australian Tax Office (ATO), which, by definition, has access to far more detailed information on taxpayers. The TTC is divided into two parts:

- Part A requires disclosure of the more financial and tax technical elements, like the calculation of the current and deferred tax positions and a reconciliation of the effective tax rate, explaining the origin of the difference with the statutory tax rate.
- Part B requires, as a minimum, the disclosure of the approach to tax strategy and governance, a tax contribution summary in respect of corporate taxes paid and information regarding international related-party dealing (McCartin, 2016).

[5] The Codigo de Buenas Practicas Tributarias was approved on 20 July 2010 by the full Foro de Grandes Empresas (Forum of Large Businesses) (Agencia Tributaria, 2010).

Australia linked its Tax Risk Management and Governance Review Guide to the Tax Transparency Code. The Tax Risk Management and Governance Review Guide is based on the premise that tax risk management must be a part of good governance. From this starting point, the ATO provides guidance on how companies should manage their tax affairs and what items should be included in building a tax control framework. The guide is focused on the following two levels:

- Board-level responsibilities: strategy, establishing a framework to identify and manage tax risks, and a regular assessment of policies and controls.
- Managerial-level responsibilities: enforcing policies and implementing strategies approved by the board.

As with the approach of HMRC (UK), the presence and quality of the tax control framework affects a taxpayer's risk profiling by the ATO. The guide contains control checks at both board-level and management-level responsibilities. A detailed description of all nine of the controls is explicitly covered in the guide, most of them in line with the existing corporate governance practices, i.e. COSO Internal Control (COSO, 2013) and Sarbanes-Oxley (US Congress, 2002).

China – A tax risk oriented tax administration

The Chinese State Administration of Taxation (SAT) has adopted a risk management model for compliance by multinationals since 2008 (SAT, 2011). Like the United Kingdom, Australia and Spain, the Chinese SAT defines a taxpayer's risk level based on the quality of a tax control framework. The requirements for a company's tax control framework are set out by the SAT in the Guideline on Tax Risk Management of Large Business Enterprises (LBE) (SAT, 2009) and include:

- general provisions;
- tax risk management structure;
- tax risk identification and assessment;
- strategies and internal control;
- information and communication;
- monitoring and improvement.

The measures of tax and individual control mechanisms defined by SAT mainly correspond with the ATO's Risk Management and Governance Review Guide.

Other country practices and current developments

Aside from the United Kingdom, Australia, Spain and China, multiple governments are actively engaged in tax governance. For example, Italy has designed the “Decree 128 of August 2015”, which regulates the co-operative compliance regime and sets requirements for a tax control framework (Italian Government, 2015). Germany introduced legislation with respect to restoring false tax returns, which is linked to internal control (tax control framework)[6] (Bundesministerium der Finanzen, 2016). In addition, an increasing number of jurisdictions are using legislation to require the adoption of tax control frameworks that follow guidelines similar to COSO and the Sarbanes-Oxley. According to COSO, linking a company's tax strategy and tax objectives more closely to both risk and opportunity helps to accelerate growth and enhance performance (COSO, 2016). More and more countries are considering the possibilities of linking their practices to a tax code of conduct together with a tax control framework to ensure better compliance.

The level of maturity of the tax function is normative for the quality of a company’s tax governance

In the current environment, society is acquiring an ever greater interest in the governance of taxation. In general, this means that stakeholders are demanding more information on large companies’ tax strategies, the functioning of their tax systems and the role of tax advisors and tax administrations. Specifically, in the light of tax supervision and co-operative compliance, tax administrations are increasingly interested in tax governance. They want to know more about a company’s tax strategy, the quality of the tax function, its ability to be compliant and its ability to validate financial and non-financial data. A tax control framework – an internal control framework supported by a company’s tax strategy and its execution – could show the level of maturity of a company’s tax function. The level of maturity of the tax function is normative for the quality of a company’s tax governance. When a company voluntarily demonstrates the (good) quality of its tax control system – the tax control framework – , tax administrations could decide to adjust (decrease) their tax supervision in the light of co-operative compliance.

Sustainable tax – Setting the norm

Good tax governance can no longer be considered in isolation from the wider business approach to governance risk and controls. It is important to be aware of this when setting your tax norm as a company. Do you only want to be compliant – and therefore only follow hard law – or do you believe tax responsibility goes beyond legal compliance? And how do you communicate this? How do you safeguard your ‘license to operate’?

[6] It defines the framework in respect of a certifiable Tax-Compliance Management System under IDW PS 980.

Sustainable Tax Policy

Your tax norm = your tax behaviour

Norm is based on:

- Organisational values
- Stakeholder engagement
- Business vision and mission
- Tax vision and mission

