Exploring tax from an ESG perspective with the Fair Tax Foundation

Alexis Hello, and welcome to Taxing Matters, your one stop audio shop for all things tax brought to you by RPC.

My name is Alexis Armitage and I will be your guide as we explore the sometimes hostile and ever-changing landscape that is the world of tax law and tax disputes. Taxing Matters brings you a roadmap to guide you and your business through this labyrinth.

In case any of you miss any crucial information or just want some bedtime reading, there is a full transcript of this and indeed every episode of Taxing Matters on our website at www.rpc.co.uk/taxingmatters.

I am delighted to be joined today by Paul Monaghan. Paul is a co-founder of the Fair Tax Foundation which was set up in 2014 and became chief executive in September 2017. Previously Paul was architect of much of the UK co-operative movement's ethical and environmental excellence for nearly two decades. Before that he combined biological sciences research with campaigning on third world debt and ethical leading.

Paul led sustainability programmes across the cooperative group in areas as diverse as food, banking, insurance, pharmacy funerals and travel! Contributions included the creation of world class programmes of environmental management, ethical finance, sustainability reporting and a unique commitment to campaigning and progressive public policy intervention.

In 2014 Paul was voted first in Global CEO's Top 100 CSR Leaders poll and in 2022 was recognised along with the Fair Tax Foundation in ITR's Global Tax 50. In addition, Paul regularly lectures at various business schools and co-authored the well-received "Lobbying for Good".

I understand that the rise and fall of Wigan Athletics also keeps Paul awake at night. So, without further ado let's get started. Welcome Paul and thank you so much for joining me today.

Paul Hi Alexis!

Alexis Just to get everyone started, what is the “Fair Tax Foundation” and what is its purpose?

Paul The “Fair Tax Foundation” has two major aims, one of which is to encourage, recognise, cajole businesses to be responsible taxpayers and secondly to ensure that those responsible taxpayers are recognised and celebrated both in terms of public profile - but also, actually, in terms of, for example, UK procurement law.

So, one of the things we believe is that UK public procurement, whether its national or local, should be amended - so there is a little tweak - which allows for responsible tax conduct to be allowable factor in procurement decision making and actually we've got, as an aside, many fair tax councils who are seeking to just do that and support that. So, we're there to really recognise, help, celebrate the good guys because there is already lots of people out there who are interested in doing the naming and shaming of the bad guys.

The reason we set this up back in 2013 and launched in 2014 is that back then - and I was aware of this because of my background in ethical business - was that there really was already out there standards and accreditation schemes for virtually every bit of corporate responsibility, ESG whatever you want to call it. So, if you want to know there's no pesticides in your food, well you've got the organics label and if you want to know that the chocolate bar you are eating has been made with people who have been paid decent wages and there's no child labour involved, then we've got the fairtrade label for the chocolate bars and the coffee and the bananas. If you want to know that in the UK people are getting a living wage, well we've got the living wage accreditation. So, numerous accreditation schemes for numerous issues except one. The one that nobody wanted to touch was tax - and there was two reasons people didn't want to touch tax. Initially it was because it was perceived [to be] really complex. People shied away from it and actually for a long time it was considered too controversial.

For a long time, there were people who thought if one pointed out tax avoidance in a business it could be libelous to do so - and that isn't the case - and when the likes of Reuters started pointing it out for Starbucks, way back, pointing out year after year after year after year of growth and growth and growth and profit and profit and profit - no tax was being paid because of substantial royalties all being transferred to the Netherlands - when this was published, the ceiling didn't cave in, everybody realised the journalistic community, they could talk about this freely. Then, suddenly, about ten years ago we had this surge in interest. So, even now after ten years, when you poll consumers and you say, “what is the number one interest, what is the number one concern you have in the UK over corporate conduct” every single year for about the last seven years it has been tax. Way ahead of human rights, way ahead of climate change, way ahead of waste and recycling. People are genuinely concerned and angry at times over tax issues, that's pretty much why we set it up.

Initially our focus was just on the UK but then what happened was that numerous other people from numerous other countries, both businesses and civil society groups, said will you help set up over here. So we now have activities in Denmark, in Germany, in Italy, the Netherlands, Sweden and Finland and our primary product - the primary thing we do is we offer what is called a "Fair Tax Mark" - and what that is, is a business that once we have gone in there and we've looked and we’ve looked ‘behind the curtain’ and we're confident that that business is a responsible taxpayer, we will give a stamp and we will put our brand next to their brand and we will say, “we believe this business is a ‘Fair Tax level business’” in the same way other people may do it for a living wage or fairtrade or organics. They get a label; they get a little sticker. If you add all those businesses together now, we have got something like 250 distinct businesses with the Fair Tax Mark. Some of them are well known household names like the Co-Op, Richer Sounds, Timpsons, SSE, a number of FTSE-listed companies, Marshalls, Watches of Switzerland, Gleesons, a number of social enterprises, co-ops, etc and a number of businesses now overseas such as Orsted in Denmark and Vattenfall in Sweden, Mundys in Italy, etc.

