Global Multinational Business Standard

Guidance Notes

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I. Foreword

Unprecedented scrutiny and calls for change

Tax contributions are a key part of the positive social and economic impact made by business – helping the communities in which they operate to deliver valuable public services and to build the infrastructure that allows business to thrive. A small, but rapidly growing, number of progressive businesses now publicly recognise this and say what they pay with pride, with some now even linking their contributions to the UN's Sustainable Development Goals.

The growth of tax havens and unethical corporate tax conduct have become prominent concerns across the world. With aggressive avoidance negatively distorting national economies and undermining the ability of business to compete fairly, both domestically and internationally.

Close to 40% of multinational profits (some $950bn) are artificially shifted to tax havens each year, leading to a $240bn reduction in corporate income tax revenue, or 10% of global corporate tax receipts.[i]

A stream of data leaks and whistle-blowers have ensured that the topics of tax evasion and avoidance remain headline issues across the globe year after year. The Panama and Pandora Papers are not only the largest ever offshore data leaks, but also the largest collaborations of journalists in history.

> "Earnings that are reliant on tax planning rather than genuine economic activity are vulnerable to changes in tax regulation and enforcement… Even if specific tax regulations are not changed, more proactive enforcement by regulators suggests the earnings risk resulting from these strategies is increasing. As countries and their tax authorities become increasingly concerned with the exploitation of loopholes in international tax frameworks and are under fiscal pressure to fund additional government programmes, the incidence of tax disputes and litigation will increase."
>
> **The United Nations Principles for Responsible Investment (PRI)**

An unprecedented reconsideration of the world's one-hundred-year approach to international tax rules is underway. At the heart of the rewrite of the world's international rule book are the G20 and OECD, and the Base Erosion and Profit Shifting (BEPS) project.

I. Foreword

The case for change has never been stronger, not least as the Covid-19 pandemic has accelerated the pre-existing trends towards digitalisation and online economic growth. The formation and sustainability of nation states is intrinsically linked to their capacity to collect customs and taxes.

Much has been achieved but tackling issues such as corporate transparency, profit shifting and fair tax contribution remain outstanding still. This leaves plenty of space for progressive business to stand out as exemplars of responsible tax conduct.

Standing out from the crowd

Compared with other areas of corporate responsibility, responsible tax conduct has emerged relatively recently. Commitments and disclosures on tax significantly lag behind reporting on other sustainability issues, with a recent global analysis[ii] finding:

- over half (55%) of large and mid-sized companies still make no material disclosures whatsoever;
- only a third (34%) have commitments or policies on tax transparency in place, compared to 87% for climate change and 98% for health and safety;
- just 12% commit to comply with and follow the spirit of the law;
- a miniscule 7% disclose country-by-country breakdowns of taxes paid; and
- an incredible 3% have a named position responsible for tax policy at board level.

However, the pressure for change has now reached a tipping point. Across the world, there is now general agreement that tax laws need to be rewritten to end the global race to the bottom. Institutional investors and asset managers are paying much greater attention to the tax practices of companies in their portfolios, recognising sound tax practices as an important sustainability issue and that companies employing aggressive tax practices could be exposing themselves to growing regulatory and reputational risks. Citizens across the world are insisting by a large majority that Government support for business (i.e., in connection with the Covid-19 pandemic) should be conditional on recipients ending the artificial use of tax havens and tax avoidance.[iii]

"Effective tax policies are integral to ensuring that profits are taxed where economic value is created."

International Chamber of Commerce (ICC)

I. Foreword

It is no longer enough for a business to claim that their tax conduct is acceptable as long as they are not breaking the letter of the law – in the same way that such a narrow framing of impact would be frowned upon if it were to be deployed with environmental and human rights considerations.

Fair Tax Mark accreditation – the gold standard of responsible tax conduct

The Fair Tax Foundation was launched in 2014 and operates as a not-for-profit social enterprise.

Via our Fair Tax Mark accreditation scheme, we seek to encourage and recognise businesses that pay the right amount of corporation tax at the right time and in the right place. We believe that businesses that pay their taxes willingly, fairly and transparently should be celebrated and rewarded. This includes those who operate legitimate tax planning that embraces both the spirit and letter of the law.

The focus of the Fair Tax Mark's consideration is corporate income tax. Businesses are subjected to many different types of tax, but corporation tax has an importance way beyond the revenues it raises. As argued by the Tax Justice Network: "It holds the whole tax system together. It curbs political and economic inequalities and helps rebalance distorted economies." [iv]

I. Foreword

The Fair Tax Mark accreditation standards are based on the following principles.
A business should:

- pay the right amount of tax (but no more) in the right place at the right time, according to both the letter and the spirit of the law;
- readily provide sufficient public information to enable its stakeholders to form a rounded and informed view of its beneficial ownership, tax conduct and financial presence and impact across the world;
- say what they pay with pride.

Initially, Fair Tax Mark accreditation was available only to businesses headquartered in the UK, but this was extended internationally to multinational enterprises in 2021, with the launch of this 'Global Multinational Business Standard'.

As part of our assessment we review policy, reporting and tax payments, and subsequently provide suggestions for improvement. Organisations that are paying lower rates of tax are required to engage in extra transparency to secure certification – for example, explaining how the legitimate use of specific tax reliefs leads to a natural reduction in tax contribution. Fair Tax Mark companies tell us that the process of accreditation is a valuable means to benchmark performance and move towards best practice. They appreciate that the bar is set high and view this as a valuable asset in an area where trust is often low.

