Sustainable Corporate Tax Practices: Developing ESTG

Professor Kerrie Sadiq
Queensland University of Technology

16th International ATAX Tax Administration Conference 2025

International Tax in the Digital Age

What is ESG?
(A gentle reminder)

ESG stands for Environmental, Social, & Governance aspects of companies

ESG entails factors/indicators used to measure non-financial impact of corporate investments and other activities

Environmental

Environmental related activities:
Energy Efficiency, Carbon Emissions, Waste Management, Water Use, Recycling

Social

Activities related to social contribution:
Donations, Volunteering, Employee Support, Workplace Health & Safety, Salaries & Wages

Governance

Governing the “E” & “S”:
Board Composition & Diversity, Auditors, Committees, Sustainability Oversight

Time for T(ea)
Where does tax currently fit in ESG?

What the literature argues:

- Tax is the **'silent t'** in **ESG**
- Tax is a critical element of a business's **social contribution ('S')**
- Tax fits solely within the **'G' component**
- 'T' should be added to ESG to form ESTG

Tax is relevant across all three components of ESG. Tax funds a significant proportion of the 'E' and 'S' components, while corporate tax governance is a critical element of the 'G'. Tax transparency provides confidence around a firm's contribution to the 'S' component.

Time for T(ea)
Where does tax currently fit in ESG?

- There is **an inherent problem** with classifying tax as part of the ‘S’ or ‘G’ component.
- Specifically, there is **conflict between societal expectations** that MNE's pay their 'fair share' of taxes (‘S’) and what the law requires them to pay (‘G’).
- Tax liabilities are determined by law and **are not voluntary.**
- So, public transparency will be of limited help (it does enlarge the information set), and the desired outcome of increased tax payments will only be achieved **via changes in the tax laws to close loopholes.**
- The tax law (aka government) is **the enabler** of the actual tax outcomes observed and widely criticized.
- Therefore, where tax transparency fits within ESG is more nuanced.

“T” in ESG

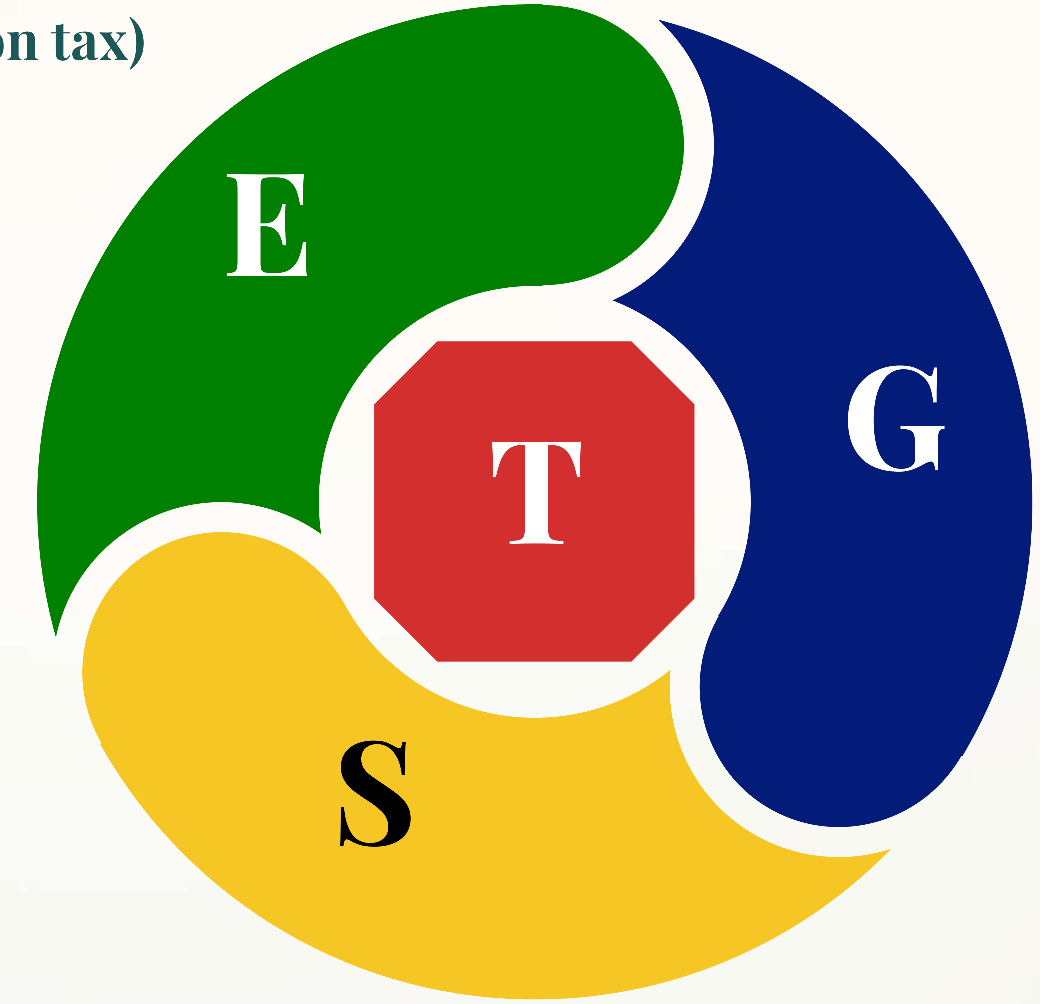
Mandatory public & private/
Voluntary private disclosure