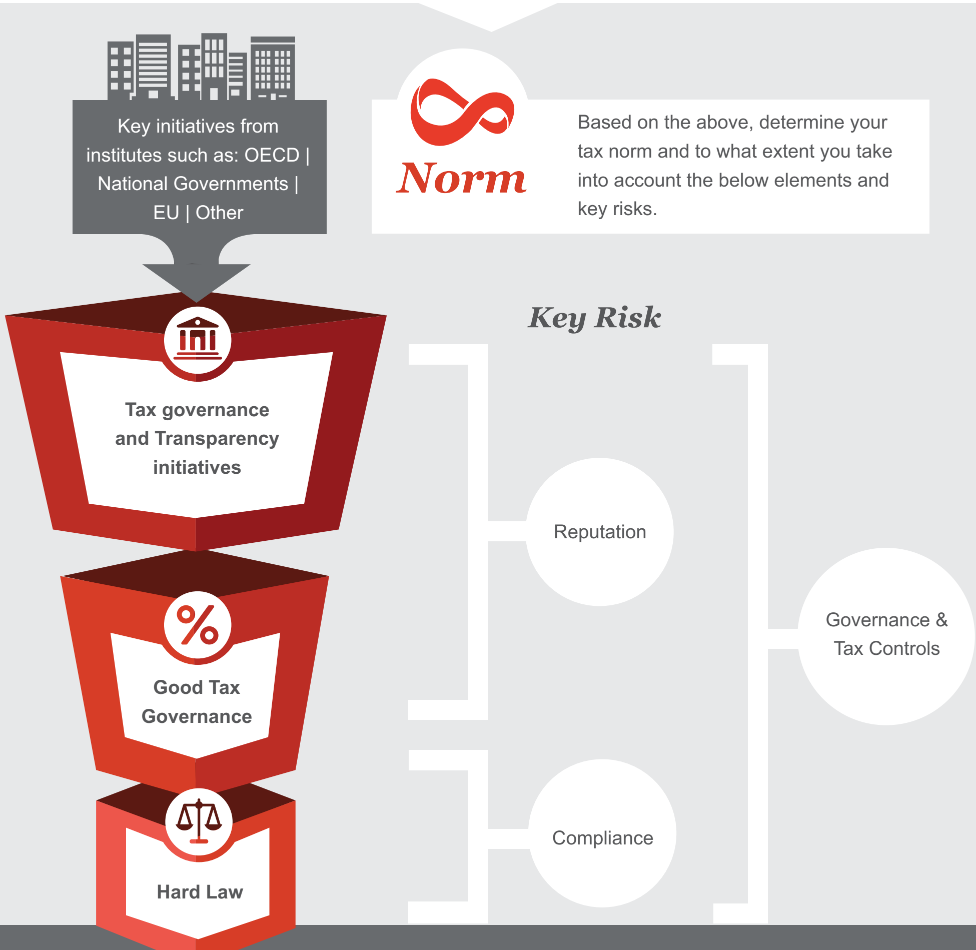


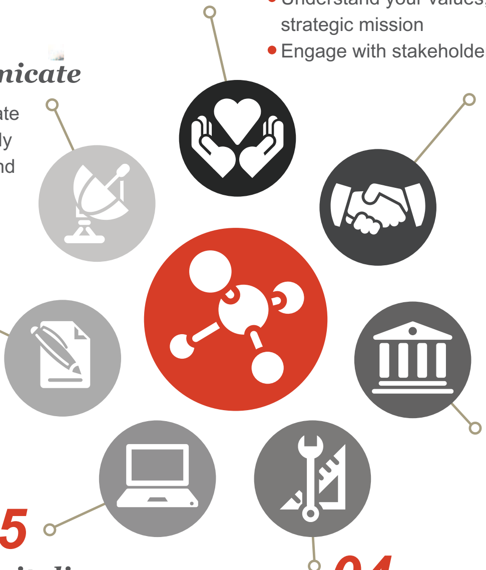
Figure 2: Sustainable tax, setting the tax norm

Source: PwC NL

Sustainable Tax Policy

Approach

The whole is greater than the sum of its parts



01 Who are you

- Understand your values, business and strategic mission
- Engage with stakeholders

02 Your tax principles

- Refresh your tax policy and principles to:
- Align with stakeholders
- Address regulatory changes
- Respond to societal developments

03 Tax Criteria

- Design concrete tax criteria for use in daily operations

04 Implement & control

- Implement and monitor the tax criteria in the business through a control framework

05 Digitalise

- Deploy a tax technology ecosystem to gather, analyse and prepare data and to steer tax operations

06 Report & comply

- Report and comply internally and externally

07 Communicate

- Communicate transparently internally and externally

Values → Principles → Criteria → Implement & control → Digitalise → Report & Comply → Communicate

Source: PwC NL

Overview – a visual on how to embed good tax governance in a company's tax function

The visual below demonstrates how the function of a tax code of conduct in the light of this article should be interpreted. It starts with a vision: 'What do I want to achieve?', followed by the strategy: 'How am I going to achieve our vision?'. The strategy should be in line with the outcome of discussions with a company's stakeholders. Subsequently, in the code of conduct a set of main/basic rules of conduct is laid down: 'This we do, that we do not'. To implement such a strategy, you need a mature internal infrastructure. If the code of conduct is enforced by an external party it has more the character of a rule of the game. Whether internal or external, enforced code of conducts need a tax control framework. A tax control framework will lead a company to act in the light of their vision, strategy and governance. In a tax control framework, the tax strategy should be established and described comprehensively. It should assign responsibility, document governance, describe what testing should be performed and provide assurance. Once a company has a mature tax control framework in place, it should be able to be transparent on its taxes and obtaining tax assurance should be possible. This tax control framework should be supported by a (tax) technology ecosystem to gather, analyse required data and prepare (transparency) reporting.

This whole set of steps and actions can be defined as good tax governance. It is the interaction between vision, strategy, conduct and controls, taking the interests of all stakeholders into account.

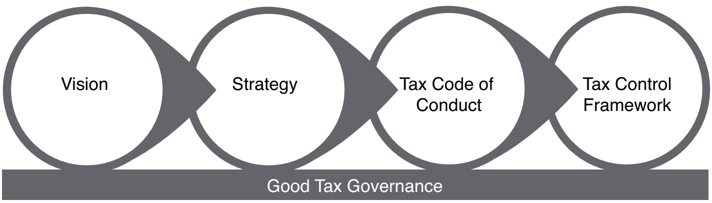


Figure 3: How to embed good tax governance

4. Methodology

The methodology of the Tax Transparency Benchmark 2016 is based on the principles for good tax governance (GTG), and is further explained in detail below.

Quick facts

68 companies in scope

31 criteria worth 39 points in total

72% response rate

Scope

In the benchmark 2016, 68 companies have been included. The full list can be found in Figure 1. The companies were selected based on their listing in the Netherlands (AEX, AMX, AScX and locally). Companies included differ slightly compared to the 2015 benchmark. This is mainly due to the fact that some companies entered or left the AEX, AMX or AScX in 2015.[7] All are sizeable multinational companies, operating in various industries.

Criteria

As mentioned in the introduction, the guiding principles on good tax governance are designed by the VBDO and Oikos in order to help create a common language on what good tax governance could be (VBDO & Oikos, 2014). To determine whether Dutch listed companies act on the good tax governance principles, a list of criteria has been designed which objectifies and quantifies the principles. Each principle is further specified into various elements. These elements have been converted into measurable criteria. For example, the first principle – *Define and communicate a clear strategy* – consists of the elements 'communication' and 'strategy'.

The communication element relates to whether the tax strategy can be retrieved from public sources such as the annual report, the CSR report or the company website. The criteria have been developed by the VBDO and have been reviewed by experts in the field of taxation. The review panel includes representatives from NGOs, multinational companies, academics and tax advisory firms.

7 We would like to note that some of the companies investigated are non-listed (financials) and part of the VBDO network. The companies are Achmea, NIBC and Rabobank.

We refer to Appendix B for a comprehensive list of the criteria used. In most cases, each criterion is worth one point. However, for topics such as country-by-country reporting, companies could be awarded up to a maximum of six points.

Adjusted criteria compared to last year

In order to facilitate comparison with the 2015 benchmark, only minimal adjustments have been made to the 2016 criteria.[8]

Approach

For all criteria of the Tax Transparency Benchmark, we have reviewed the company's annual report and other publicly available documents (e.g., transparency reports, governance documents, strategy documents). We have examined the extent to which the testing criteria of Appendix B are addressed in any of these documents.

For each company in the benchmark, the scores were totalled and subsequently returned to the company for feedback. Where applicable, we have incorporated the feedback of the companies in the results. In order to make the results as measurable and comparable as possible, a very strict interpretation of the criteria was used. In cases where there could be room for interpretation in the wording used, i.e. it was not clear whether a certain criterion was met, we did not allocate a point to the respective criterion.[9]

Using the results of our research, it was possible to determine the top 10 best performing companies. In order to reach an independent verdict on the winner of the Tax Transparency Benchmark, an expert jury was appointed by the VBDO.[10] The jury further examined the top 10 companies, weighed the results and selected the winner of the Tax Transparency Benchmark 2016.

Total amount of points awarded

The maximum number of points a company can be awarded for the benchmark has decreased, from 41 points (2015) to 39 points. However, it is not the number of points obtained, but the overall ranking that is most important for the comparability of the benchmark.

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[8] Specifically, question 17 has been deleted and the amount of points awarded for question 23 has been adjusted. The questions themselves have not been altered. The relevance of question 17 (*Does the company explain why it has chosen to report on corporate income tax on a country, region, segment or company-wide basis?*) has decreased due to global transparency initiatives. Furthermore, we adjusted the amount of points awarded for question 23 (*Does the company report any tax risks, including financial, regulatory or reputational risks?*) based on last year's findings. There was minimal added value for the content by formulating the question into two separate bullets, so we merged these bullets into one question. As a result, the amount of points awarded has been decreased from two points to one point.