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II. Global Multinational Business Standard

Development of the Global Multinational Business Standard

The internationalisation of the Fair Tax Mark has been driven by:

- approaches by businesses from across the world seeking accreditation;
- regulators, investors and municipalities across the globe expressing a desire to support Fair Tax Mark accreditation (or equivalent) in their jurisdiction;
- the international race to the bottom on tax that has created a downward pressure on standards everywhere in recent decades; and
- the need for civil society to take the lead and prevent unscrupulous accounting and auditing entities stepping into the vacuum and propagating low-bar tax kitemarks

The Global Multinational Business Standard has, in part, evolved out of our well-established UK-based Multinational business Standard[v], with the learnings gained in recent years from implementing the latter brought across to the development of the former – e.g., the importance of considering cash taxes paid and uncertain tax positions.

In comparison with the UK-based Standard, weightings have been adjusted to reward performance in the most material and tasking areas, but with the overall pass percentage maintained at a 65% threshold.

The following areas of assessment have seen weightings increased:

- full financial statements disclosure
- beneficial ownership and related party transaction disclosure
- Country-by-Country reporting of tax residency and taxes paid
- the cash tax contribution made over the preceding five years
- gross asset disclosure
- commitment to declare profits in the place where their economic substance arises
- tax policy compliance confirmation and whistle-blower policy development

II. Global Multinational Business Standard

In addition, in 2020, we published 'Essential Elements of Global Corporate Standards for Responsible Tax Conduct'[vi], which analysed responsible tax initiatives across the world and suggested what the essential elements of a Global Multinational Business Standard should be going forward. This was pro-actively shared with expert international civil society organisations for consideration and feedback. Further engagement and feedback was solicited via a structured online questionnaire and a series of webinars. In total, feedback was secured from c. 50 organisations and subject matter experts spread across 15 countries.

The feedback strongly supported both the research analysis and the four corporate commitments identified as being key to responsible tax conduct. Namely, business should:

- publish a binding Tax Policy, which undertakes not to use tax havens artificially or pursue tax avoidance, and confirm annual compliance with this;
- embrace public Country-by-Country reporting and related tax reporting transparency;
- disclose their beneficial owners and persons of significant control;
- pursue independent assurance from outside of the big accountancy firms.

Finally, detailed further input was sought and received from the Foundation's Technical Advisory Group.[vii]

The internationalisation of the Fair Tax Mark accreditation scheme is being substantially enabled by the generous support of Luminate.

II. Global Multinational Business Standard

Using the Global Multinational Business Standard

These guidance notes set out what we are seeking to assess, how we will score corporate activity, and why. The requirements are in large part driven by the belief that 'transparency' encourages, and helps business demonstrate, responsible tax conduct.

This Global Multinational Business Standard has been designed for listed and private business groups that operate in more than one tax jurisdiction.[viii] UK incorporated businesses have the option of using this or the UK-Based Multinational business Standard.[ix]

The term ‘business’ in this context refers to the consolidated group of the multinational. Individual subsidiaries cannot be assessed against this Standard, which requires an evaluation of the ultimate parent.

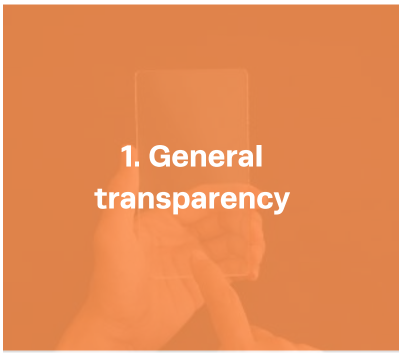
Businesses are awarded varying points in 19 areas, up to a potential total score of 48 points. A score of 31 and over can be awarded a Fair Tax Mark.

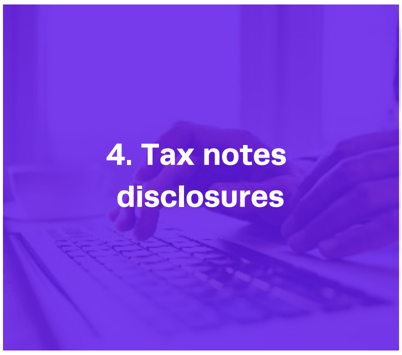
Put simply, to secure a Fair Tax Mark, a business must demonstrate a substantive commitment to responsible tax conduct, financial transparency, Country-by-Country reporting and beneficial ownership disclosure. There must be a binding tax policy that explicitly shuns tax avoidance and the artificial use of tax havens, and no recent evidence of contradicting activities (for example, lobbying against progressive tax legislation). All subsidiaries and related party transactions should be fully disclosed.

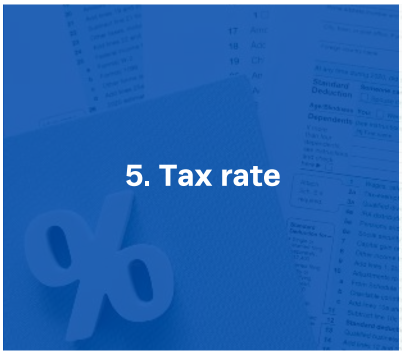
We have actively sought to align our Global Multinational Business Standard with the emerging best practice of institutional investors and asset managers (i.e., the UN PRI[x]) and corporate sustainability reporting frameworks (i.e., the GRI[xi]). Accreditation against the Global Multinational Business Standard will substantially advance attainment of both in a material manner.

II. Global Multinational Business Standard

Assessment is split into five parts:







The tax rate contribution made by a business over a number of years is a core component of all the Fair Tax Foundation's standards. Feedback has indicated a strong desire from civil society for us to continue to assess this. However, there are many good reasons why a business may not be paying high tax rates over a given period – for example, it may be loss-making in some years, or legitimate tax reliefs are being claimed within both the spirit and letter of the law. Such businesses can still secure a Fair Tax Mark, but additional disclosures will be needed – especially in connection with shortfalls from the applicable headline rates of tax in operation.

