



# Preparing for Public Corporate Tax Reporting: Advice for Multinationals

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The international tax landscape has deeply changed over the past few years. A global minimum tax of 15% was agreed to in 2023 and will take effect in 2024. Tax planning by multinational enterprises (MNEs) is under scrutiny from tax administrations, governments and civil society at large, and tax scandals still regularly make headlines. In that context, the EU has decided to increase public pressure on large MNEs and has adopted rules obliging them to disclose their tax affairs publicly as of 2025 for their 2024 accounts. Australia recently released an even bolder proposal, which would go far beyond EU country-by-country reporting (CbCR) in terms of mandatory disclosure. The US Financial Accounting Standards Board (FASB) presented a proposal for an Accounting Standards Update that would also introduce a public CbCR. Nongovernment organizations (NGOs), journalists and investors are looking ahead to the publication of these CbCR reports, which entail massive reputational risks for in-scope companies. This note explains these new regimes and their consequences for companies.

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## The EU's country-by-country reporting rules in short

Following an agreement by G-20 countries, companies exceeding 750 million euros (795m USD) in revenue are currently obliged to report their country-by-country operations to tax administrations. Now, the EU has adopted rules to make this information public for EU operations.

Most large multinationals will likely fall in the scope of these rules, based on these conditions:

- 1) the company's consolidated global net turnover **exceeds 750 million euros**;
- 2) the company has a **headquarters or a subsidiary in the EU**;
- 3) if the company's HQ is outside of Europe, the subsidiary meets **two of these three criteria**:
  - a. balance sheet total exceeds 4 million euros,
  - b. net turnover exceeds 8 million euros,
  - c. has more than 50 employees.

In short, in-scope companies – whether private or public – will have to publicly disclose the following information: revenue; profits; taxes, accrued and paid; number of employees; and value of assets. This

information, based on consolidated accounts, will be disclosed for each of the EU countries where a company operates and will be aggregated for non-EU countries into one line, except for operations in listed tax havens, which will have to be disclosed separately. The specific mechanisms for reporting will differ from country to country within the EU, and will only be disclosed in national legislation in the coming months, but may include reporting within existing annual and corporate reports, or require a standalone report.

The report will have to be published on a company's website and be freely accessible. The reporting requirements will become mandatory for accounting periods beginning on or after June 22, 2024, with the first reports being published beginning in June 2025. Even though the legal application date is seemingly far in the future, companies could approach this year's financial reporting cycle as a test case.

## The Australian and United States CbCR proposal

In the context of its October 2022 budget, the Australian government announced a plan to introduce public CbCR for MNEs operating in the country for income years commencing July 1, 2023, meaning that initial CbCR reports could be published as early as 2024 – one year before EU CbCR reports. This would effectively make Australia the first case of mandated public CbCR globally.

The Australian proposal goes far beyond EU CbCR rules: Companies would have to additionally disclose – for each jurisdiction in which they operate – a list of tangible and intangible assets and their book value, expenses arising from transactions with related parties that are not tax residents, and their effective tax rate. It would also require companies to describe their approach to tax.

In the United States, following investor concerns that existing income tax disclosures do not provide sufficient information, the US Financial Accounting Standards Board (FASB) presented a proposal for an Accounting Standards Update in March 2023. According to the FASB, these amendments would strongly improve the transparency of income tax disclosures. Under this new framework, all companies subject to income tax would have to disclose, for each jurisdiction where they pay income tax, the amount of income taxes paid and the rate reconciliation.

## What it means for companies

NGOs and tax-justice campaigners, as well as journalists and financial analysts, strongly advocated for this public country-by-country reporting. The first reports published in 2025 (or 2024 if the Australian proposal is enacted as is) will likely be closely scrutinized and elicit ample commentary, and the information disclosed by the reports will be subject to data analysis showing aspects such as profitability per country, productivity per employee or proportionality of tax on revenue. These ratios will provide analysts and investors with detailed financial indicators and tax activists with concrete figures for their "name and shame" campaigns. In addition, and because of a current lack of a uniform format required by the legislation, companies run the risk of presenting their data in a complex and hard-to-grasp manner that leaves room for misunderstandings and false interpretations. A report that is not accompanied by explanations and a clear presentation leaves companies at risk of losing control of their narrative.