[9] For example, for questions 10 and 20 the company needs to explicitly state what is required to meet the criteria. If this is not clear from publicly available documentation, no points can be awarded.

[10] See Appendix A for more information about the jury.

Jury

The jury consisted of four members acting in their personal capacity, who capacity who were appointed by the VBDO. These consisted of experts in the field of good tax governance from various backgrounds:

- Hans Gribnau, Professor of Tax Law at Tilburg University and Leiden University;
- Victor van Kommer, Director of Tax Services at the International Bureau of Fiscal Documentation (IBFD) and Professor of Tax Policy at Utrecht University;
- Carola van Lamoen, Head of Governance and Active Ownership at Robeco;
- Francis Weyzig, Policy Advisor at Oxfam Novib.


THIÊN PHÚC

5. Results

Overall results

The goal of the Tax Transparency Benchmark is not only to encourage companies to increase and further extend transparency on taxes and the tax function, but also to inspire other companies on how to communicate about tax issues in publicly available documentation.

As described previously in chapter 4, each company has the opportunity to provide feedback on their own results. 72% of the companies provided feedback which could be an indication that they value the outcome of the benchmark. We find this very encouraging, as it shows that our efforts on tax transparency are being taken seriously by the companies. We have received a lot of input and had discussions with many of the companies regarding the scores. Several companies mentioned their ranking in the Tax Transparency Benchmark 2015 (which is based on the publicly available documentation of 2014) in their annual report.[11]

As a general trend it is apparent that companies are becoming increasingly transparent on tax. This is reflected in the outcome of the Tax Transparency Benchmark 2016. However, tax transparency is still a relatively new consideration, particularly for tax lawyers, who tend to look at tax from a more technical (legal) approach. As such, we have included answers to frequently asked questions in order to provide more guidance on certain topics and facilitate a constructive debate.[12]

This chapter provides a quantitative and qualitative explanation of the outcome of the Tax Transparency Benchmark 2016. As this was the second year we performed the benchmark, we were able to make a comparison with last year. First, this chapter briefly covers the overall and most significant results of the benchmark. These include the winner and the most improved companies of the year. The 68 companies in scope are referred to as 'companies'.

		Benchmark 2016	Benchmark 2015
A	Define and communicate a clear strategy	**40%**	**29%**
B	Tax must be aligned with the business and is not a profit centre by itself	**34%**	**17%**
C	Respect the spirit of the law. Tax compliant behaviour is the norm	**24%**	**14%**
D	Know and manage tax risks	**47%**	**41%**
E	Monitor and test tax controls	**41%**	**37%**
F	Provide tax assurance	**13%**	**12%**
		32%	**25%**

Figure 4: Percentage of companies scoring per principle in the Tax Transparency Benchmark of 2015 and 2016

[11] Refer to figure 1 for the overall ranking of the Tax Transparency Benchmark 2015.

[12] The frequently asked questions are based on the feedback we received from the companies investigated.

The main findings of the benchmark are:

- 76% of the companies are transparent on their tax strategy.
- 69% of the companies state that business operations are leading in setting up international structures.
- A 41 percentage point increase – to 65% – of companies reporting on the effective tax rate in a detailed way.
- Country-by-country reporting on corporate income tax increased with 14 percentage point to 25%.
- A 26 percentage point increase – to 29% – of companies explicitly describing their tax risk appetite.
- A 26% point increase – to 54% – of companies who mention tax in the control section of the annual report.
- Companies scored lowest on Principle F – 'Provide tax assurance'.

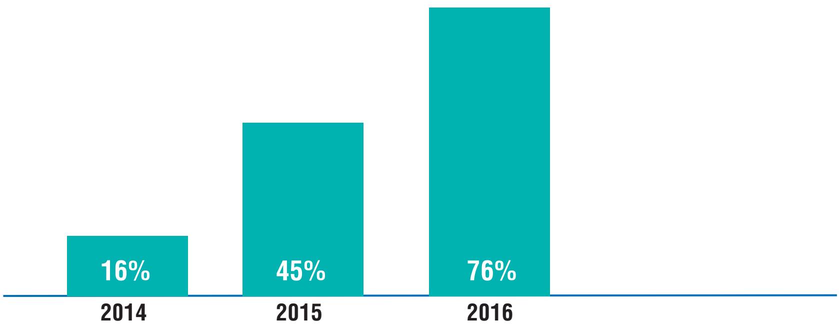

Figure 5: Percentage of companies that communicated their tax strategy according to research in 2014, 2015 and 2016.

The percentage of companies that scored a minimal amount of points (0 - 10), decreased significantly, from 55% to 32%. From this could be concluded that the 'minimum bar' of tax-transparent reporting is shifting upwards.

Results per company

The indepedent jury, as presented in chapter 4, discussed the top 10 companies that scored highest in the Tax Transparency Benchmark 2016 (see figure 6).

Winner

From the nominees, the jury selected the winner based on the following criteria:

- Score and analysis performed by the VBDO;
- Depth of tax strategy;
- Embedding of tax strategy into the organisation;
- Sector and the availability of legislation.

For a detailed jury report including good practices, please refer to Appendix A.

The jury would like to congratulate **DSM** on winning the Tax Transparency Award 2016. This was a unanimous decision. DSM was the top scoring company in the benchmark. The company performed well on all principles and especially on the questions that indicated the intrinsic motivation of DSM in improving on tax transparency, such as the status and progress of the implementation and execution of the tax strategy.

Most improved companies compared to last year

The independent jury has noted the impressive improvement of **NN Group**, **BinckBank** and **Vastned** on the Tax Transparency Benchmark 2016 compared to last year. The jury would like to congratulate these companies with this improvement in tax transparency.

	Companies	Benchmark 2015	2016 Benchmark
1	DSM	21	28
2	Unilever	22	25
3	Shell	20	23
4	Randstad	17	22
5	Aegon	14	21
6	ING Group	19	20
6	KPN	22	20
6	NN Group	3	20
6	Rabobank	18	20
6	Vastned	7	20

Figure 6: Top 10 companies

Results per principle

A. *Define and communicate a clear strategy*

A proper tax strategy is assessable and clearly communicated (transparent). It contains the company's vision and objectives in respect to taxation, takes stakeholders' interests into consideration and explains the company's view on its relationship with the tax authorities. It also clearly defines roles and responsibilities and sets out longterm Key Performance Indicators (KPIs) for the tax department. These KPIs do not only deal with managing the effective corporate tax rate (ETR), but also with the execution of the tax strategy.[13]

Top scorer
DSM - scored 8 out of 8 points

Results

Companies are becoming more and more transparent on tax, which is reflected in our benchmark study. For Principle A, there was a 12% point increase in the average number of points awarded compared with last year. This is due in part to the significant increase in the number of companies that are now transparent about their tax strategy, and to the increase of companies including their tax strategy in communications to stakeholders. We are pleased to see that 76% of the companies communicate about their tax strategy in publicly available documentation, a significant increase on last year's 45%.