Ultimately, we believe that additional disclosures that are precipitated by Fair Tax Mark certification should be presented in a business's audited financial statements. However, it is more than acceptable for a business to experiment with communication channels (e.g., via bespoke publications and dedicated website areas) until such a time as disclosures are more familiar.

PART 1: GENERAL TRANSPARENCY

In order that stakeholders can form a rounded and informed view of a business' tax conduct, it is necessary for them to have ready access to detailed contextual information. Such 'General Transparency' disclosures should include disclosures in the following areas: consolidated financial statements, nature of business activity, place of trading, beneficial ownership and management control.

1. Financial Statements

Question [three points available]

Does the business make freely available, on an annual basis, a full set of financial statements (including profit or loss, financial position and cashflows)?

Scoring and rationale

Three points are awarded if the business (i.e., ultimate parent) makes freely available, on an annual basis, a full set of financial statements for the consolidated group.[xii] This must include profit or loss, balance sheet and cashflows statements, together with detailed explanatory notes. This should be made available via either a free-to-use publicly accessible national registry or the business's website.

Ready access by stakeholders to this information is essential to the formation of a baseline understanding of a business's financial presence and impact. It also provides the background to any subsequent consideration of tax contributions and conduct.

The provision to stakeholders, upon request, of a paper-based Annual Report and Accounts is not considered to constitute 'freely' available.

2. Nature of business activity

Question [half a point available]

Is clarity provided on the nature of business activity?

Scoring and rationale

Half a point is awarded if the nature of the business's trading activity(s) is detailed within the publicly available Annual Report and Accounts or on its website. The amount of public information required by law on this issue is generally very limited. However, understanding what a business does is essential to forming a rounded view of its economic impact – this includes a description of operations and principal activities.

3. Trading location

Question [half a point available]

Is clarity provided on the primary trading address (as opposed to a registered office address)?

Scoring and rationale

Half a point is awarded if the primary place of trading (otherwise known as principal place of business) is disclosed within the publicly available Annual Report and Accounts or on its website. Often, the only address that a business is required to disclose on public record is that of its registered office, but this registration address may not be operationally functional. The primary place of trading / principal place of business is needed in order that stakeholders have a robust contact point for engagement.

If the primary trading address and registered address are one and the same, then this should be made clear.

4. Beneficial ownership

Question [three points available]

a) Are the beneficial owners* of shareholdings of 5% and above disclosed? (two points)

b) Are all related party transactions transparent? (one point)

** In addition to direct ownership, beneficial ownership is taken to include persons with significant control, politically exposed persons and trust beneficiaries.*

Scoring and rationale

Two points are awarded if the business clearly identifies each beneficial owner with a shareholding of 5% or more, either within the publicly available Annual Report and Accounts, at an easily accessible national registry or on its website. If the owner is a business or trust (including employee ownership trusts), the ownership must be traced through that business or trust to the real people who benefit from those entities until the ultimate beneficial ownership of the business is made clear.

Any additional natural persons with significant control or politically exposed persons must also be clearly identified. As must trust beneficiaries, if applicable.

Anonymously owned companies are one of the key tools used by money launderers and tax evaders to hide illicit gains and taxable assets from law enforcement and tax inspectors. Moreover, making beneficial ownership public is good for fair competition, allowing companies to know who they are doing business with.

Some businesses, such as cooperatives, social enterprises and companies limited by guarantee, may be structured in a manner that renders the question of beneficial ownership redundant. For example, they may have customer members that have no effective economic beneficial ownership. In these cases, if the business is transparent about its legal form, ownership structure, governance and business model, then equivalent points will be awarded.

A further point is awarded for full disclosure of related party transactions (or confirmation that there are no related party transactions). Transparency should include transactions and outstanding balances with the business's related parties (be they close personal relations or corporate entities[xiii]), together with confirmation that arm's length terms prevail.

5. Management and governance

Question [one point available]

a) Are the names and addresses of all directors provided? (half a point)

b) Is the country of residence of directors discernible? (half a point)

Scoring and rationale

Half a point is awarded if the names and addresses of all directors are provided, either within the publicly available Annual Report and Accounts, at an easily accessible national registry or on its website. Correspondence / service addresses are admissible, although residential addresses are preferable.

Half a point is awarded if the country of residence of directors is discernible, either within the publicly available Annual Report and Accounts, at an easily accessible national registry or on its website.

Openness as to who is governing and managing a business, and where it is controlled from, are key components to providing accountability and building trust.

PART 2: TAX POLICY, IMPLEMENTATION AND COMPLIANCE

Every business has a tax policy (sometimes referred to as a tax strategy), even if it has never been explicitly recorded; otherwise, it could not manage its affairs properly. However, a minority of business state what their policy is: which means that in this vital area few businesses can explain fully their motivations and conduct, nor can they be held accountable.

Progressive business can be expected to go further than pledges around legal compliance and tax evasion. Not least as such a lowest common denominator approach would be unthinkable in other areas of corporate responsibility, such as environmental protection or human rights. A Fair Tax Mark accredited business would be expected to explicitly shun tax avoidance and the artificial use of tax havens, and commit to the declaration of profits in the place where their economic substance arises.

The tax policy should be 'owned' by a named board director, and policy compliance should be the subject of annual confirmation.

6. Public tax policy

Question [one point available]

Does the business publish a tax policy?

Scoring and rationale

One point is awarded for making available the business's tax policy, either within the publicly available Annual Report and Accounts or on its website.

A tax policy should, as a bare minimum, seek legal compliance and set out the business's approach to governance, internal control and risk management. The policy must apply to the parent and all entities therein.

7. Responsible board director

Question [one point available]

Has the business nominated a named board director to have responsibility for its tax policy?