Taxes by governments to fund in reducing pollution

Environmental taxes (e.g., Carbon tax)

Green incentives (e.g., renewable energy credits)

Tax changing consumption behaviour



Taxpayers held accountable for tax legal obligations

Tax management: governance policies, procedures, & control frameworks

Responsible & transparent tax conduct

Taxes help fund public goods and services (e.g., infrastructure)

Tax breaks for socially desirable investments

‘Fair share’ of taxes & social contract/license to operate

Paying taxes support government to achieve sustainable development & inclusive growth

Voluntary public disclosure

Spilling the T(ea)
Where is tax reported?

- Different types of disclosure - **Mandatory vs Voluntary**
- Different audiences - **Public vs Private**
- Different **objectives** & **reactions** of firms

Examining tax transparency as a whole within the ESG framework is problematic

Rationale for Corporate Tax Disclosures

Various rationales are provided, either **mandating or providing voluntary tax reporting** and disclosure guidance

Why voluntary disclosure is needed?

Discourage Tax Aggressiveness

to encourage MNEs to highlight that they are paying their fair share of tax, to encourage all businesses to refrain from engaging in aggressive tax avoidance

Enhancing Transparency

to become more transparent and educate stakeholders about their compliance with tax laws.

Inform Tax Policy Development

to help inform public debate and support the development of socially desirable tax policy

Credibility of the Tax System

to promote confidence and credibility in the tax practices of organisations and the tax system

Disclosure vs Tax Avoidance

Tax transparency is expected to reduce MNE's tax avoidance through three channels (Muller, Spengel, & Vay, 2020):

1

Scrutiny

Tax authorities can use the incremental information to enhance their audit scrutiny and efficiency

2

Law & Policy

Legislators can discover legal loopholes and subsequently adjust the law

3

Public Pressure

In the case of public disclosures, firms may be disciplined by increased accountability to the public, which may exercise pressure on companies to pay their "fair share" of taxes

4

Investor Pressure

Institutional investors are now starting to raise shareholder resolutions against MNEs pushing them to adopt public CbCR (for example) and to encourage the firm to reduce tax risk through aggressive tax positions

Is tax reporting working?

