

Expectations to companies on  
**Responsible Tax Practices**



## Objective

This document is part of a series of expectation documents from DNB Asset Management (DNB AM)<sup>1</sup>, intended to explicitly outline to companies within our investment universe how we expect them to manage specific environmental, social, and governance (ESG) topics. Our expectations are based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UN Guiding Principles), the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises (OECD Guidelines), and other topic-specific standards.

Ensuring responsible tax practices is important for the DNB Group. The DNB Group Instruction for Responsible Investments (the Group Instruction) is the starting point when considering sustainable investment practices related to taxation.<sup>2</sup> The Group Instruction shall ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm, or other actions which may be perceived to be unethical and/or unsustainable. It shall also ensure that assessments of risks and opportunities arising from ESG factors are integrated into the investment decision-making process. Finally, companies may be excluded from our investment universe as a last resort if they do not adequately manage their tax obligations.

The purpose of this document is to define our expectations and criteria towards companies in terms of responsible tax practices. This document forms the basis for dialogues with companies on this topic. Promoting responsible tax practices is interlinked with several of the Sustainable Development Goals (SDGs) outlined by the United Nations. In order to successfully deliver on the goals, much of the increased public financing required needs to be generated domestically (including via taxes) in many countries. This is specifically true regarding goal number 17, which considers the tax affairs of multinational companies through target 17.1: “Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection”.<sup>3</sup>

## Definition and scope

With the global taxation framework in flux, it is difficult to define one universally accepted framework for responsible taxation practices. Nevertheless, a key element is that companies should strive to comply with the most widely recognised international standards pertaining to taxation. Responsible tax practices encompass adherence to both the explicit provisions and the intent of local tax laws. Four key standards are (see more details in the appendix):

- The G20/OECD Principles of Corporate Governance.<sup>4</sup>
- The OECD guidelines for Multinational Enterprises.<sup>5</sup>
- The OECD/G20’s Base Erosion and Profit Shifting (BEPS) initiative – and its 15 actions, see also BEPS 2.0.<sup>6</sup>
- The GRI reporting standard, especially GRI 207.<sup>7</sup>

## Introduction to taxation and corporate tax practices

There is a growing consensus that the current international taxation framework is far from optimal and needs to be reformed. International tax rules were originally designed for “brick and mortar” businesses, and the rules are increasingly inadequate for today’s digital economy. Modern businesses are characterised by their reliance on intangible assets, data, automation, and extensive global transactions. Consequently, the current tax regulations

<sup>1</sup> <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions>

<sup>2</sup> [https://s3.eu-north-1.amazonaws.com/dnb-asset-management/231208\\_Responsible-investment-Group-Instruction.pdf](https://s3.eu-north-1.amazonaws.com/dnb-asset-management/231208_Responsible-investment-Group-Instruction.pdf)

<sup>3</sup> <https://sdgs.un.org/goals/goal17>

<sup>4</sup> <https://www.oecd.org/corporate/principles-corporate-governance/>

<sup>5</sup> <https://mneguidelines.oecd.org/mneguidelines/>

<sup>6</sup> <https://www.oecd.org/tax/beps/about/>

<sup>7</sup> <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/>

are inadequate to address the complexities of the digital economy. Furthermore, the issue of tax base erosion presents a significant challenge, threatening the fiscal sustainability of nations and the integrity of the welfare state.

### Tax havens

A related topic is the use of “tax havens.”<sup>8</sup> There can be both legitimate purposes for the incorporation of companies in tax havens (such as minimizing unnecessary paperwork/reporting, avoiding double taxation, or a well-functioning court system/legal framework) as well as questionable or illegitimate purposes (such as money laundering, tax evasion, or aggressive tax planning). Globally, the public often demands an explanation for the use of these “tax havens”.

### Tax reforms and OECD/G20's BEPS

The need to reform the international taxation framework has caused a wave of initiatives in the OECD, the US, EU, Norway, and elsewhere. A key element in the reform initiatives is the aim to implement the principle for corporate taxation that profits should be taxed where value is created, again key aim for achieving SDG 17. However, in a digitalized world, it is often unclear what that value is, how to measure it, or where it is created.