Scoring and rationale

One point is awarded for the public nomination of a named board director to have responsibility for the business's tax policy, either within the publicly available Annual Report and Accounts or on its website.

Strong governance frameworks facilitate the effective implementation of policy within a business. Board oversight is essential for robust governance. The designation of a named board director provides solid accountability and demonstrates how serious the business views responsible tax conduct.

8. Compliance confirmation

Question [two points available]

Does the business report annually on its effective compliance with its tax policy? (one point)

Does the business have a whistle-blower policy (and / or procedures) in place that explicitly covers the area of 'tax'? (one point)

Scoring and rationale

One point is awarded for confirmation of policy compliance over the most recent annual cycle, either within the publicly available Annual Report and Accounts or on its website. This demonstrates that monitoring is active and that the tax policy is firmly embedded within the business's systems of governance and internal control.

One point is awarded for public confirmation that the business has a whistle-blower policy (and / or procedures) in place that explicitly covers the area of 'tax', either within the publicly available Annual Report and Accounts or on its website.

The reporting of suspected wrongdoing (or risk of wrongdoing) by persons within (or close to) an organisation is as a primary means by which business discovers policy and regulatory breach. It also enables the identification and address of wrongdoing at the earliest opportunity.

9. Tax policy commitments

Question [four points available]

Does the business's public tax policy explicitly embrace the following commitments:

a) seek to declare profits in the place where their economic substance arises? (one and a half points)

b) not use tax havens artificially and for the purposes of tax reduction? (one and a half points)

c) follow the spirit as well as the letter of the law, and not structure transactions and operations artificially for the purpose of avoiding tax? (one point)

Scoring and rationale

In this section, the term 'tax haven' refers to low tax jurisdictions, as set out in Q10.

The tax policy of a Fair Tax Mark accredited business would be expected to have much higher aspirations than mere legal compliance and the forgoing tax evasion.

Four points are awarded if the public tax policy explicitly commits to the declaration of profits in the place where their economic substance arises, and shuns the artificial use of tax havens and tax avoidance.

For the first year of accreditation only, these commitments can sit outside of the tax policy and be generally detailed in the Annual Report and Accounts or on the business's website.

The following are examples of commitments that would score positively:

- adhere to the letter, as well as the spirit, of the law;
- forgo any type of connection to tax havens and/ or secrecy jurisdictions when this is not underpinned by a legitimate trading activity that serves the local community;
- shun arrangements that might fall foul of the General Anti-Abuse Rule (GAAR);
- forgo the use of marketed or abusive tax avoidance schemes that are likely to fall foul of the domestic tax avoidance legislation of any country in which the multinational business operates; and,
- not use Employee Benefit Trusts located in tax havens.

10. Presence in tax havens

Question [four points available]

Does the business utilise tax havens as locations for either incorporation, subsidiaries or operations?

Scoring and rationale

Four points are awarded if the business does not utilise tax havens as locations for either incorporation, subsidiaries or operations.

Alternatively, four points are awarded if it is clear (from pCbCR) that the use of tax havens reflects the economic substance of transactions located in the territories, and that these transactions are taxed where value is added.

The use of low tax jurisdictions (more commonly referred to as 'tax havens') has been an area of high concern for civil society, institutional investors and the public in general for many years. The Fair Tax Foundation's identification of tax havens is informed by the work of the Tax Justice Network and their Corporate Tax Haven and Financial Secrecy Indexes.[xiv] The determination of tax havens is periodically reviewed and a current listing is provided to business as they begin assessment and accreditation.

Businesses will not be penalised for their presence in a tax haven if there is evidential economic substance in that jurisdiction (demonstrable via pCbCR). Economic substance might be indicated by the presence of a significant number of staff or substantial third party sales. However, the notional placement of assets such as intellectual property (with only limited human resources available locally to manage them) will be viewed as problematic.

The tax residency of subsidiaries (as set out in the response to Q11) will be factored into scoring deliberations. The term 'subsidiary' is used broadly, and refers to all legal entities encompassed within the consolidated financial statement (not just those that pass threshold activity levels) and also permanent establishments with a taxable presence (such as branches).

PART 3: COUNTRY-BY-COUNTRY REPORTING

Country-by-country disclosure to tax authorities is now common in many parts of the world, however, Fair Tax Mark accreditation requires that this information (or equivalent) should be publicly disclosed. Ideally, this information would be provided in an open data format and be machine readable.

Comprehensively implemented country-by-country reporting significantly increases corporate tax transparency and enables stakeholders across the world to form an informed opinion as to whether a business is paying the right amount of tax in the right place at the right time. It provides an indication of the economic footprint within a jurisdiction and may signal emerging financial and reputational risks (of particular interest to investors). Crucially, it provides essential insights as to whether a business is complying with the commitments detailed in their public tax policy (see Part 2).

In this section, the term 'country' equates to any territory that has autonomous taxing powers (more commonly referred to as 'tax jurisdictions').

11. Listing of legal entities

Question [three and a half points available]

a) Does the business disclose a full list of subsidiaries, stating their name and place of incorporation? (one point)

b) Is the country of tax residence of each subsidiary transparent? (two points)

c) Is the nature of business activity of each subsidiary made clear? (half a point)

Scoring and rationale

In this section, the term 'subsidiary' is used broadly, and refers to all legal entities encompassed within the consolidated financial statements, not just those that pass threshold activity levels for individual disclosure– e.g., encompasses companies that are currently dormant or not actively trading . It includes permanent establishments with a taxable presence (such as branches). It also includes, for the purposes of listing under Q11, associates and joint ventures.

A multinational is, by definition, located in more than one country and is made up of a group of related entities. It is essential that stakeholders can determine: where all business entities are incorporated; what they are called; the nature of their business activity; and, where they are resident for tax purposes.