So, we would like to think that we came up with the very first standard for responsible tax conduct and something that is now today widely regarded as still being the gold standard. Having said which, there is a lot of competitor activity out there now because it is amazing how the climate has changed. If I look at what it was like 10 years ago, many of the big accounting and legal firms were probably more interested in selling tax, let's call it "optimisation products" - some people may have called them tax avoidance but let's call them tax “optimisation products” - whereas today many of them are far more interested in selling tax compliance products and it is interesting to know Ernst and Young, I was reading just recently, their number one income stream in the UK is tax compliance and it is also their number one growth stream so it is amazing how the climate has changed over something like the last 10 years.

Alexis You've already alluded to this in what you've just said but, do you think there is a growing interest in tax from an ESG perspective - how important is tax transparency and good governance to businesses now compared to the way it was previously - have you seen a massive shift?

Paul I would go as far as to say that tax has ‘come in from the cold’ and is now *a*, or *the,* hot topic in many board rooms. So, I think it is fair to say that until relatively recently, people who were concerned about ESG, or SRI, or whatever you want to call them, a business, how it thinks about ethical issues, it really was right down the list tax. It wasn’t considered to be in those type of issue sets certainly it was nowhere near human rights or climate change, it didn’t make it to the boardroom as an ethical issue but that really has all changed now.

It was interesting to see: there was a recent survey of tax directors and tax managers for multinationals all over the world very recently and 40% said that in the last 12 months the tax authority in their country had been much more rigorous in tax examinations because all this pressure that is building with the public has made politicians step up to the plate a little bit more with the legislation, but it has also made the tax authorities who implement the legislation - I think you are seeing them do so a lot more rigorously than they have done in the past - and the same survey actually found that 75% of these businesses, these tax managers all over the world, fully expect stakeholder interest in tax behaviour to increase even further over the next three years. So, I think an issue that was way down the agenda when it came to ethical concerns is now right at the top.

	I think what that means is now any business that seriously is presenting itself as being competent or a leader in environmental social governance issues, ESG issues, would not be considered so now if it didn't address tax as a policy issue as a management issue, as a governance issue, and demonstrate that it was managing it as robustly as some of the other issues. I think the days when we just had these 'boiler plate' statements – so, a few years ago the UK government created a requirement that any large business operating in the UK over a certain size had to have a tax strategy produced and for that to be in the public domain and many of them were 'boiler plates', I mean, literally, word for word the tax strategy of business A was exactly the same as business B and you could track it back. You could almost predict the accountancy firm that had written it from the grammar. So, the days of 'boilerplate compliance' have gone, the days of believing that tax compliance only relates to the letter of the law not the spirit of the law have gone, the OECD global multinational guidelines which influence a whole host of different standards have ensured that. What I would say is that tax conduct in from the cold hot topic and you need to demonstrate robust consideration if you want to be taken seriously in ethical matters.
Alexis	And so, what are the advantages for companies in becoming accredited by the Fair Tax Foundation? Why would a company want to do it - I mean it sounds like from what you've said that they really should be doing it?
Paul	Now, obviously I'm going to be a little bit biased on this! We actually have a document on our website at fairtaxmark.net which describes seven magnificent reasons to become Fair Tax Mark accredited. One and two we have just discussed - basically that tax is coming in from the cold and it is a hot topic in the board room and secondly for an ESG strategy to be credible it must explicitly tackle tax conduct. So, that is one and two ticked. The five other areas that we have identified are responsible tax conduct resonates really well with customers and employees. So, if I was to give you one example: Orsted, very large manufacturer and operator of offshore windfarms around the UK and across much of Europe. They said the number one benefit to them was actually amongst employees and they didn't really expect it to resonate so strongly as it did. Their employees were really proud to see that their business was a responsible taxpayer. So, a number of them have said that, whereas others like Leeds Building Society which has a Fair Tax Mark said it really has resonated well with their customers that they would expect a mutual, a building society, to see the bigger picture and the Fair Tax Mark demonstrates that. Reason number four is that, being realistic, we live in a low trust world. Stakeholders value independent third-party verification with somebody like ourselves, the Fair Tax Foundation, who have got a board made up of both FTSE-listed companies, such as SSE and Marshalls, but also prominent people from civil societies, such as Oxfam, and people who have formally been involved in the fairtrade movement and ethical consumerism. So, people perceive that if we stand next to a brand it counts for something. Reason number five is that we are seeing that investors are increasingly looking for assurance on tax related risks. We can talk a bit more about this later, but many investors see poor tax conduct now as a red flag for poor compliance generally, that if you're sailing close to the wind on tax, you're probably sailing close to the wind in many other areas of legal compliance and, therefore, if it emerges on tax that is a red flag for other areas. Reason number six we believe that if you are Fair Tax Mark accredited you will be well placed to get ahead of the curve on new legislation which is constantly coming down the track, both in the UK and Europe - and the United States, and lastly you will join a growing network of pioneer businesses that are shaping a fairer and more productive future. We find that many of our Fair Tax Mark accredited businesses love working with other businesses to share best practice, experience and to work together to do things such as, for example, change their supply chains to encourage other businesses to have similar aims. So, there are seven magnificent reasons for getting a Fair Tax Mark and they're all on our website.
Alexis	Brilliant! You just mentioned there about different businesses getting to know each other. Is there actually an opportunity for any businesses that are recognised by the Fair Tax Foundation to actually speak to each other then?
Paul	Yes! One of the things we do is once a year we organise what is called Fair Tax Week. It is designed as a whole series of days and events to celebrate best practice and draw it to other people's attention. So, we may