The OECD/G20's BEPS initiative mentioned above is one of the most important global initiatives to counteract tax avoidance strategies. It specifically targets the practices that leverage inconsistencies and loopholes in international tax regulations, enabling the artificial relocation of profits to jurisdictions with minimal or non-existent taxation. Over 130 countries and jurisdictions are collaborating to implement the BEPS measures. The G20 ratified the key recommendations in 2015, and the multilateral BEPS convention went into effect in 2018.<sup>9</sup> Further, the work with next step, BEPS 2.0, gained momentum in 2021 when 136 countries agreed to a two-pillar reform (reallocation of tax rights and global minimum tax). Despite progress to date, it is likely that it will take several more years to complete implementation and several loopholes need to be closed.

### Transparency

From the discussion above, it should be clear that many countries, through international cooperation, are working on improving the global taxation framework. However, each individual company also needs to be part of the solution and act in a responsible manner. Furthermore, companies should keep in mind that complex and/or opaque company structures may obstruct investors' financial analysis and the functioning of financial markets. Finally, transparency is also a key element in responsible tax practices including making public company-specific key tax rulings, arbitrations, and tax disputes – and extensive country-by-country reporting.

## **Expectations to companies on responsible tax practices**

Our expectations are relevant for all companies within our investment universe and are viewed by us as best practice guidance. Three key pillars need particular attention:

- Company tax arrangements and disclosures are important board responsibilities.
- Taxes should be paid where economic value is generated.
- Public country-by-country reporting is a core element of corporate tax disclosure.

See further details below, as well as the appendix for more details on relevant international standards.

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<sup>8</sup> For insight into relevant issues related to the use of tax havens, see for example:  
<https://www.oecd.org/en/topics/sub-issues/harmful-tax-practices.html>  
[https://www.ucd.ie/economics/t4media/WP23\\_21.pdf](https://www.ucd.ie/economics/t4media/WP23_21.pdf)

<sup>9</sup> <http://www.oecd.org/tax/treaties/multilateral-convention-to-implement-tax-treaty-related-measures-to-prevent-BEPS.pdf>

## 1. Governance

- a) Company tax arrangements and disclosure are key board responsibilities (including tax risk management). The G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises, the OECD/G20's BEPS actions, and GRI 207 all provide useful guidance for the Board. In addition, PRI's work on tax fairness contains useful information for both companies and investors.<sup>10</sup>
- b) The Board should implement best practice including ensuring that relevant tax responsibilities are clearly defined within the organization.
- c) If the Board decides to deviate from the guidelines below, they should be prepared to provide a public explanation detailing their reasons for the deviation.

## 2. Strategy

- a) Avoid aggressive tax planning.<sup>11</sup>
- b) Publish a best practice binding tax policy.
- c) Strive to follow the principle of taxes should be paid where economic value is generated.
- d) Have a proactive and transparent relationship with tax authorities in all jurisdictions.
- e) Abstain from lobbying against progressive tax legislation.

## 3. Risk Management and Engagement

- a) Have effective policies and practices for dealing with the risk of facilitation of tax evasion by employees or key business partners/customers. Also make sure that the risk management system is effective in avoiding the company engaging in aggressive tax planning.
- b) Have a whistleblowing channel for tax matters, available for all employees, consultants, and third-party suppliers (it may be a part of the main whistleblowing channel of a company).
- c) In contracts with subcontractors and suppliers in high-risk countries<sup>12</sup>, there should be clauses on compliance with robust tax criteria.
- d) Pursue independent assurance from a large and well-respected accountancy firm of having high standards in terms of responsible tax practices (for example reporting in line with GRI 207).
- e) Obtaining a best practice tax labelling (such as Fair Tax Mark<sup>13</sup>) should be considered.