Public country-by-country reporting is therefore likely to affect companies in different ways – from increased reputational risk to broader adjustments in companies' strategies, e.g. when faced with an activist investor who is questioning a company's tax story.

For private companies, public CbCR will disclose detailed financial information that is usually not publicly available. This will likely trigger massive interest from investors and competitors that goes far beyond tax information.

## Reputational risk

Tax compliance is increasingly scrutinized by tax administrations. However, public expectations go beyond mere compliance and companies need to reflect on how their tax stories, as revealed by public reporting, can help them build public, employee and stakeholder trust. Tax policy is increasingly understood as a way of tackling inequality, reducing income gaps and ensuring better distributed corporate wealth. Public awareness of the issue has put tax justice firmly on the agenda, providing trade unions and NGOs an impetus to push for heightened transparency and action. When this is not done adequately, corporations run great risk of major reputational damage, both internally and externally, and additional costs.

Effective tax positioning does not stop with reporting and goes well beyond compliance. It requires continued communications; transparent, data-driven reporting; and meaningful engagement with key stakeholders, including trade unions and NGOs. This is particularly relevant in Europe, where the EU has a solid tax-transparency framework that seeks to fight tax fraud, modernize value-added tax and re-level the playing field, openly tackling unfair tax competition beyond European borders. Transparency expectations are not limited to Europe but are being embedded in upcoming accounting standards with the International Ethics Standards Board for Accountants' (IESBA) revision of the code of ethics for professional accountants addressing tax planning and related services. Under the IESBA's current draft, accountants should advise organizations "to provide full transparency about the tax planning arrangement to the relevant tax authorities."

## Additional consequences for business

### Impact on finances and investor story

Tax transparency is a key issue for environmental, social and governance (ESG) ratings agencies and companies are evaluated, among other things, on their corporate tax gap and revenue reporting transparency. Tax controversies may result in ESG rating downgrades linked to the risk of regulatory action and public scrutiny. Rating downgrades may lead to exclusion from ESG indices and passive funds, with impacts on the financial performance and liquidity of securities. Companies may also find that they come under shareholder pressure regarding tax disclosures, with several examples in recent years of annual general meeting resolutions proposed by NGOs with the support of several European institutional investors.

ESG controversies can also lead to market capitalization losses, along with increases in funding costs. ESG funds, a growing segment of the investment management industry, are likely to cut ties to controversial stocks.

### Impact on executive remuneration

According to a recent Deloitte study, half of executive remuneration plans in Europe include an ESG criterion. As tax information is increasingly considered part of the "G" in ESG, the new rules and increased transparency will inevitably raise both investor and employee questions around the proportionality of such remuneration in light of income tax paid.

### Impact on competition

While reputational risks associated with greater tax transparency might constitute the most visible threat to corporations, competition issues should also be seriously considered. Through public EU CbCR, competitors will not only gain specific information on a company's operations inside the European Union, but also could manage to deduce crucial insights on its operations in other jurisdictions.

For example, by cross-referencing corporate reports and public CbCR data, it could be possible to determine that the profitability of a pharmaceutical company with operations spread across different sites relies on a single facility.

Even if EU member states allow for specific items of information to be omitted from public CbCR reports when their disclosure would be seriously prejudicial to the commercial position of a company, those omissions are only temporary, and might not always be granted. In addition, the mere fact that information is omitted from a report could lead to further questioning by competitors or other stakeholders. As such, corporations will have to strengthen their existing narratives to face potential threats to their operations or even their business models.

### **Impact on employees**

Companies may also see employees taking an interest in the public reporting. For example, in France, there is a legal mechanism that obliges employers to share part of the company's profits with employees. The profitability ratios may fuel disputes on the share employees get. Similar rules exist in other European countries.

## **How Brunswick can help**

Through its robust network of senior advisors, deep thematic expertise and ample experience in the tax and corporate reporting sector, Brunswick is well placed to help companies across the tax reporting lifecycle tell their value-creation story. From supporting the development of transparent reporting materials to corporate storytelling around tax to crisis preparedness, Brunswick's offer is rooted in the understanding of the changing social, corporate and political landscape around tax and the outsized influence of tax on corporate reputation.

## **To continue the conversation**

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