***Mixed success** with voluntary tax reporting because MNEs are self-interested actors and are not responding to a soft-law approach*

Reasons for Failure of Tax Transparency Initiatives

Differing aims/objectives of tax transparency initiatives	01
Inconsistent reporting frameworks	02
No moral view of tax	03
MNE power	04
Shareholder pressure	05
Information complexity & recipient processing capability	06

Disclosure

Mandatory Disclosure

Public

Firm → Investors/ Society

General Purpose Financial Reports
Public CbCR:

- EU Banks (CRD IV)
- EU Firms/Australia (forthcoming)
- Tax Strategy (UK)

Third-party → Society

- RETI (Tax Authority)
- Public Tax Returns (Norway)

Private

Firm → Tax Authority

- Tax Return
- Reportable Tax Positions
- International Dealings Schedule
- Audit Requests
- Private CbCR (OECD)
- Justified Trust program

Third-party → Tax Authority

- Automatic Exchange of Information by Tax Authorities

Disclosure

Voluntary Disclosure

Public

Firm → Investors/ Society

- CbCR, GRI 207
- Tax Strategy & other disclosure in ESG reports
- Tax Contribution Reports
- VTTC (Australia)
- Media Defences
- General Purpose FR
- Tax Settlements (taxpayer)

Third-party → Society

- Aggregated CbCR (OECD Action 13/ IRS)
- Media Tax Shaming
- Data Leaks
- Justified Trust Ratings/ Tax Settlements (tax authority)

