Tax Transparency: A Win-Win Situation in the Quest for Tax Justice?

Update created: 10 April 2025

***Tomás Costa Ramos* | International Tax Director at KPMG Portugal**

The author can be contacted at tomasramos@kpmg.com

***Carlota Mendes Martins* | International Tax Consultant at KPMG Portugal**

The author can be contacted at mariacmartins@kpmg.com

Over the past decade, the international policy framework has been witnessing global advocacy for tax transparency, with regulatory initiatives aiming to ensure responsible tax practices and to hold multinational enterprises (MNEs) accountable for paying their fair share of taxes.

This note focuses on the foundations of tax transparency as an ally of the measures already implemented by governments to address tax avoidance practices and the underlying advantages for both stakeholders and MNEs in disclosing tax-related information. Ultimately, the goal is to understand tax transparency's role in the quest for broader tax justice.

1. The Motto for Tax Transparency

In recent years, the growing globalization of the economy has heightened the risk of discrepancies between the location where economic activities take place and where the actual profits are reported for taxation purposes. This misalignment has raised several concerns from policymakers and the broader society on whether companies are contributing to the communities in which they operate by paying their fair share of taxes.

Under the European Union (EU) Code of Conduct (Business Taxation), the OECD Base Erosion and Profit Shifting (BEPS) Project and the European Commission Anti-Tax Avoidance Package, governments around the world have been implementing measures to prevent and address harmful tax practices and narrow the bridge between the location where value/profits are generated and the location where they are taxed.

Although these preventive measures appear to be effective to a certain extent, the outbreak of high-profile tax avoidance schemes continues to place a pressing spotlight on how MNEs are governing and managing their taxes around the world, even in a post-BEPS world.

More recently, the rise of environmental, social and governance (ESG) standards further enhanced the need for tax transparency. Stakeholders are becoming more invested in understanding MNEs' tax policies and governance models and more attentive towards the engagement in harmful tax practices.

The international tax paradigm is undergoing significant change, and the fight against aggressive tax planning is taking on new outlines. By limiting the room for aggressive international tax planning through disclosure, tax transparency has emerged as an ally to the anti-abusive measures already implemented.

In recent years, the international community has witnessed a growing number of voluntary standards and regulations that aim to establish a level playing field between companies and provide public access to MNEs' qualitative and quantitative tax information.

Guided by the European Union's efforts in this regard, corporate tax transparency is now an expectation from policymakers, investors and other stakeholders. As such and urged by the need to demonstrate that they manage their tax function in a responsible manner, many MNEs are opting to proactively disclose their tax information, aligning not only with the market's expectations, but also with international best practices.

This new paradigm also represents an opportunity for MNEs to review their tax strategy and governance model, as well as an opportunity to maintain and build their reputation, by fostering trust and credibility with all stakeholders and avoiding the risk of public shame for not paying their fair share of taxes.

So, what is the current tax transparency landscape and what does it mean for MNEs and stakeholders?

2. Tax Transparency's Evolving Landscape

In response to the above, and for the past years, international standard setters, such as the Global Reporting Initiative (GRI), and national governments, have been designing and updating disclosure frameworks to support companies in their journey towards tax transparency.

In addition, multiple mandatory reporting requirements are also being introduced by legislators, both at a national and a European level, under the Public Country-by-Country Reporting (CbCR) Directive.

Whether mandatory or voluntary, these tax transparency standards typically highlight different areas of a company's tax function, namely their tax strategy and risk management approach, their tax governance and quantitative details of their tax contribution.

a. Voluntary disclosures

i. GRI 207 Tax standard

In 2019, the first sustainability reporting standard for tax was launched. The groundbreaking GRI 207 Tax standard set the scene for all the tax transparency frameworks that followed and is the most commonly used standard for MNEs when reporting their tax information.

Comprised of four sets of complete disclosures, GRI 207 focuses on how companies approach their tax matters, their tax governance and tax control framework, how they engage with their stakeholders and their tax contribution in the jurisdictions in which they operate.

These standards intend to provide the stakeholders with information on an MNE's tax matters, both at a qualitative and quantitative level, allowing for a higher degree of scrutiny.