In addition, there is a notable increase (24% points) in companies that are transparent about their relationship with the tax authorities. This relationship is often described as 'based on good mutual understanding'. Mutual understanding is an important basis for a company's relationship with tax authorities, particularly given the current environment where tax authorities are increasingly demanding 'good behaviour' from large companies.[14]

Almost half of the companies discuss the tax strategy with stakeholders, an increase of 21% point on last year. However, it is remarkable that only 12% of the companies are transparent as to what extent they discuss the strategy, and whether the stakeholder dialogue has actually influenced the strategy. Providing insight on the actions taken as a result of dialogue would provide stakeholders with the assurance that their views are being taken seriously.

12 This concerns the following questions: 6, 8, 14, 21, 29 and 30.

13 For example, the UK's HMRC requires that (large) businesses publish their tax strategy annually. Furthermore, the UK HMRC clearly provides guidance on the tax strategy as, to what areas it should cover (HMRC, 2015).

14 See for example the tax codes designed by UK HMRC and Spain AT in the previous chapter on good tax governance.

Only a few companies (7%) are transparent on the status and progress of the implementation and execution of the tax strategy. From the responses received it became clear that this is often due to a lack of understanding about how to report this. For example, companies responded that their tax strategy had already been fully implemented, but the public information did not make this clear. In order to provide more insight on how to report on this issue, two FAQs has been answered below. Only a small percentage of the companies (6%) define the Key Performance Indicators (KPIs) of the tax department. When a company is transparent on these KPIs, stakeholders will have more insight into whether the measurement of performance of the tax department is in line with the company's tax strategy. For more information on why it is important to be transparent on KPIs, see the FAQ below.

FAQ

Why report on the status and progress of the implementation and execution of the tax strategy? Especially when the tax strategy is already implemented?

A tax strategy is more than principles written down on paper. It is important to ensure that the tax strategy is properly implemented and executed. To provide insight into whether the tax strategy is embedded within the company, communication about its status and progress is needed. In a fast-changing environment and especially when multiple business units are involved, it is important to see this as an ongoing process.

For this reason, it is key to find ways to monitor the status and progress of the implementation and execution of the tax strategy, for example by designating a responsible person. Furthermore, a company must know what measures are in place to monitor the proper execution of the tax strategy. After all, the argument that a tax strategy is already fully implemented does not guarantee that the strategy is being executed correctly. Furthermore, a training programma which clearly defines roles and responsibilities so that (new) employees know how to execute the company's tax strategy in practice, could contribute to the proper implementation and execution of the tax strategy.

FAQ

Why is it important to clearly communicate the KPIs of the tax department in publicly available documentation?

Companies that are transparent on the KPIs of the tax department communicate to stakeholders what they think the tax department should accomplish. KPIs are measurable and therefore increase the accountability of companies. For both internal and external stakeholders, this is valuable information. The KPIs can be formulated with regard to subjects such as (a) planning on the amount of meetings with different stakeholders, (b) having contact with the tax authorities on a regular basis, (c) making company's TCF or risk management model more mature and (d) involving the tax department on legal, finance and accounting and reporting items.

A.	**Define and communicate a clear strategy**	2016	2015
1	Does de company communicate its views on tax (e.g. in the annual report / CSR/ website / other	**76%**	**45%**
2	Has the company's tax strategy been part of the dialogue with the company's stakeholders? (Including investors and civil society organisations)	**46%**	**23%**
3	Does the company explain to what extent the stakeholder dialogue has influenced the tax strategy?	**12%**	**6%**
4	Is a vision of the company's relationship with the tax authorities included in the tax strategy?	**66%**	**42%**
5	Does the company see tax as part of its corporate social responsibility?	**68%**	**58%**
6	Have the KPIs of the tax department been clearly communicated?	**4%**	**8%**
7	Does the audit committee review the tax strategy?	**44%**	**45%**
8	Does the company describe the status and the progress of the implementation and execution of the tax strategy?	**9%**	**2%**

Figure 7: Percentage of companies that define and communicate a clear tax strategy

Good practices

The good practices of Principle A are linked to question 6 of the Tax Transparency Benchmark. We noticed that companies often provide a general description of the mission and/or responsibilities of the tax department. However, in order to meet best practice, the KPIs of the tax department should be specific, measurable, attainable, realistic and timely (SMART). We hope to see more 'smart' KPIs for tax departments in the near future.

ING Group clearly describes the mission of the Tax Department (ING).

> **ING Tax Department's mission**
>
> - To provide high-quality tax support to ING's businesses and management
> - To safeguard ING's tax position in compliance with applicable laws and regulations
> - To ensure that ING's tax position is correctly reflected in our financial statements in liaison with ING's Finance Department.
>
> In all our activities, wherever we operate, we take due account of long-term considerations, manage risks and carefully weigh the interests of all stakeholders, while at all times respecting the ING Values.

DSM clearly describes which responsibilities it has in achieving its objectives with regarding to the execution of its tax strategy (DSM).

> *Main responsibilities*
>
> - Define the fiscal policies for DSM globally and ensure understanding of observance these policies;
> - Set corporate requirements for the management of the legal entities;
> - Advise and support the Managing Board, the Support Functions and Functional Excellence departments, the Business Groups and their legal and organizational entities with regard to fiscal issues;
> - Maintain communications with the tax authorities;
> - Participate in (inter)national groups of experts on tax matters to promote DSM's interests.

B. *Tax must be aligned with the business and is not a profit centre by itself*

It should be understood that tax is an integrated part of doing business. Tax is not the exclusive domain of the tax department anymore. In principle, a company should declare profits and pay taxes where it conducts business activities, and it should demonstrate how it does so. A company must be able to extract tax information when needed.

Top scorer
Delta Lloyd Group – with a score of 12 out of 17 points

Results

In comparison with the results of the Tax Transparency Benchmark 2015, the average number of points awarded under this principle has increased by 11% points. This increase is due in part to 'tax follows the business' being made clear in publicly available documentation, i.e. the company declares profits and pays taxes where the economic activity occurs. The increase is also due to more detailed information on the effective tax rate being made available.

B.	Tax must be aligned with business and is not a profit centre by itself	2016	2015
9	Does the company state that its business operations are leading in setting up international structures, i.e., that it declares profits and pays taxes where the economic activity occurs?	69%	34%
10	Does the company explicitly state that it does not use 'tax havens' for tax avoidance?	38%	28%
11	Is there an effective tax rate to statutory tax rate reconciliation?	94%	100%
12	Is the origin of the difference explained in detail? (Quantitative and qualitative)	65%	23%
13	Is there an explanation for the difference between cash tax paid and the effective tax rate?	35%	2%
14	Is the impact of tax on earnings per share discussed in the annual report?	9%	0%
15	Does the company report on the (potential) impact of country-by-country reporting regulations?	18%	9%
17	If the company reports on corporate income tax on a geographic or segment basis, does the company also provide information on revenues, profits, assets and FTEs on this basis?	31%	31%

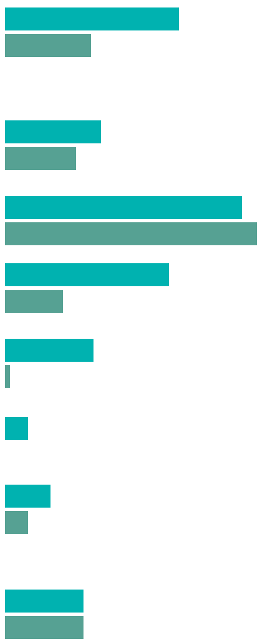

Figure 8: Percentage of companies that are transparent about their tax payments

An increasing number of companies are reporting on the effective tax rate to statutory tax rate reconciliation in detail (see Figure 8). Also notable is the 33% point increase in the number of companies explaining the difference between cash tax paid and the effective tax rate in detail. However, only 18% of the companies are transparent on the potential impact of country-by-country reporting regulations. We are expecting to see more information on this from a qualitative and quantitative perspective in future benchmarking exercises. See the FAQs below for more information.