Private

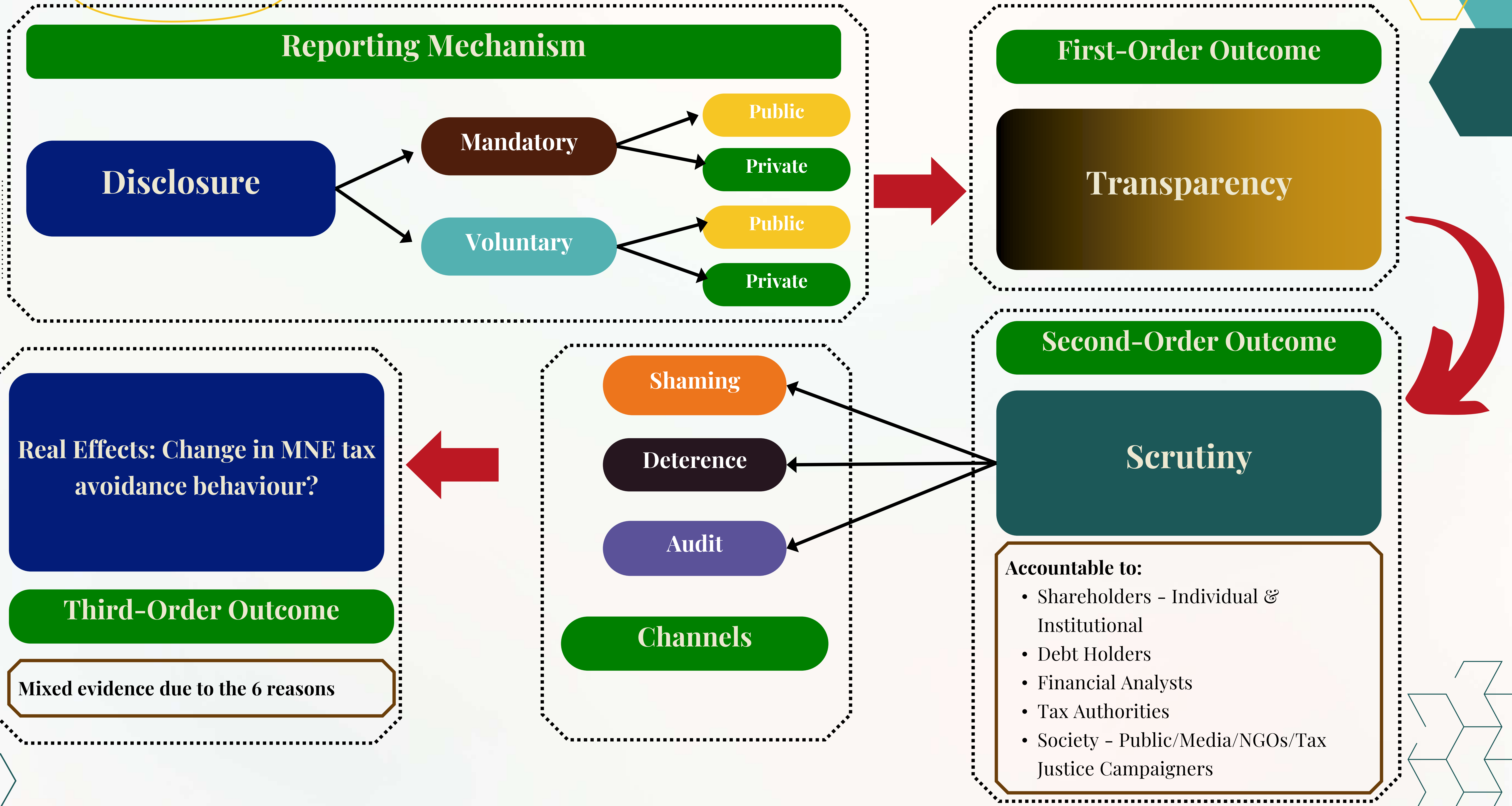
Firm → Tax Authority

- Tax Return
- Reportable Tax Positions
- International Dealings Schedule
- Audit Requests
- Private CbCR (OECD)
- Justified Trust program

Third-party → Academics

- De-identified private OECD Action 13 CbCR provided by tax authorities (e.g., Germany)