One point is awarded for disclosure of a full list of subsidiaries (both their name and place of incorporation), either within the publicly available Annual Report and Accounts or on its website. This will enable stakeholders to develop a fuller understanding of the composition of the corporate group and the attendant risks associated with jurisdictional placement.

Two points are awarded if the country of tax residence of each subsidiary is additionally made clear, either within the publicly available Annual Report and Accounts or on its website. An appreciation of tax residency is as important as country of incorporation – especially when the two differ.

One point is awarded if there is clarity on the nature of business activity of each subsidiary, either within the publicly available Annual Report and Accounts or on its website.

12. pCbCR: assets (net and gross)

Question [two points available]

a) Does the business disclose data on the net asset value for each country in which it operates? (one point)

b) Does the business breakdown the net asset figure and disclose data on the gross assets and gross liabilities for each country in which it operates? (one point)

Scoring and rationale

One point is awarded for the disclosure of the net asset value in each jurisdiction, either within the publicly available Annual Report and Accounts or on its website – with the breakdown reconciling to the consolidated financial statements. Such information provides a solid indicator of material financial presence.

An additional point is available for a breakdown of net assets into underlying gross assets and gross liabilities, with the jurisdictional breakdown reconciling to the consolidated financial statements. This provides assurance that a low net asset value (and seeming insignificance) is not a consequence of significant high gross assets and high gross liabilities netting off.

13. pCbCR: revenue and profits

Question [two points available]

Is data on the revenue and net profit / loss before tax provided for each country in which it operates? (two points)

Scoring and rationale

Two points are awarded for disclosure of the revenue and net profit / loss arising in each jurisdiction, either within the publicly available Annual Report and Accounts or on its website – with the breakdown reconciling to the consolidated financial statements.

Such information is crucial to understanding whether income and profits are booked in jurisdictions where economic value is created, and provides reassurance that neither income nor profit / loss is artificially shifted to lower tax jurisdictions.

14. pCbCR: tax

Question [three points available]

Does the business disclose the total tax charge, current tax charge, deferred tax charge and cash taxes paid for each country in which it operates? (three points)

Scoring and rationale

Three points are awarded for disclosure of the total tax charge, current tax charge, deferred tax charge and cash taxes paid in each jurisdiction, either within the publicly available Annual Report and Accounts or on its website – with the breakdown reconciling to the consolidated financial statements.

A business should publish sufficient information in its financial statements to demonstrate that it has fulfilled its commitment to pay the right amount of tax, in the right place, at the right time. This requires information on the total, current and deferred tax charges derived from the income statement, as well as the cash tax paid derived from the statement of cash flows, broken down on a country-by-country basis.

The total tax charge enables users to reconcile the current tax expense to the tax charge reported on the face of the income statement. It includes deferred tax movements which are highly subjective and uncertain as to the realisation or timing. For that reason, the current tax charge is considered to be a better indicator of potential corporate income tax liabilities, both in the present and future. For this reason, in Part 4, we ask that a current tax reconciliation be undertaken (in addition to the standard total tax reconciliation).

In addition, for many stakeholders, cash tax paid is a key piece of information. This represents actual payments to governments and is critical when appraising the business' tax contribution in each jurisdiction over time.

15. pCbCR: employment

Question [one and a half points available]

a) Does the business disclose the number of employees, together with a note on the basis of calculation used, for each country in which it operates? (one point)

b) Is the aggregate gross remuneration of employees disclosed, together with a note on the basis of calculation used, for each country in which it operates? (half a point)

Scoring and rationale

One and a half points are awarded for disclosure of the number of employees and their aggregate gross remuneration in each jurisdiction, either within the publicly available Annual Report and Accounts or on its website. In both cases, the basis of calculation should be explained.

Data on the number of people employed and the amount that they are paid is an important indication of in-country scale and substance.

PART 4: TAX NOTES DISCLOSURES

In addition to pCbCR, it's important for businesses to provide tax notes in their financial statements that fully explain the current tax charge that has been reported, and any shortfalls from the current tax provisions that might be expected if the headline tax rate[xv] in the parent entity's local jurisdiction were to be applied to the business's accounting profits.

There will of course be many good reasons why a business does not pay tax at the headline rate of tax in its parent jurisdiction; for example, it may have substantive profits and tax residency in other jurisdictions, or legitimate tax reliefs are being claimed within both the spirit and letter of the law. However, these should be set out via a numerical reconciliation and an accompanying explanatory narrative for each substantive item. Many businesses set out a 'total tax' reconciliation as per IAS 12, but the Fair Tax Mark prescribes that a 'current tax' reconciliation also be provided.

A deferred tax note is also advocated, which explains the balance of assets or liabilities, expected timings of their materialisation and any uncertain tax positions that may exist.

The expanded tax notes should ideally be disclosed within the publicly available Annual Report and Accounts. However, for a limited time span of two years, it is permissible that they be housed elsewhere on the business's website , or indefinitely within prominent 'tax transparency' documentation.

In Part 5, the Global Multinational Business Standard assesses and rates tax contribution via cash taxes paid; however it is still the case that the provision of detailed tax notes in the financial statements are more substantially recognised in the scoring system underpinning this and other Fair Tax Mark accreditation standards.

16. Current Tax numerical reconciliation

Question [five points available]

a) Does the business provide a numerical reconciliation of its actual current tax charge, and compare this with the current tax provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits? (two points)

b) Does the business reconcile its actual current tax charge with its total tax charge for the year, by offering a reconciliation that explains the deferred tax provision for the year and other items that make up the difference? (one point)

Note: two bonus points awarded if at least 75% of the reconciling items are precisely described – e.g., using such phrases as 'The impact of capital allowance claims' or 'Reduced tax owing on capital gains arising'. Terms such as 'Other' or 'Losses' (without explanation being provided) do not qualify in this respect. (two points)

Note: the score in this section is zero if there are any significant related party debts.