	have a parliamentary reception in both Edinburgh and down in London, we may have a gathering of all our businesses so that they can network and be celebrated, a whole series of webinars, etc. It tends to take place in June every year - there's another one in June of this year - and this is part of our promise to our businesses that we're not just going to ask them to operate to the highest standards, we are going out of our way to celebrate them doing so. Unfortunately, there is tendency in our society right now to overfocus on people's shortfalls and draw lots of attention and not celebrate the greatness of businesses of what they do. We, definitely, fall into the latter camp! We want to really celebrate and push and advocate for the businesses that are doing the right thing.
Alexis	Absolutely it sounds fantastic. So, what would a business have to do to become accredited by the "Fair Tax Foundation" can you explain a little bit about the process involved?
Paul	Yeah. Without getting too technical we want our businesses to be at the leading edge of financial and tax transparency. We want to know that they pay the right amount of tax, in the right place at the right time. The areas that we look into and that we check on that we encourage transparency in are number one, beneficial ownership disclosure. Who, actually, owns the business? Is that in the public domain? Now, as it happens, that has become pretty much a legislative requirement now in the UK in recent years. Companies House has been updated to require beneficial ownership at 25% and above to be disclosed. Our Fair Tax Mark standards go lower. We're looking at anything from 5% and above. Secondly, financial transparency. We want to make sure that P&L, the balance sheet, the cashflow statements are all in the public domain. Now, for many businesses that would happen anyway because listing requirements require it or because international finance and reporting standards require it, but it is still the case, for example, that many, many smaller businesses don't put their income statements and their balance sheets in the public domain and we believe that should be the case. Again, that's, actually, an area of pending legislation change. The recent economic crime and transparency bill that was passed last year actually requires going forward options on filleting and abridged accounts to be removed. So, that is something we would celebrate and I think it is also an example of how our businesses are ahead of the curve and are leading change and are equipped for the future. Other areas we are looking at is tax policy and related issues of governance. So, for example, we would be looking for a Fair Tax Mark business to have a public statement around how it operates within the spirit not just the letter of the law. How it will only have activities in low tax jurisdictions if there is a material business need - and in many instances there is, just being in what is called a tax haven doesn't mean that you're doing anything wrong because you may have a material reason to be there. So, for example, the Co-Op has shops in the Isle of Man where it trades, absolutely substantive presence, nothing to worry about but let's make sure that is clear to other people. So, they are the types of issues we look at and if it was a multinational company, for example, we would be looking at a breakdown of income, profit and tax paid in every single country and interestingly again that is now a requirement in the EU from about 2026 and similarly is becoming a requirement in the United States - again for multinationals - again from 2026. So, there is just this constant drive now right across the world for more transparency and better conduct our businesses because many of the things that are being required they do voluntarily and ahead of the curve are in a really good place to implement that down the line.
Alexis	Absolutely. So how long does a Fair Tax Foundation Mark last for, is it a year, or is it a bit longer? Do you regularly review the businesses in order to keep them up to date?
Paul	For the Fair Tax Mark to be secured indefinitely the business is accredited every single year because we need to review the reporting accounts every year, the compliance, and the governance that is in place in relation to that. It is the same approach every single year. Obviously, things get a little easier after year one and the way we approach that with the client reflects that.

