PRESS RELEASE

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'To what extent do companies report on their tax payments?'

Only a small minority of listed companies report comprehensively on their tax payments, providing a country-by-country breakdown and information on their number of employees, operational activities, turnover and profits. Furthermore only a small number justify their physical presence or the presence of their assets in tax havens or offshore centers.

A February 2017 Vigeo Eiris study analysing 1,139 multinational companies revealed that:

- **Only 2.5% of companies reported comprehensively on their tax payments in line** with OECD recommendations[1]. This minority provide a geographical breakdown of their tax payments and data on their operations including sales, operating profit or the number of employees in each area of operation. They also disclose the actual tax rate they pay and explain differences between this rate and the statutory rate.

- **Nearly 1 in 10 companies (9.1%) fails to disclose any information on their tax payments.**

- **44.4% of companies only disclose partial information, generally limited to the gross amount of tax they pay,** with no geographical breakdown by operating country or region.

- **Less than half of companies provide a breakdown of the taxes they pay by country or region**; and for one third of these companies the reporting covers less than half their activities.

- **Nearly a quarter of European companies (24.9%) and a fifth of American companies (18.3%) provide comprehensive information on their tax payments**, sales, operational results and the number of employees.

- **Banks, financial institutions and companies from the extractive sectors appear to disclose their tax payments most extensively**, though companies in these sectors have been subject to specific regulation. For financial companies, the EU Capital Requirement Directive (CRD IV), concerning the prudential supervision of credit institutions and investment firms, require companies to disclose profits made, taxes paid and subsidies received, as well as turnover and number of employees on a country-by-country basis. In June 2017 the European Commission proposed new tax transparency

[1] https://www.oecd.org/tax/beps/beps-action-13-on-country-by-country-reporting-peer-review-documents.pdf

rules for intermediaries that design or sell potentially harmful tax schemes to dissuade them from encouraging clients to adopt aggressive tax planning practices. In the extractive sector, the Extractive Industries Transparency Initiative (EITI) set up a Standard requiring countries to publish information on key aspects of their natural resource management, based on companies' disclosure. This includes how licences are allocated, how much tax and social contribution companies pay and where this money ends up in both local and national government.

- **Banks, financial institutions and extractive companies are also subject to the most controversies.** 42.3% of tax controversy cases (142) concern banks and financial companies. They are either criticised, investigated or fined for tax avoidance practices, client tax planning schemes, tax fraud and even money laundering. 26.2% of cases (88) involve extractive companies and relate to disputes over royalties payments and tax fraudulent behaviours.

- Overall, 336 tax controversies have been identified representing nearly 4% of all cases observed in the Vigeo Eiris database.

- **17.1% of companies face at least one tax controversy**, and of these, 16.4 % have been fined.

- Tax controversies mainly concern European and American listed companies, with **53.6% of European and 34.8% of American companies facing controversies.**

- The cost of aggressive tax planning practices is estimated to be between at least USD 70 billion and USD 120 billion per year in developing countries[2], around USD 135 million[3] per year in the USA, and between EUR 50 to 70 million per year in the European Union[4].

In 2015, the OECD launched its Action Plan on Base Erosion and Profit Shifting (the 'BEPS Action Plan'), identifying 15 actions to address international tax avoidance and guaranteeing that profits are taxed where they are generated. Action 13 of the plan requires multinational companies with annual consolidated group revenue of EUR 750 million or more to provide tax authorities with a country-by-country report. The report should include revenue figures, profit or loss before income tax, income tax paid and accrued, stated capital, accumulated earnings, number of employees and tangible assets, as well as a list of every entity in the group, its jurisdiction of tax residence and the nature of its business[5]. European Union and United States regulations are now in line with OECD recommendations. On 4th July 2017 the European Parliament adopted a proposal urging multinational companies to publish their tax reports, broken down by country. In Europe, public tax reporting is already compulsory for extractive companies and financial institutions.

Taking recent legislative developments into account – alongside public opinion after the numerous scandals linked to tax avoidance abuse, tax havens and a lack of transparency around business activity, profit and tax payment - companies are expected to provide, by country or area of activity, detailed information on their tax payment and their operational

[2] "Financing for development: key Challenges for policy makers" – EURODAD -Jesse Griffiths - July 2015

[3] " Rigged Reform: US companies are dodging billions in taxes but proposed reforms will make things worse" – Oxfam – April 12 2017

[4] "Commission unveils anti-tax avoidance package" – EU Observer- January 28 2016

[5] https://www.oecd.org/tax/beps/beps-action-13-on-country-by-country-reporting-peer-review-documents.pdf

activities. They must also justify their physical presence or the presence of their assets in tax havens or offshore centers.

According to Fouad Benseddik, Director of Methods and Institutional Affairs at Vigeo Eiris: *'There is much work to be done to effectively tackle tax avoidance and change current controversial behaviours. Companies that best fulfil their triple duty of conformity, due diligence and reporting understand public dislike towards scammers, and are best placed to respond to both investor requirements and the inevitable increase of regulatory requirements towards greater transparency».*

For more information:

Vigeo Eiris Press Contacts:

PARIS	Anita LEGRAND	+33(0)1 55.82.32.44	anita.legrand@vigeo.com
BRUSSELS	Jordi LESAFFER	+32.2.206.11.17	jordi.lesaffer@vigeo.com
CASABLANCA	Rime OUADI	+212.522.87.14.77	rime.ouadi@vigeo.com
LONDON	Stephen HINE	+44 (0) 20 3752 5764	stephen.hine@eiris.org
MILAN	Simonetta BONO	+39 02 27 72 71 40	simonetta.bono@vigeo.com
TOKYO	Robert VERDIER	+81 3 5721 6159	robert.verdier@vigeo.com
SANTIAGO	Fanny TORA	+56 2 29 07 40 68	fanny.tora@vigeo.com
MONTREAL	Anne QUINTAL	+1 514.214.9339	anne.quintal@vigeo.com
STOCKHOLM	Kristina SVANTESON	+46 (0)73 663 62 46	kristina.svanteson@vigeo.com

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