Scoring and rationale

Up to five points are awarded, depending on the detail of the numerical tax reconciliations provided – with emphasis given to the need for a detailed current tax charge reconciliation.

A numerical tax reconciliation note should be included in the financial statements, which explains in detail the difference between the actual current tax charge and the current tax provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits.

The reconciliation should be specific in the matters it refers to and not rely on vague descriptions. To this end, at least 75% of the reconciling items should be precisely described – e.g., using such phrases as 'The impact of capital allowance claims' or 'Reduced tax owing on capital gains arising'. Terms such as 'Other' or 'Losses' (without explanation being provided) do not qualify in this respect. Where relevant, this should include an explanation of how variance in different national tax rates has affected the overall rate, but reference to the countries where the main variances have arisen is required here, and under Q17.

The expanded tax notes should ideally be disclosed within the publicly available Annual Report and Accounts. However, for a limited time span of two years, it is permissible that they be housed elsewhere on the business's website, or indefinitely within prominent 'tax transparency' documentation.

The score in this section is zero if there are any significant related party debts. This is in recognition of the substantive impact debt repayment can make on the pre-tax profit/loss outcome and tax contributions, and the extraction of value this constitutes if those debts are held by related parties.

17. Current Tax narrative explanation

Question [two points available]

Does the business provide a narrative explanation as to why its actual current tax charge differs from the provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits?

Scoring and rationale

Two points are awarded for the provision of a narrative explanation which explains in detail the difference between the actual current tax charge and the expected current tax provisions when the headline tax rate (in the parent entity's local jurisdiction) is applied to accounting profits.

This should refer to all the major items in the numerical reconciliation (see Q16) and explain what they mean, why they have arisen and what their consequences might be. The narrative explanation should also be specific in the matters it refers to and not rely on vague descriptions. The expanded tax notes should ideally be disclosed within the publicly available Annual Report and Accounts. However, for a limited time span of two years, it is permissible that they be housed elsewhere on the business's website, or indefinitely within prominent 'tax transparency' documentation.

18. Deferred tax

Question [three points available]

Does the business provide a deferred tax note that:

a) explains the deferred tax balance with significant precision such that the cause of at least 75% of the underlying asset and / or liability is clearly described? (one point)

b) states clearly when the underlying assets and / or liabilities are likely to have an impact on the business's tax bill, or a statement that this is not known because it is more than five years after the balance sheet date? (one point)

c) discloses the existence and numerical value of any uncertain tax positions that may exist, and the process of determination? (one point)

Scoring and rationale

Two points are awarded for a detailed public explanation of the business's deferred tax balance, including when underlying items are likely to impact the business's current tax provisions and cash taxes paid. This should be undertaken with sufficient detail such that 75% of the assets and / or liabilities underlying the deferred tax balance are clearly explained. This should include both a numerical breakdown and narrative explanation.

A further point is awarded for determination and disclosure of uncertain tax positions (UTPs). When a business files its corporate income tax returns, it may apply judgements relating to the tax treatment of specific elements included within that return. An uncertain tax position arises where there is uncertainty over whether the relevant tax authority will accept the tax treatment under local tax legislation. This could impact the value of deferred tax assets and liabilities, and eventually current tax and cash tax positions. The total numerical value of the UTPs, and whether this value includes potential interest and penalties, is required. It is acceptable for the UTPs to be disclosed outside of the deferred tax note, and elsewhere in the Annual Report and Accounts.

If uncertain tax positions are considered, none exist, and this is stated, then one point awarded. However, the process of determination should be described.

The expanded deferred tax note should ideally be disclosed within the publicly available Annual Report and Accounts. However, for a limited time span of two years, it is permissible that it be housed elsewhere on the business's website, or indefinitely within prominent 'tax transparency' documentation.

PART 5: TAX RATE

The majority of points that are available within the Global Multinational Business Standard relate to transparency, and it is entirely possible for a business to secure a Fair Tax Mark whilst making little or no tax contribution over a given period (as long as policy, governance and reporting are exemplary, and conduct falls within the spirit of tax law).

However, feedback from stakeholders (in particular, civil society groups) favours recognising cash tax contributions made as well. When looked at over time, cash taxes paid (termed the 'long-run cash effective tax rate' in academic studies)[xvi] provide the best available data for tracking tax rate and deviation from the expected headline rate of tax. Over time, they are a far more accurate means of measuring 'contribution' than total tax accounting accruals (i.e., what is commonly referred to as the 'effective corporate tax rate'): not least as the latter include deferred tax provisions that may never materialise as cash taxes paid. Even the current tax charge may differ substantially from cash taxes ultimately paid in connection with a reporting period, given the impact of: management estimation; unsettled disputes with tax authorities; and, the requirements of accounting standards in areas such as discontinued operations and employee share options.

We recognise that cash tax payments are 'net' and may not be precisely aligned with the relevant reporting period, but when looked at over five years this discrepancy becomes marginal.

Note: when measuring 'tax rate', the Fair Tax Foundation has previously favoured analysis of current tax provisions over four years. The shift to cash tax contribution over five years is considered to be a more accurate measure, but may be a blunt indicator in certain circumstances – especially when business have activity concentrated in low tax jurisdictions in an entirely legitimate manner. In such circumstances, and on a case-by-case-basis, we will undertake an alternative assessment based on current tax charge and a bespoke global blended rate that takes account of sales and employees (that is derived from the business's public country-by-country reporting).[xvii]

19. Cash tax contribution

Question [six points available]

Is the business' average tax rate (in terms of cash taxes paid) over the last five years:

- 7.5 – 10% (one point)
- 10.1 – 12.5% (two points)
- 12.6 – 15% (three points)
- 15.1 – 17.5% (four points)
- 17.6 – 20% (five points)
- over 20.1% (six points)

Scoring and rationale

Up to six points are awarded, depending on the average cash tax paid contribution over five years.