Notwithstanding, MNEs may also benefit from the proactive use of this set of standards. By reporting in accordance with GRI 207, MNEs are better positioned to control their tax narrative and explain their tax operations, avoiding misinterpretations from media and civil society of the groups' tax contributions and mitigating potential reputational risks related to tax.

Additionally, MNEs have been acknowledging the underlying benefits of voluntarily disclosing their tax information by leveraging their significant tax contribution, not only internally, but also in the relationship with their investors, tax authorities, public bodies and society.

ii. *B-Team Responsible Tax Principles*

The B-Team is a global collective of business and civil society leaders that advocates for sustainable business practices.

Within its scope of action, and given the close relationship between taxation and the social component in ESG, the B-Team Responsible Tax Principles were developed. Although voluntary in character, these principles lay the ground for MNEs to enhance their corporate responsibility and demonstrate their part in contributing to a sustainable society, by setting a good example.

By highlighting the critical role of taxes in the development of communities, these principles are intended to drive best practices and act as a call to action, not only for companies who wish to strengthen their tax management approach, but also to governments and to civil society as a whole.

The principles focus on three main areas (divided into seven principles):

- **approach to tax management**, which includes accountability and governance of a tax strategy, compliance with the letter and spirit of the law and the alignment of business structures with sound commercial reasons;
- **relationship with others**, namely tax authorities, governments and civil society; and
- **reporting to stakeholders**, which entails a transparent communication of the company's approach to tax and tax paid.

iii. EU Member-States national initiatives

At a national level, Member States have been introducing several tax transparency initiatives in recent years, inspired by the above standards.

A non-exhaustive list of examples includes the (i) Spanish Code of Best Tax Practices, which aims to enhance the relationship of Spanish companies with the Spanish tax authorities through the voluntary disclosure of tax information; and (ii) the VNO-NCW Tax Governance Code, which encourages Dutch companies to disclose a set of tax information under a "comply or explain" principle, closely following the standards set by GRI 207 and the B-Team.

b. Mandatory disclosures – the Public CbCR Directive

As discussed, communities in which MNEs develop their activities can be highly impacted by the taxes (not) paid therein, which are essential to the funding of public services and infrastructure. This is one of the main reasons why tax avoidance practices are not consistent with the ESG standards and undermine the perceived tax justice.

The assembly of a CbC report has not been new for MNEs since the implementation of the BEPS Action 13 initiative. MNEs are required to provide tax authorities with a set of financial information for each jurisdiction in which they operate, despite there being cases of non-compliance in the market.

However, in 2021, to enhance tax transparency following the outbreak of high-profile tax avoidance schemes, the

European Union felt the urge to expand OECD's Action 13 goal by requiring MNEs to make their CbCR publicly available.

By obliging MNEs to disclose their CbCR under Public CbCR Directive (2021/2101), the European Union is meeting stakeholders and civil society's call for more transparency and corporate responsibility by increasing public scrutiny and holding publicly accountable companies that may not be paying their fair share of tax.

In line with the market's best practices, the quantitative information contained in the public CbCR could be accompanied by qualitative information, thus providing a holistic understanding of an MNE's tax affairs. By aligning their tax narrative with their tax contribution, MNEs will be able to increase stakeholders' trust and position themselves as responsible business actors.

3. Conclusion

Traditional anti-abuse measures, although effective, did not seek to hold companies publicly accountable for the way they manage their tax function and tax contribution, which was now introduced by mandatory or voluntary tax transparency.

Although the real impact of the above-mentioned standards is yet to be fully perceived, the market is already responding positively to the introduction of new disclosure requirements, with an increasing number of companies voluntarily disclosing information on their tax matters.

This new paradigm also represents a significant opportunity for MNEs to foster public trust as responsible corporate citizens, to leverage their negotiations with tax authorities, investors and other stakeholders by showcasing their tax contribution, as well attracting new investments from capital markets.

IBFD references:

- EU tax law developments are reported on the daily IBFD Tax News Service page.
- For a country-specific overview of public CbCR developments and requirements, *see* Tax Risk Management Monitor.
- I. van der Maas, *Public country-by-country reporting: Tax transparency and allocation of group profits*, EU Tax Focus (10 Jan. 2025), IBFD.
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