## 4. Disclosure, Metrics, and Targets

- a) Strive for openness around their tax policies in general (especially in the case of complex and/or opaque company structures).
- b) Publish key information of any company-specific tax ruling it has obtained from tax authorities.
- c) Multinational enterprises should also publish country-by-country breakdowns (see GRI 207-4) of how and where their business model generates economic value. Also, where that value is taxed and the amount of tax paid. Finally, report revenues, profits, assets, liabilities, FTEs, subsidies received from governments, and tax payments to governments in a way that matches with the consolidated account.
- d) Publish full group structure, including indirectly and jointly-owned entities. Also provide beneficial ownership disclosure (5% and above).
- e) Material related party transactions should be disclosed, especially when dealing with parties in high-risk countries.
- f) Seek to increase public awareness of the company's tax contribution to society.
- g) If requested, multinational enterprises should be prepared to publicly explain the business case for locating subsidiaries in the following:
  - i) "Closed" jurisdictions and/or significantly low-tax environments ("tax havens").

<sup>10</sup> <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/governance-issues/tax-fairness>

<sup>11</sup> There is no exact consensus on the meaning of the term **aggressive tax planning**. However, in the EU taxation papers - working papers No 71-2017 about aggressive tax planning indicators: «Taking advantage of the technicalities of a tax system or of mismatches between two or more tax systems for the purpose of reducing tax liability». Some typical characteristics seen of such behaviour: Mismatch between a company's main policies for sustainability and actual tax behaviour, a three-year average actual tax rate below 5%, mismatch between the tax behaviour and the intention of key tax laws, and a significant risk that the tax planning/behaviour will lead to the company be deemed to engage in tax evasion by tax authorities.

<sup>12</sup> Some factors common for **high-risk countries in terms of responsible tax practices** (some or all): Low or no taxes, complex and loophole-rich tax systems, weak enforcement and regulations, lack of transparency and disclosure requirements, unstable political and legal system, and corruption is common.

<sup>13</sup> <https://fairtaxmark.net/>

- ii) Countries where no local employees carry out business functions to any substantive degree or where the number of such employees is very low compared to the economic value generation attributed to that part of the business/country.

## Appendix:

**Laws, norms, and standards relevant for responsible tax practices that DNB AM expects companies to be compliant with**

International Standards and Initiatives	Description of Principles
<b>The G20/OECD Principles of Corporate Governance</b>	<p>See especially chapter V about the responsibilities of the Board:</p> <ul style="list-style-type: none"> <li>• Highlights how the Board is expected to oversee the lobbying, finance, and tax planning strategies (and related risk management system and mechanisms).</li> <li>• The Board should also provide authorities with timely and targeted information as well as discouraging practices, for example the pursuit of aggressive tax planning schemes, which do not contribute to the long-term interests of the company and its shareholders and can cause legal and reputational risks.</li> </ul>
<b>The OECD Guidelines for Multinational Enterprises</b>	<p>The only multilateral agreed code for responsible business conduct governments have committed to promoting. Regarding tax, see especially chapter XI on taxation:</p> <ul style="list-style-type: none"> <li>• The Board should proactively develop appropriate tax policy principles, adopt tax risk management strategies, and develop structures - to ensure tax risks are fully identified and evaluated (see also the OECD/G20's BEPS initiative).</li> <li>• The board should be informed about all potentially material tax risks, and responsibility should be assigned for performing internal tax control functions and reporting to the board.</li> <li>• Emphasizes the role of internal tax control functions in an enterprise.</li> <li>• Enterprises should comply with both the letter and spirit of the tax laws.</li> <li>• Transactions should not be structured in a way that will have tax results that are inconsistent with the underlying economic consequences of the transaction (unless there exists specific legislation designed to give that result).</li> <li>• Tax compliances also entail cooperation with tax authorities to facilitate effective and equitable applications of the tax laws (including conforming transfer pricing practices to the arm's length principle).</li> </ul>