Even though more companies are providing information on taxes other than corporate income tax – a 30% point increase on last year – only seven companies report on this in a detailed way (on a country, region or segment basis). A detailed distinction of the different kinds of taxes due provides a more complete picture for stakeholders of the total amount of taxes paid by the company. It provides insight into the added value, i.e. on the company's economic footprint, which is valuable information for stakeholders. We expect that there will be an increased amount of information on total tax contributions over the next years.

Reporting of taxes	2016	2015
On what basis does the company report on corporate income tax?		
Country	**25%**	**11%**
Region	**22%**	**20%**
Segment / Business Unit	**24%**	**13%**
Does the company provide information on taxes other than corporate income tax? (VAT, withholding taxes, wage taxes etc.)	**44%**	**16%**
If yes, on wat basis?		
Country	**1%**	**0%**
Region	**7%**	**5%**
Segment / Business Unit	**1%**	**2%**

Figure 9: Percentage of companies that report their taxes on country, regional or segment basis

FAQ

What is the added value of adding the impact of tax on the earnings per share (EPS)?

Information on the impact of tax on EPS provides further explanation of tax as part of an economic impact measurement disclosure. In addition, shareholders benefit from increased transparency around the costs that relate to shareholder value. Some companies argued that the EPS could be derived from the financial overview. However, we believe this could easily be wrongly interpreted.

FAQ

What should I report with regard to the potential impact of country-by-country reporting regulations and why is this important?

The OECD have broadened the information required from taxpayers significantly and both the master file and local file require a great deal more quantitative analysis than what is required for current transfer pricing documentation. There is an expectation of significant transparency, operational and systems challenges in meeting country-by-country reporting and/or master file and local file requirements. Therefore, companies should consider questions such as:

- How will data be interpreted and compared to the master file and local file by tax authorities and other stakeholders?
- Do you have the technology and systems in place to gather and report the data required?
- Do you have adequate governance and control frameworks to ensure accurate reporting and execution of transfer pricing policies?

Being transparent on the potential impact of country-by-country reporting will give stakeholders the assurance that the company is taking these questions into consideration and is aware of the consequences regarding CbCR. It is also clear that some countries and the EU are proactively pushing public country-by-country legislation and initiatives.[15]

[15] For example, the European Commission proposed public country-by-county reporting for multinational enterprises in April 2016. Also, the UK opted for public country-by-country reporting in September 2016. It is the first country to include public country-by-country reporting in its statute books, with amendments to its Finance Bill giving the Treasury power to switch on the requirement for public disclosure of tax filings.

Good practice

Wolters Kluwer reports on the effective tax rate in detail. The figure below is an example of good practice because it provides a detailed comparison with 2014. This relates to questions 11 and 12 of the 2016 benchmark (Wolters Kluwers, 2015).

Reconciliation of the effective tax rate

	2015		2014	
	%		%	
Profit before tax		542		512
Normative income tax expense	29.4	160	37.5	192
Tax effect of:				
Tax incentives and exempt income	(7.6)	(41)	(11.7)	(60)
Tax benefits on results of previously divested assets	-	-	(22.0)	(112)
Recognized and unrecognized tax losses	1.6	9	2.6	14
Adjustments previous years	0.0	0	(0.6)	(3)
Non-deductible costs and other items	(1.5)	(9)	1.6	7
Total	21.9	119	7.4	38

The normative income tax expense has been computed as the weighted average statutory tax rates of the jurisdictions where the Group operates.

The reported effective tax rate increased to 21.9% (2014: 7.4%). In 2014, the tax rate reflected a non-taxable revaluation gain on Datacert and a positive tax impact relating to previously divested assets partly offset by a tax charge on internal asset transfers. In 2015, the tax rate reflects a one-time favorable adjustment relating t deferred tax assets.

For corporate income tax recognized directly in statements of equity and other comprehensive income, reference is made to Note 20 (Tax Assets and Liabilities

C. *Respect the spirit of the law. Tax compliant behaviour is the norm*

A company should aim to comply with the letter as well as the spirit of the law, which entails that also the intention of the legislator is guiding to ensure tax-compliant behaviour. By definition, the spirit of the law cannot be described unambiguously. It requires discussion with internal stakeholders, including tax, legal, compliance and CSR officers, as well as external stakeholders such as government officials, tax authorities, civil society organisations and investors. Being compliant with tax laws and regulations, statutory financial obligations and international accounting standards is the core responsibility of the tax function.[16]

[16] See for example the tax codes designed by Australian ATO and UK HMRC in the previous chapter on good tax governance.

Top scorers
Binckbank, Brunel, ING Group, Rabobank, Unilever – all scored 2 out of 2 points

Results

There has been a 15% point increase in the number of companies that explicitly state that the spirit of the law is embedded in their tax strategy (see Figure 10). A few companies (12%) are transparent about whether they have a programme in place to train employees on how to deal with tax related dilemmas or possible breaches of the tax strategy. This is a small increase of 4% compared with last year. However, we believe that a training programme is essential in order to ensure the company's tax strategy is effectively embedded in the organisation and employees are supported to deal with tax in an ever-changing tax landscape. This is further explained in the FAQ below.

We expect to see a greater increase of points awarded for this principle in the future, based on the increased amount of points awarded this year for Principle A - defining and communicating on their tax strategy - and Principle B - the alignment of tax with the business.

C.	Respect the spirit of the law. Tax compliant behaviour is the norm	2016	2015
20	Does de company explicitly communicate that its tax planning strategy is based on the spirit of the law?	37%	20%
21	Does the company have a program in place on how to deal with tax dilemmas for its tax, legal and compliance officers?	9%	8%

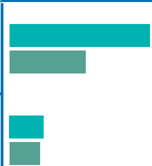

Figure 10: Percentage of companies that are transparent about respecting the spirit of the law

FAQ

We already have a responsible person appointed when it comes to tax. What more can we do? Why do we have to create a training programme on how to deal with tax dilemmas for tax, legal and compliance officers and be transparent about it?

The tax landscape is rapidly changing; what was acceptable five years ago is questioned nowadays. Governments, NGOs, intragovernmental organisations and so forth, are becoming more actively (and aggressively) involved. Tax dilemmas are becoming increasingly complex. Overall, this requires an increase in the number of people involved, specifically people with multiple perspectives on tax (not just with a legal and/or tax compliance perspective).

To ensure that certain tax principles are fully embedded in the organisation, the company can create a programme to train its tax, legal and compliance officers on how to deal with tax related dilemmas or possible breaches of the tax strategy. This training programme could be an online training course for those employees who make decisions concerning tax. In addition, new procedures could be implemented for assessing whether material transactions or changes in doing business comply with the tax strategy. Communicating in the annual report about, for example, the ethical training courses a company offers on tax dilemmas, demonstrates that tax considerations are actively integrated within the business.

