ASSESSING TAX FROM A SUSTAINABILITY PERSPECTIVE

SCHWENK Latvija

Evita Gosa

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AGENDA

- Is tax an inalienable part of ESG?
- Current regulatory framework and examples of voluntary initiatives regarding responsible tax practices.
- Considerations when tax is (not) identified as a material topic.

IS TAX AN INALIENABLE PART OF ESG?

- Taxes permeate all areas of life – they are important sources of government revenue, central to the fiscal policy and macroeconomic stability, ensuring equitable societies and public goods/services, and a vital mechanism to influence behaviour and promote sustainable development contributing to achieving the 2030 UN Sustainable Development Goals.
- Almost every business decision has a tax impact.
- Tax behaviour (process how a company makes decisions related to tax matters) and compliance (result, i.e., whether the company pays its fair share of taxes) are components of ESG.
- «Tax signaling» is a notion suggesting that tax practices can provide information on the overall quality of the business.
- Tax behaviour and compliance (a) have an impact on the outside world, and (b) create risks from the outside world on the financial value of the company or opportunities.
- ESG tax efforts should seek to (a) minimise financial, regulatory and reputational risk, and (b) promote accountability to stakeholders and society at large, and seek to achieve impact.
- How to incorporate tax in ESG policies?

CURRENT REGULATORY FRAMEWORK AND EXAMPLES OF VOLUNTARY INITIATIVES REGARDING RESPONSIBLE TAX PRACTICES

- **Corporate Sustainability Reporting Directive (CSRD) & European Sustainability Reporting Standards (ESRS)** – no ESRS for reporting tax, GRI standards suggested due to comparability and acceptance among policymakers and investors

  (+ Global Reporting Initiative – GRI 207: Tax 2019)

- *Voluntary disclosure-based frameworks*
- GRI 207: Tax 2019
- World Economic Forum’s International Business Council’s Stakeholder Capitalism Metrics

- *Voluntary behaviour-based frameworks*
- The B-Team Responsible Tax Principles (a «framework that details what good tax practice should look like and sets a new benchmark for businesses to work towards practicing»)
- Tax Code of Conduct put forth by a group of Danish pension funds (for the «purposes of promoting responsible tax behavior in connection with unlisted investments through external asset managers»)

CONSIDERATIONS WHEN TAX IS (NOT) IDENTIFIED AS A MATERIAL TOPIC

- Double materiality concept – impact materiality of a sustainability topic (impact of the company on the outside world) and financial materiality (risk that the outside world has on the financial value of the company or the opportunity it creates).
- Review of tax-related impact (positive – scale and scope; negative – likelihood and severity) and financial factors (likelihood and magnitude) engaging stakeholders.
- If tax is identified as a material topic, it must be reported.
- GRI standards focus on impact rather than financial materiality, therefore, other frameworks are to be considered for the latter.
- Materiality assessments are to be performed periodically, thus, tax might become material if not considered as such currently.

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- A detailed information about sustainability performance of SCHWENK Latvija is available at schwenk.lv/en/ and in the sustainability report for 2023:

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GENERATIONS

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