Disclosure

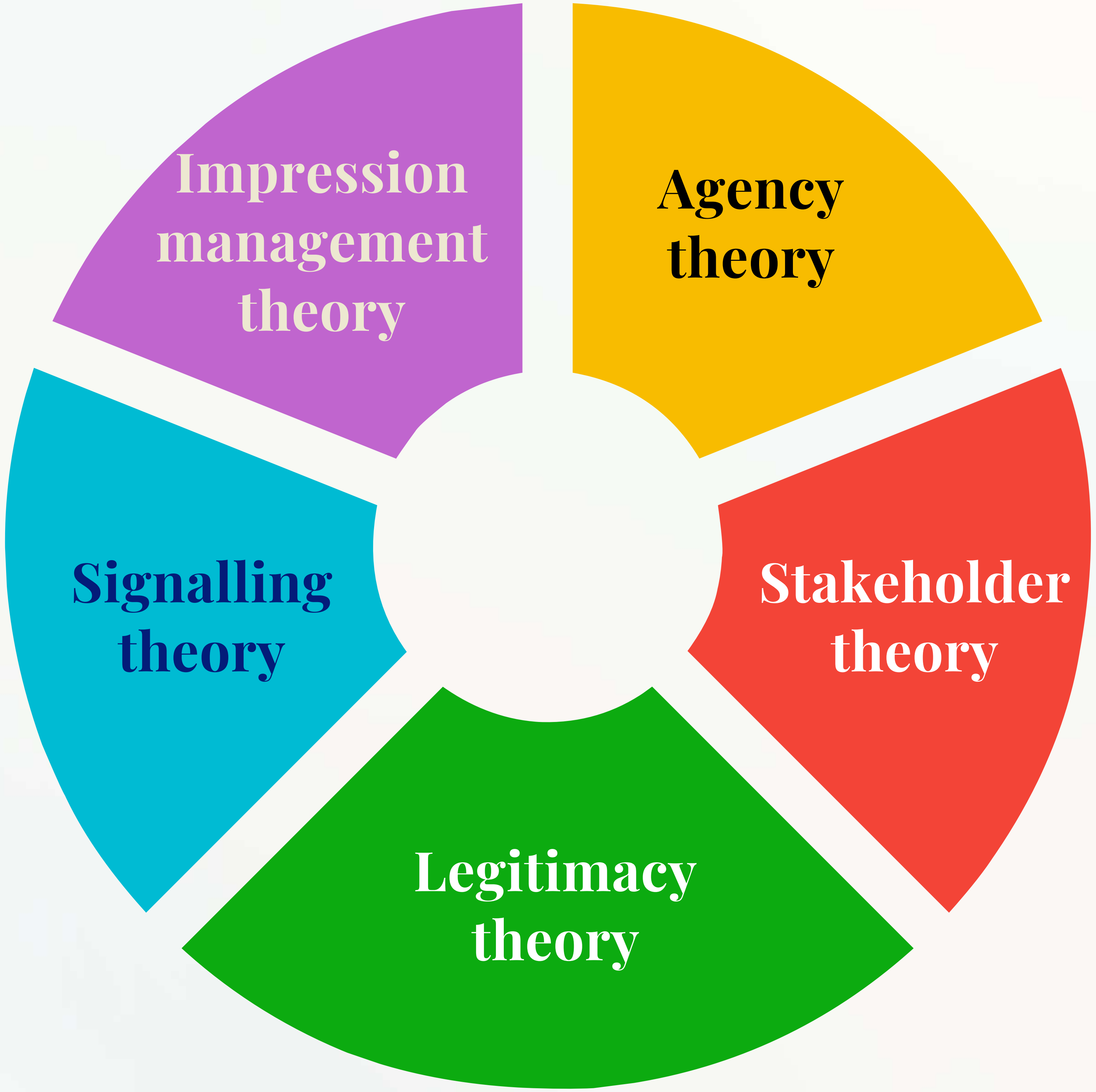


Reporting Mechanism
Disclosure
Mandatory
Voluntary
Public
Private
Public
Private
First-Order Outcome
Transparency
Second-Order Outcome
Scrutiny
Accountable to:
• Shareholders - Individual & Institutional
• Debt Holders
• Financial Analysts
• Tax Authorities
• Society - Public/Media/NGOs/Tax Justice Campaigners
Shaming
Deterence
Audit
Channels
Real Effects: Change in MNE tax avoidance behaviour?
Third-Order Outcome
Mixed evidence due to the 6 reasons

The Accountability Paradox

Suggests that mechanisms designed to improve systems may threaten them and discourage qualities that support reasonable behaviours

Theoretical Frameworks for Reporting Mechanisms



External Pressures & Tax Disclosures

Institutional Theory

Industry Practices

Regulations

Stakeholder Theory

Regulator Scrutiny

Stakeholder Pressure

Institutional Theory

Agency Theory

Resource Need

Investor Pressure

Resource Dependancy Theory

Maintain Legitimacy

Negative Press

Legitimacy Theory

Impression Management Theory

Why Perspective Matters

Holland et al (2016) note that "The implication consequent upon the authors' findings is that if greater disclosure is about companies' tax decisions is deemed necessary by society, **then society cannot rely on voluntary disclosure."**

1. A company facing tax avoidance allegations releases a corporate social responsibility (CSR) report highlighting its community contributions and sustainability efforts

2. A company accused of tax avoidance might disclose job creation statistics or increased local investments to reduce political backlash

Revenue Effects of Tax Disclosure

Hoopes et al. (2024) discuss three mechanisms through which tax disclosure may result in additional revenue

01 Shaming Mechanism

Ordinary people will see these disclosures and **demand corporations** change their behaviour. However, there is **scant evidence** that individuals pay much attention to corporate tax disclosures (Asay et al., 2023).

02 Deterrence Mechanism

Tax authority must actually **use the information,** or at least the firms must anticipate it being used. Further, if similar information **already exists,** the revenue effects of disclosure regimes should be expected to be muted (Nessa et al., 2024).

03 Audits

Tax collections may be useful in the enforcement process and generate additional income upon audit. As a result, how **effective the audit process is,** how well the information can be used in the **litigation process,** etc, will all play a role in the effect of disclosure on additional revenue.

A Potential Solution?

A cohesive legislative approach in which MNEs are required to provide comprehensive tax reports that focus on transparency and accountability and are standardized to ensure global comparability.

MNE complexities and interactions with tax regimes obscure these entities' true tax positions and practices both globally and within domestic jurisdictions.

Stay Tuned!

International Tax In The Digital Age - QUT Webpage

SCAN ME

International Tax Insights - LinkedIn

SCAN ME