<b>The OECD/G20's Base Erosion and Profit Shifting (BEPS) initiative</b>	<p>The 15 actions of the OECD's BEPS are based on three main principles:</p> <ul style="list-style-type: none"> <li>• Coherence: Introducing coherence in the domestic rules that affect cross-border activities.</li> <li>• Substance: Reinforcing substance requirements in the existing international standards.</li> <li>• Transparency: Improving transparency, as well as certainty for businesses that do not take aggressive positions.</li> </ul>
<b>PRI – Tax Fairness</b>	<p>The concept of Tax Fairness is that businesses must consider the broader socio-economic consequences of tax issues.</p>
<b>GRI (207)</b>	<p>The GRI Standards represent the global best practice for reporting publicly on a range of economic, environmental, and social impacts. GRI 207 contains four main elements:</p> <ul style="list-style-type: none"> <li>• 207-1. Approach to tax.</li> <li>• 207-2. Tax governance, control, and risk management.</li> <li>• 207-3 Stakeholder engagement and management of concerns related to tax.</li> <li>• 207-4. Country-by-country reporting.</li> </ul>
<b>Various national tax laws</b>	<p>Important to respect both the letter and the intention of local tax laws.</p>

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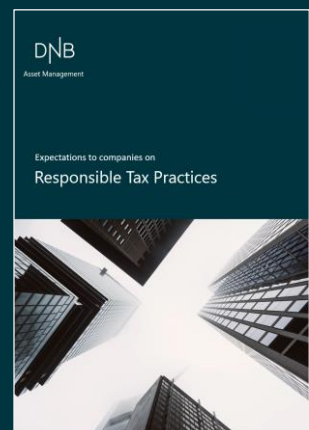
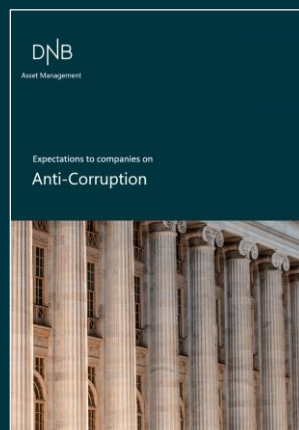
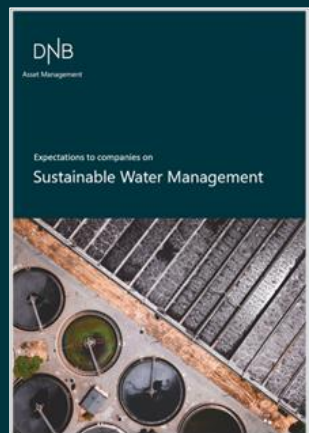
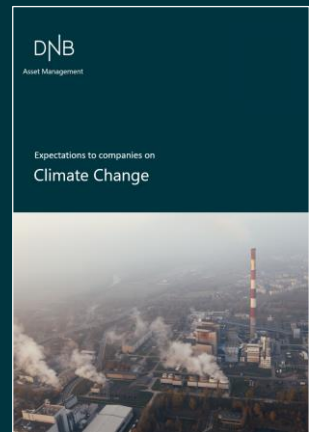
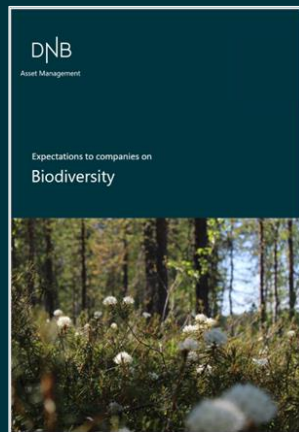
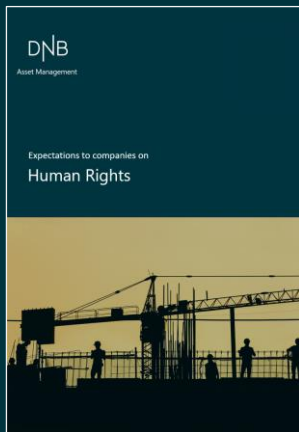
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# DNB Asset Management

Below are our additional expectation documents.

See our website <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions> for a full and updated list of our expectations on sustainability topics.



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