Good practice

The figure below is an example of good practice because it shows that that the tax principles are important to ING.

> '*These Tax Principles are applicable worldwide. Our employees must act with integrity and adhere to ING's Values when managing tax affairs. It's important for us to keep our employees up to date and to make sure they consistently make the correct decisions in line with our Tax Principles. One way we do this is to regularly hold internal meetings where presentations are given and dilemmas are discussed, with our experts explaining what the right choice for ING is and why.*' (ING)

Unilever prepares scorecards to ensure that complex transactions fit within their tax principles.

Tax Principles: scorecard example

What was the transaction?
Unilever Ventures wanted to participate in an investment fund managed by a third party. The fund was based in the Cayman Islands, with the business investment being in China. Unilever Ventures wanted to invest in around 7% of the fund value.

How did we assess this?
We reviewed the transaction against our Tax Principles, taking into account the jurisdictions involved, the size of the transaction, and the impact for Unilever of alternative structure scenarios.

What did we conclude?
- With only 7% we were a minority investor, with no significant influence over the investment fund structure.
- The tax impact for Unilever was the same as if we had directly invested into China, so there was no tax benefit to Unilever as a result of the fund investment.
- Therefore, the transaction did not go against our Tax Principles.

Source: (Unilever)

D. *Know and manage tax risks*

Tax risk management is a proactive process that is demonstrably embedded within the risk management and internal control function of the company.

Top scorers

Arcadis, ASM International, ASML, Boskalis Westminster, Corbion, Fugro, Kendrion, Randstad – all scored 4 out of 4 points

Results

Many companies report on tax risks, as such companies scored best on this Principle. In comparison with last year's findings, the average number of points awarded for Principle D increased by 4% point. This increase is mainly due to the fact that 72% of the companies report on tax risks - including financial, regulatory or reputational risks, which is an increase of 14% on last year. In addition, companies are becoming increasingly transparent about their tax risk appetite (see Figure 11).

However, the reporting of tax risks is often just an enumeration. More than half of the companies do not describe their tax risks in detail and therefore are not transparent on their overall tax risks analysis. In some cases, companies replied that they do not find it necessary to report on tax risks in publicly available documentation, as this is not considered a 'top risk' of the company.

Organisations need to adapt to change. They need to think strategically about how to manage the increasing volatility, complexity and ambiguity of the world. The complexity of tax risks has changed and new kinds of risks – for example reputational risks – have emerged as is illustrated by LuxLeaks, Panama and Bahama Papers and current EU state aid investigations.

In order to be adaptive to the current fast-changing tax world, an early risk identification is key. In addition, linking the tax strategy and objectives to both risk and opportunity helps to accelerate growth and to enhance performance (COSO, 2016).

Stakeholders are more engaged today, seeking greater transparency and accountability for managing tax risks. Clarity and insight into the link between tax strategy, tax risk and performance is needed in order to demonstrate 'the complete picture'to stakeholders. Therefore, we would like to encourage companies to report more elaborately on tax risks, including their tax risk appetite and risk response, because it provides stakeholders with a better understanding of the potential and actual risks involved.

Investors need better information

According to Eumedion, investors would like to have forward-looking information on taxes, preferably in the annual report, in order to better understand and model a company's tax position. Better information on a company's tax position allows for an in-depth analysis of where taxes are paid, and where potential risks stemming from excessive tax optimisation may exist. Eumedion participants will ask company management and supervisory boards to demonstrate sound tax practices and tax policies, and clarify how these issues are supervised (Eumedion, 2015).

D. Know and manage tax risks		2016	2015
22	Does de company explicity describe its tax appetite?	29%	23%
23	Does de company report any tax risk, including: financial, regulatory or reputationel risks?	68%	58%
24	Are the tax risks described in details? (Not just as an enumeration	44%	41%
25	Is there a description of the company's response to these tax risks?	40%	42%

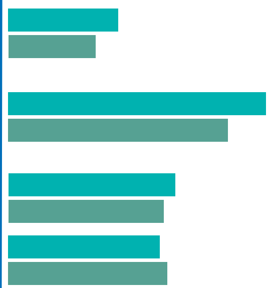

Figure 11: Percentage of companies that are transparent about their tax risks

FAQ

How can I report about my tax risks if there are no tax risks of material misstatement?

A risk of material misstatement in audit terminology refers to the risk that the financial statements are materially misstated. A misstatement arises where there is a difference between the reported figures and what is expected to be reported in order for the financial statements to be fairly presented (to show a true and fair view).

With the tax risks we are referring to in the benchmark we have a broader perspective in mind than the tax risks of material misstatements in the annual report. The tax risks we are referring to are risks caused by, for instance, the fast changing tax legislation and public views on taxes. These external factors can result in the risk of being unwillingly uncompliant with newly incorporated tax legislation, unknown mismatches between countries with double taxation as a consequence, and the uncertainty of tax claims caused by a disagreement with tax authorities about the interpretation of the law. All companies in the Tax Transparency Benchmark face these kinds of risks, e.g. possible state aid investigations in Europe.

Good practice

Corbion clearly describes its tax risks, the impact of these risks and Corbion's mitigating actions.

Risk event	Cause and possible impact	Mitigation actions
Non-compliance with applicable tax laws	Failure to timely detect and anticipate changes in a wide variety of tax laws or in the application thereof could adversely affect our financial results.	Adequate quarterly reporting system is in place, we hold regular tax meetings, and review tax compliance of our operating companies. Our global tax control framework warrants compliance. Transfer pricing policy and documentation are in place as well. We seek the advice of external tax experts in compliance matters.

Source: (Corbion, 2015)

E. *Monitor and test tax controls*

It is important that a company has a standardised approach for monitoring and testing the execution of its tax strategy and controls, and that it does so on a regular basis to ensure the findings and outcomes are addressed promptly. By communicating on these issues with stakeholders, a company could demonstrate its commitment to the design and operating effectiveness of its tax strategy.

Top scorers

Brunel, Corbion, DSM, KPN, Philips, Randstad, Shell and Unilever – all scored 3 out of 3 points.

Results

With an average score of 40%, this is one of the principles on which companies are quite transparent. Notable is the increase of 26% points on mentioning tax in the control section of the annual report, which contributes to the average score on this principle. This increase could be the result of a growing awareness of the importance of embedding monitoring and testing practices in the control section of the annual report and of publicly disclosing information about this. However, almost a third of the companies (22 companies out of 68) did not score any points on this principle. This is all the more interesting as stakeholders are increasingly seeking confirmation on whether companies have appropriate governance systems and controls in place. It is clearly important to publicly disclose this information. Tax authorities and other governmental organisations are also paying increasing attention to how companies embed monitoring and testing.

E.	Monitor and test tax controls	2016	2015
26	Is tax mentioned in the control section of the annual report?	54%	28%
27	Is mentioned that the internal audit department is involved in monitoring tax control?	38%	42%
28	Is tax risk management included in the reporting to the audit committee?	26%	41%

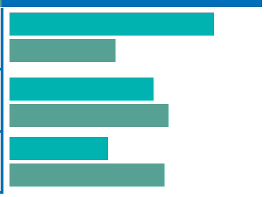

Figure 12: Percentage of companies that are transparent about their tax controls

FAQ

Why should the internal audit department be involved in monitoring tax control and why should tax risk management be included in the reporting to the audit committee?