The cash tax paid data will be derived from the cashflow statement [xviii], and compared with the profit / loss over the same five year period, to produce the business's 'tax rate'.

Withholding taxes paid[xix] should be included in income tax paid figures, as per OECD guidelines.

The benchmark, which runs from 7.5% to 20% and above, is informed by the average headline rates of tax that have operated across the world in recent years.

If and when global discussions lead to a global minimum tax, perhaps at a rate of 15%, then the benchmark will be revisited – but only when the impact of carve-outs and permissible tax reliefs have been factored in. This is anticipated to be in 2024.

IV. Scorecard

ASSESSMENT 20XX/XX	**Business name** **Y.E. XX XXXXXXXX 20XX**
GLOBAL MULTINATIONAL BUSINESS STANDARD (2021)	
• The business has been assessed against the Fair Tax Foundation's Global Multinational business Standard (2021). • A score of 31 and over can be awarded a Fair Tax Mark. • In order to secure a Fair Tax Mark, the business must demonstrate a substantive commitment to responsible tax conduct, financial transparency and beneficial ownership disclosure. There must be a binding tax policy that explicitly shuns tax avoidance and the artificial use of tax havens, and no recent evidence of contradicting activities. All subsidiaries and related party transactions should be fully disclosed.	
SUMMARY REPORT	
Score	/48
Areas of excellence	•
Areas for improvement	•

1) General transparency		
CRITERIA	SCORE	NOTES
1. Does the business make freely available, on an annual basis, a full set of financial statements (including statements of profit or loss, financial position and cashflows)?	/3	
2. Is clarity provided on the nature of business activity?	/0.5	
3. Is clarity provided on the primary trading address (as opposed to a registered office address)?	/0.5	
4. a) Are the beneficial owners* of shareholdings of 5% and above disclosed? b) Are all related party transactions transparent? ** In addition to direct ownership, beneficial ownership is taken to include persons with significant control, politically exposed persons and trust beneficiaries.*	/2 /1	
5. a) Are the names and addresses of all directors provided? b) Is the country of residence of directors discernible?	/0.5 /0.5	
General transparency subtotal	**/8**	

2) Tax policy, implementation and compliance		
CRITERIA	SCORE	NOTES
6. Does the business publish a tax policy?	/1	
7. Has the business nominated a named board director to have responsibility for its tax policy?	/1	
8. Does the business report annually on its effective compliance with its tax policy? Does the business have a whistle-blower policy (and / or procedures) in place that explicitly covers the area of 'tax'?	/1 /1	
9. Does the business's public tax policy explicitly embrace the following commitments: a) seek to declare profits in the place where their economic substance arises? b) not use tax havens artificially and for the purposes of tax reduction? c) follow the spirit as well as the letter of the law, and not structure transactions and operations artificially for the purpose of avoiding tax?	 /1.5 /1.5 /1	
10. Does the business utilise tax havens as locations for either registration, subsidiaries or operations? *If the answer is 'no', then four points awarded.* *If' yes', but it is clear (from pCbCR) that presence reflects economic substance, then four points awarded.*	/4	
Tax policy, implementation and compliance subtotal	**/12**	

3) Country-by-Country Reporting		
CRITERIA	SCORE	NOTES
11. a) Does the business disclose a full list of subsidiaries, stating their name and place of incorporation? b) Is the country of tax residence of each subsidiary transparent? c) Is the nature of business activity of each subsidiary made clear?	/1 /2 /0.5	
12. a) Does the business disclose data on net assets for each country in which it operates? b) Does the business breakdown the net assets figure and disclose data on the gross assets and gross liabilities for each country in which it operates?	/1 /1	
13. Is data on the revenue and net profit / loss before tax provided for each country in which it operates?	/2	
14. Does the business disclose the total tax charge, current tax charge, deferred tax charge and cash taxes paid for each country in which it operates?	/3	
15. a) Does the business disclose the number of employees, together with a note on the basis of calculation used, for each country in which it operates? b) Is the aggregate gross remuneration of employees disclosed, together with a note on the basis of calculation used, for each country in which it operates?	/1 /0.5	
Country-by-Country Reporting subtotal	**/12**	

4) Tax notes disclosures		
16. a) Does the business provide a numerical reconciliation of its actual current tax charge, and compare this with the current tax provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits?	/2	
b) Does the business reconcile its actual current tax charge with its total tax charge for the year, by offering a reconciliation that explains the deferred tax provision for the year and other items that make up the difference?	/1	
Note: two bonus points awarded if at least 75% of the reconciling items are precisely described – e.g., using such phrases as 'The impact of capital allowance claims' or 'Reduced tax owing on capital gains arising'. Terms such as 'Other' or 'Losses' (without explanation being provided) do not qualify in this respect.	/2	
17. Does the business provide a narrative explanation as to why its actual current tax charge differs from the provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits?	/2	

4) Tax notes disclosures		
18. Does the business provide a deferred tax note that: a) explains the deferred tax balance with significant precision such that the cause of at least 75% of the underlying asset and / or liability items are clearly described?	/1	
b) states clearly when the underlying assets and / or liabilities are likely to have an impact on the business's tax bill, or a statement that this is not known because it is more than five years after the balance sheet date?	/1	
c) discloses the existence and numerical value of any uncertain tax positions that may exist, and the process of determination? ** Note: if uncertain tax positions considered, none exist, and this stated, then one point awarded.*	/1	
Tax notes disclosures subtotal	**/10**	