Alexis Absolutely. So, what are some key performance indicators of responsible corporate tax conduct and their red and green flags?

Paul This is a really quite interesting issue. We have been inundated - don't use the word lightly - *inundated* by institutional investors and asset managers - some of the biggest investors out there from an international perspective as well as various rating agencies - to say, “can you help us identify in a set of reporting accounts the five things we should be looking for, the five indicators, KPIs and the five green and red flags that would be associated with them?”.

We put a document out, actually in February of this year, and we put it out humbly saying, “this is what we think, based on our conversations with all you institution investors and asset managers” - pushing it into the public domain and we're inviting comment. We were having all sorts of engagement with everything from large pension funds in Canada through to large rating agencies in the UK. We will do another update of that at the back end of the year, early next year.

I can give you a flavour of some of the things that we are asking for. Number one, for example, is that there is freely available a complete set of annual financial statements in the public domain. Now, like I said earlier, that might seem a bit mundane - you might think that all businesses do that – but, probably, the vast majority of smaller businesses don't do that and many medium sized businesses don’t do that and many businesses that are domiciled in what might be referred to as secrecy jurisdictions don’t do that. So, for example, Jersey. If a business were to have its holding, its parent in Jersey, even though the beneficial ownership disclosure would be in place, the actual availability of the report and accounts wouldn't - even for a large business - unlike if it was based on the UK mainland. So, one of the things we are looking for is freely available complete set of annual financial statements.

Another one might be we want to see responsible tax conduct commitments in the policy statement. We specify some of the areas that need to be there. I mentioned one of them earlier before, a commitment to follow the spirit as well as the letter of the law and then we want to see confirmation of annual compliance of that statement by a named senior director which may seem somewhat radical, however, if you look at areas such as human rights commitments that many businesses make, they do that regularly themselves. So, you will have for an area of human rights a designated board director and you will have annual compliance that is confirmed every year. It is that type of thing we are looking for.

Types of red flags that we might encounter would be things such as "tax washing" which is becoming an increasingly well-known term. It's a bit similar to “greenwashing” where a business is trying to either hide, or misrepresent, its tax conduct. A couple of examples of how that might happen would be a business presenting, implying, that its deferred tax accruals in its accounts - and some people would argue deferred tax is neither deferred, nor tax - it is presented as though it was cash tax paid in that year. So, we know deferred tax is tax you may, or may not, pay at some point, for which you make an allowance. Cash tax is paid as money that is actually handed over in the year and you can see that in the cashflow statement. We see some businesses misrepresent deferred tax as cash taxes paid; I realise that’s a little bit technical.

Another one would be: some large multinationals refuse to say how much corporation tax they are paying in the UK but will freely discuss how much tax they collect on behalf of the government through sales such as VAT etc. So, you will see them being very selective on the taxes that they measure and report on and the taxes that they don't. We would class that type of area as “tax washing” and what has happened, probably over just the last three years, journalists - particularly in the UK - have become more adept at spotting that type of thing and you see that, for example, when the financial results may come out from some of the smaller and larger businesses that journalists are more adept at sieving what is being presented and going back with some robust questions.

Alexis Well thank you so much for your time and for joining me and for telling us all about the Fair Tax Foundation. Unfortunately that's all we've got time for in this month's episode.

Thank you again to Paul for today's podcast. If you'd like to contact Paul his contact details are underneath this podcast.

As ever, a big thank you goes to Insight Productions and Andrew Waterson for the production, music and sound editing of this episode.

A full transcript of this episode together with our references can be found on our website at www.rpc.co.uk/taxingmatters. And if you have any questions for me or any topics you would like us to cover in a future episode, please do email us on taxingmatters@rpc.co.uk. I would love to hear from you.

If you like Taxing Matters why not try RPC's other podcast offerings, Insurance Covered, which looks at the inner workings of the insurance industry hosted by the brilliant Peter Mansfield and available on Apple Podcasts, Spotify and our website. Or why not try the Work Couch, the podcast series where we explore how your business can navigate today's tricky people challenges and respond to key developments in the ever evolving world of employment law hosted by the fantastic Ellie Gelder and also available on Apple Podcasts, Spotify and our website. If you like this episode please take a moment to rate, review and subscribe and remember to tell a colleague about us.

Thank you all for listening and talk to you again soon.