Involvement of the internal audit department in monitoring tax control and tax risk management-provides stakeholders with the assurance that these processes are in place and functioning correctly. Including this information in the annual report demonstrates that there is regular monitoring, testing and maintenance of the tax control framework. This level of clarity is important, as it gives stakeholders a more clear and reliable view on, for instance, the tax strategy, tax position and efficacy of the tax risk management system.

As tax is an integral part of doing business, a tax control framework is an integral part of the business control framework. As such, when considering (Dutch) corporate governance codes, the tax control framework is the responsibility of the audit committee or broader supervisory board members.

Dutch Corporate Governance Code: tax policy on tax planning

The recently Dutch Corporate Governance Code provides details about the required composition and role of the audit committee of the supervisory board. The function of the audit committee is to prepare the decision making of the supervisory board. If the supervisory board decides not to appoint an audit committee, best practice provisions shall apply to the entire supervisory board. In order to adhere to best practice, the audit committee should focus on supervising the activities of the management board with respect to the policy of the company on tax planning. The supervisory board should report on how the duties of the committee have been carried out in the financial year (Corporate Governance Code Monitoring Committee).

F. *Provide tax assurance*

A company should be prepared to provide additional tax information to regulators, tax authorities and other stakeholders in order to provide a certain level of assurance in regard to tax data and processes. This tax assurance should be based on the implementation and outcome of the five aforementioned principles.

Top scorers

Beterbed, BinckBank and KPN – all scored 2 out of 3 points

Results

Compared with last year's findings, the average amount of points awarded for this principle has seen a minimal increase of 1% point. With this small increase, this principle is still the principle on which the companies provide by far the least transparency. The small increase is caused by the fact that 34% of companies state that they are participating in a co-operative compliance programme with the tax authorities (which is called 'horizontal monitoring' in the Netherlands). This is an increase of 3% points compared to last year.

However, in most cases, co-operative compliance requires some sort of tax assurance towards tax authorities, mostly on the initiative of taxpayers. Very few companies provide a Tax In-Control Statement and none of the companies provide third party tax assurance. In the Netherlands, external tax assurance – other than the mandatory assurance of the tax paragraph in the annual accounts – is clearly not yet on the radar of companies or the tax administration.

Meanwhile, in other countries we do see a trend of additional external assurance, specifically towards tax authorities. For example, in the United Kingdom the Senior Accounting Officer (SAO) of large companies is required to report to HMRC on the adequacy of the company's tax accounting systems for producing an accurate tax return. In Australia, a form of regulated self-assessment is implemented, requiring auditors to sign-off on the corporate income tax return of large companies (Towell, 2014).[17]

[17] For example, Germany introduced legislation, that links the validity of a tax return with a tax control framework. If a tax return is incorrect and the company has no tax control framework in place, it is deemed that the company has committed a criminal (finable) offence (Bundesministerium der Finanzen, 2016).

Third party tax assurance towards tax authorities could imply statistical sampling by a third party in a manner approved by the tax authorities. A country example of third-party assurance towards tax authorities is Mexico. In Mexico invoices must contain a digital tax stamp in order to be considered valid. These stamps are provided by certified third parties (called PACs) which are approved by the Mexican tax authorities. This is to prevent fake invoices and to provide a clear view on the amount of taxes companies have as credit or debit. The companies that want to be certified by PACs need to pass through a process and meet several requirements from the government. For this reason we would expect large companies to be able to provide third party assurance in the near future.

E.	Provide tax assurance	2016	2015
29	Does the company provide Tax In-Control Statement?	4%	5%
30	Does the company provide third party tax assurance to stakeholders?	0%	0%
31	Does the company participate in a co-operative compliance program? (in the headquarter country)	34%	31%

Figure 13: Percentage of companies that are transparent about their tax assurance

FAQ

What is the added value of a Tax In-Control Statement?

An In-Control Statement refers to a statement from the board (or executive level) that the organisation is in control of its risks and that the financial output can be relied on. From a tax perspective, communicating that there is a Tax In-Control Statement gives transparency over the involvement of the board on tax, attention for the controls on taxes and the confirmation that the quality of the tax position is trustworthy and the tax returns are correct.

It is important for stakeholders to be able to determine whether, and to what extent, a company is in control of its tax affairs. A Tax In-Control statement, which managing directors periodically and explicitly report on the extent to which the company is in control of its tax affairs, stipulates the importance of the company in question being in control when it comes to tax. In order to provide greater assurance on this Tax In-Control Statement, a company could also accompany it with a report by an independent assurance provider. This report should adhere to existing internationally recognised auditing standards (ISAE 3402, together with ISAE 3000 and ISRS 4000, which is a sound basis for an auditing standard regarding the monitoring of tax control, i.e. the tax control framework). Combined with the company's Tax In-Control Statement, this would provide the assurance required by stakeholders regarding the management of tax risks.

FAQ

Why does having our annual report audited by one of the Big-Four and/or participating in a co-operative compliance programme not count as providing third party tax assurance?

A third party can provide assurance on the risk taxonomy (tax data and tax processes) of a company. This goes beyond the regular (mandatory) audit as it requires a more in-depth audit.

Participating in a co-operative compliance programme means that there is an agreement on mutual trust, transparency and understanding. This obliges a company to work on having a tax control framework in place, and to further develop it. However, this does not assure the maturity and quality of the tax control framework, and doesn't therefore qualify as third party assurance. Despite that there is some tax information included in an annual report or in a sustainability report, the audit of an annual report and the assurance engagement of a sustainability report does not cover a Third-party tax assurance. They have a different scope, different purpose and a different type of user group compared to third-party tax assurance. The audit of an annual report and the assurance engagement of a sustainability report are aimed at performing to establish procedures whether such reports comply with particular criteria, such as respectively the International Financial Reporting Standards or the G4 Guidelines of Global Reporting Initiative.

6. Recommendations

The multinational organisations have demonstrated progress regarding tax transparency in 2015. The average transparency rating of the companies in scope increased from 25% in 2015 to 32% in 2016. However, while the number of companies scoring a minimal amount of points (0 – 10) has decreased, from 55%, the figure still stands at a relatively high 37%. Therefore, there is still room for further improvement. The recommendations outlined below are based on the results of the Tax Transparency Benchmark 2016.

To multinational companies

Governance

- Organise a proactive dialogue about your tax strategy, with the different stakeholders, such as investors, NGOs, trade unions, governments and clients, and ensure that this is an ongoing process.
- Keep the Executive Board up to date and share knowledge about the tax strategy.
- Incorporate your tax and CSR strategy in the decision-making processes.

Strategy

- Do not treat tax 'in isolation' when designing a tax strategy, see tax as part of both your broader business and your CSR strategy.
- Include tax in the business control and governance risk framework.

Implementation

- Based on the tax strategy, create tax criteria that are implementable (design them in a way that you can actually work with them in your daily operations).
- Implement, execute and monitor the tax strategy and criteria in the company's business operations and include KPIs for the tax department.
- Raise awareness around tax and the strategy, by organising training and communication programmes on an ongoing basis.
- Provide comfort to stakeholders on the execution of the tax strategy (including risk management) by communicating in a clear way via publicly available documentation.