5) Tax rate		
CRITERIA	SCORE	NOTES
19. Is the business's average tax rate (in terms of cash taxes paid) over the last five years: – 7.5 – 10% (one point) – 10.1 – 12.5% (two points) – 12.6 – 15% (three points) – 15.1 – 17.5% (four points) – 17.6 – 20% (five points) – over 20.1% (six points)	/6	
Tax rate subtotal	**/6**	
Total	**/48**	

Q19 calculations

Business name
Amounts in Xxxx million

	2016	2017	2018	2019	2020	Average
Income	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Profit/(loss) before income taxes	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Income taxes expense/(credit)	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Current tax charge	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Current tax rate	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Expected rate	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Difference in current tax rate	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Deferred tax charge/(credit)	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Total income tax expense/(credit)	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Total income tax rate	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Cash taxes paid/(received)	Xxx	Xxx	Xxx	Xxx	Xxx	Xxx
Cash taxes rate	Xxx	Xxx	Xxx	Xxx	Xxx	**Xxx**

V. About the Fair Tax Foundation

About the Fair Tax Foundation

The Fair Tax Foundation was launched in 2014 and operates as a not-for-profit social enterprise. We believe that companies paying tax responsibly should be celebrated, and any race to the bottom resisted.

The Fair Tax Mark accreditation scheme, the gold standard of responsible tax conduct, seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place.

Accredited organisations range from owner-managed business to multinational groups, and include listed plcs, co-operatives, social enterprises and large private businesses. Initially, Fair Tax Mark accreditation was available only to businesses headquartered in the UK, but this was extended internationally to multinational enterprises in 2021, with the launch of the 'Global Multinational Business Standard'.

The Fair Tax Mark accreditation standards are based on the following principles. A business should:

- pay the right amount of tax (but no more) in the right place at the right time, according to both the letter and the spirit of the law;
- readily provide sufficient public information to enable its stakeholders to form a rounded and informed view of its beneficial ownership, tax conduct and financial presence and impact across the world;
- say what they pay with pride.

Additional initiatives, in the UK, include Fair Tax Week and the Councils for Fair Tax Declaration.

VI. Endnotes

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[i] See Thomas Tørsløv, Ludvig Wier and Gabriel Zucman (2021). "The Missing Profits of Nations." Amounts are in current US$ and relate to 2018. Available online at https://missingprofits.world/

[ii] Global trends in corporate tax disclosure (June 2021). FTSE Russell. Commissioned by PRI.

[iii] See More in Common (2020). Research conducted in France, Germany, Italy. The Netherlands. Poland, United Kingdon and United States. https://www.moreincommon.com/media/y2clqzwx/more-in-common-the-new-normal-comparative-7-country-en.pdf

[iv] See Tax Justice Network (2015). Ten Reasons to Defend the Corporate Income Tax. http://www.taxjustice.net/2015/03/18/new-report-ten-reasons-to-defend-the-corporate-income-tax/

[v] See https://fairtaxmark.net/wp-content/uploads/2021/04/Criteria-MNC-April-2021.pdf

[vi] See https://fairtaxmark.net/wp-content/uploads/2020/10/Essential-elements-of-Global-Corp-Standards-for-Resp-Tax-Conduct-FINAL.pdf

[vii] See https://fairtaxmark.net/aboutus/advisors/

[viii] The Global Multinational Business Standard cannot be used to assess 'single-country' traders, who would require bespoke national standards. The Fair Tax Foundation is open to partnerships to develop such single country standards (as has been done for the UK) on a not-for profit basis if local civil society groups are sufficiently motivated and resourced.

[ix] In 2022, the UK-based Multinational business Standard will be updated to bring it into line with the Global Standard. Existing certifications will be given a two year grace period to move over to the new Standard.

[x] See Investors' Recommendations on Corporate Income Tax Disclosure. https://www.unpri.org/

[xi] See GRI 207: Tax 2019. https://www.globalreporting.org/

[xii] For example, "full", as set out in IFRS' International Accounting Standard (IAS) 1. https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/

[xiii] For example, "related party", as set out in IFRS' International Accounting Standard (IAS) 24. A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. https://www.ifrs.org/issued-standards/list-of-standards/ias-24-related-party-disclosures/

[xiv] For example, see Tax Justice Network's Corporate Tax Haven Index 2021.
https://cthi.taxjustice.net/en/cthi/cthi-2021-results
[xv] Comparison against a blended rate is equally permissible, as long as the underlying methodology is suitably explained.
[xvi] For example, focussing on this metric allows for a better understanding of factors that give rise to 'book-tax differences' over a period, such as employee stock options and movements in the tax contingency reserve. See Dyreng, S., Hanlon, M., & Maydew, E. (2008). Long-run corporate tax avoidance. The Accounting Review, 83, 61–82.
[xvii] On a case-by-case-basis, we will undertake an alternative assessment to cash taxes paid based on the current tax charge and a bespoke global blended rate that takes account of sales and employee numbers (that is derived from the business's public country-by-country reporting). The formulary apportionment will provide equal weighting to revenue and employee numbers, for the generation of a bespoke weighted headline rate of tax against which the current tax charge will be compared and scored as follows:
·Within one percentage point difference (six points scored)
·One to three percentage points difference (four and a half points scored)
·Three to five percentage points difference (three points scored)
·Five to seven percentage points difference (one and half points scored)
[xviii] Cash taxes paid will include: domestic, foreign and state and local payments; as well as settlements relating to prior years.
[xix] This refers to WHT 'suffered' by the business, as distinct from tax withheld by the business and paid on behalf of other entities/persons.

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