Accountability

- Consider reporting on your corporate income taxes and other taxes, such as VAT, wage taxes and withholding taxes, on a country-by-country basis. Give a more complete picture by including information on revenues, profits, assets and FTEs on the same basis.

To tax authorities

- Increase the transparency of compliance management strategies and accountability on tax affairs with companies.
- Be transparent about how rules are applied.

To NGOs

- Create an open and constructive dialogue with companies and focus on encouraging them to change. Differentiate in approach for the leaders and the laggards.
- Provide companies with best practices regarding responsible and transparent tax behaviour.
- Do not only focus on multinationals and tax advisors but also on tax administrations.
- Enter into dialogue with governments to promote transparency.

To tax advisory firms

- See tax in a broader context, not only from a legal perspective.
- Promote responsible tax behaviour and support tax transparency initiatives of companies. Dare to have a robust dialogue on this topic.
- Apply the firm's tax code of conduct.
- Ensure alignment of tax advice with the clients tax strategy.

To investors

- Design and implement a tax strategy (with criteria) that applies to a) your own organisation, b) your investments and c) how you structure your investments.
- Integrate tax in the valuation of investee companies by including it in investment and ESG policies. Collaborate with stakeholders to develop common standards.
- Enter into a dialogue with portfolio companies on the public and political debate on responsible and transparent tax behaviour.

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Appendix A:
Jury report 2016

The jury is pleased to see that transparency on tax is improving. This improvement included not only more extended quantitative data, but also more detailed qualitative as storytelling information was included to explain the company's tax strategy to non-professionals.

Jury members

The jury consists of four members acting in their personal capacity who are appointed by the VBDO. The jury is independent from the VBDO and is formed by the following members:

- Hans Gribnau, Professor Tax Law at Tilburg University and Leiden University;
- Victor van Kommer, Director Tax Services at the International Bureau of Fiscal Documentation (IBFD) and Professor Tax Policy at Utrecht University;
- Carola van Lamoen, Head Governance and Active Ownership at Robeco;
- Francis Weyzig, Policy advisor at Oxfam Novib.

Nominees

The jury discussed the top 10 companies that scored highest in the Tax Transparency Benchmark 2016: DSM, Unilever, Shell, Randstad, Aegon, ING Group, KPN, NN Group, Rabobank and Vastned.

Winner

From the nominees, the jury selected the winner based on the following criteria:

- Score and analysis performed by the VBDO;
- Depth of tax strategy;
- Embedding of tax strategy into the organisation;
- Sector and the availability of legislation.

The jury would like to congratulate DSM on winning the Tax Transparency Award 2016. This was a unanimous decision.

DSM was the top scoring company in the benchmark. The company performed well on all principles and especially on the questions that indicated the intrinsic motivation of DSM in improving on tax transparency, such as the status and progress of the implementation and execution of the tax strategy.

Furthermore, the company helps readers who are not fiscally educated on how to interpret the tax strategy. This is comparable with Unilever.

Large improvements

The jury also noted three companies that showed a large improvement in score in comparison with last year. These are NN Group, BinckBank and Vastned. These companies were laggards in last year's benchmark and showed that much progress is made and that they are now front-running companies. This is impressive, because normally progress goes slowly in larger companies and therefore it shows that with the right commitment at the top a difference can be made in a short timeframe.

Recommendations for next year

For next year, the jury recommends including more international companies, also non-listed large companies, both originally Dutch and international companies with a headquarter in the Netherlands. The study is deemed less relevant for the smaller, companies and that mainly operate in the Netherlands these should therefore not be included in the study. Furthermore, it recommended that besides transparency, the VBDO should also focus on how responsible the taxation of the companies was. An example was provided of a company that was transparent about its aggressive tax strategy. To keep the next Tax Transparency Benchmark comparable with current edition, this could be done via an additional questionnaire. Finally, the jury also indicated to change the questionnaire should be changed from yes/no to multiple options to better diversify between the companies.

Appendix B
Methodology in detail

This appendix contains a comprehensive list of all indicators and their respective scores.

A. Define and communicate a clear strategy

		Points
1.	Does the company communicate its views on tax? (e.g. in the annual report / CSR report / website / other)	1
2.	Has the company's tax strategy/policy been part of the dialogue with the company's stakeholders? (including investors and civil society organisations)	1
3.	Does the company explain to what extent the stakeholder dialogue has influenced the tax strategy/policy?	1
4.	Is a vision of the company's relationship with the tax authorities included in the tax strategy?	1
5.	Does the company see tax as part of its corporate social responsibility?	1
6.	Have the KPIs of the tax department been clearly communicated?	1
7.	Does the audit committee review the tax strategy?	1
8.	Does the company describe the status and the progress of the implementation and execution of the tax strategy?	1

B. Tax must be aligned with the business and is not a profit centre by itself

9.	Does the company state that its business operations are leading in setting up international structures, i.e., that it declares profits and pays taxes where the economic activity occurs?	1
10.	Does the company explicitly state that it does not use 'tax havens' for tax avoidance?	1

	Tax rate	
11.	Is there an effective tax rate to statutory tax rate reconciliation?	1
12.	Is the origin of the difference explained in detail? (Quantitative and qualitative	1
13.	Is there an explanation for the difference between cash tax paid and the effective tax rate?	1
14.	Is the impact of tax on earnings per share discussed in the annual report?	1
	Country-by-country reporting	
15.	Does the company report on the (potential) impact of Country-by-Country Reporting regulations?	1
16.	On what basis does the company report on corporate income tax?	
	• Country	3
	• Region	2
	• Segment/Business Unit	1
	• Company-wide	0
17.	If the company reports on corporate income tax on a geographic or segment basis, does the company also provide information on revenues, profits, assets	1
	and FTEs on this basis?	1
	Total tax rate	
18.	Does the company provide information on taxes other than corporate income tax? (VAT, withholding taxes, wage taxes, etc)	1
19.	On what basis is this done?	
	• Country	2
	• Region	1
	• Segment	1
	• Company-wide	0

C. Respect the spirit of the law. Tax compliant behaviour is the norm

20.	Does the company explicitly communicate that its tax planning strategy is based on the spirit of the law?	1
21.	Does the company have a program in place on how to deal with tax dilemmas for its tax, legal and compliance officers?	1

D. Know and manage tax risks

22.	Does the company explicitly describe its tax risk appetite?	1
23.	Does the company report any tax risks, including: financial, regulatory or reputational risks?	1
24.	Are the tax risks described in detail? (Not just as an enumeration)	1
25.	Is there a description of the company's response to these tax risks?	1

E. Monitor and test tax controls

26.	Is tax mentioned in the control section of the annual report?	1
27.	Is mentioned that the internal audit department is involved in monitoring tax control?	1
28.	Is tax risk management included in the reporting to the audit committee?	1

F. Provide tax assurance

29.	Does the company provide a Tax In-control statement?	1
30.	Does the company provide third party tax assurance to stakeholders?	1
31.	Does the company participate in a co-operative compliance programme? (in the headquarters country)	1


CARRIL
EXCLUSIVO

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