CORPORATE TAX REPORTING AND TAX TRANSPARENCY: THE IMPACT OF INCREASED DISCLOSURE REQUIREMENTS

Lappeenranta–Lahti University of Technology LUT

Master's thesis in Accounting

2023

Essi Partanen

Examiners: Associate professor Helena Sjögren

Professor Kaisu Puumalainen

ABSTRACT

Lappeenranta–Lahti University of Technology LUT

LUT School of Business and Management

Business Administration

Essi Partanen

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Master's thesis

2023

88 pages, 2 figures, 2 tables and 1 appendix

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Keywords: Corporate tax, tax transparency, public tax disclosure.

Over the past decade, international policymakers have developed a number of ways to reduce tax avoidance practices of multinational companies (MNEs). At the same time, tax transparency has become an important issue for other stakeholders as well. This master's thesis examines the effects of public tax disclosure requirements on corporate tax transparency in an international context. Development of public disclosure requirements is covered from the perspective of the OECD, EU, as well as not-for-profit sector (NPO). Level of tax transparency is assessed by analyzing MNEs' current tax disclosures as well as investor expectations in terms of tax disclosure. Understandability into the subject is deepened in the empirical part via conducting thematic interviews with four MNEs and one NPO.

The results of the study show that multiple disclosure requirements increase the complexity of tax landscape and to some extent, can create extensive administrative burden for MNEs. These factors can be seen to decrease tax transparency. International policymakers have also created uniformity and standardization into the tax rules, which in the long run, can improve tax transparency. Deeper integration between corporate social responsibility and tax is needed in the future to develop tax transparency further. Also, MNEs should create more comprehensive narratives to support accurate tax data, which improves stakeholders' understandability of tax matters. Increased communication with investors – as with every stakeholder – is vital to ensure that their needs and expectations are met. Rather than a goal, tax transparency is seen as a mean towards a better tax environment.

TIIVISTELMÄ

Lappeenrannan–Lahden teknillinen yliopisto LUT

LUT-kauppakorkeakoulu

Kauppatieteet

Essi Partanen

Yritysten veroraportointi ja verotuksen avoimuus: lisääntyneiden raportointivaatimusten vaikutus

Kauppatieteiden pro gradu -tutkielma

2023

88 sivua, 2 kuvaa, 2 taulukkoa ja 1 liite

Tarkastajat: Tutkijaopettaja Helena Sjögren ja Professori Kaisu Puumalainen

Avainsanat: Yhteisöverotus, verotuksen avoimuus, julkinen veroraportointi.

Kansainväliset päättäjät ovat viime vuosikymmenen aikana kehittäneet useita keinoja vähentääkseen monikansallisten yritysten verovälttelyä, ja verotuksen avoimuudesta on tullut tärkeä kysymys myös muille sidosryhmille. Tässä pro gradu -tutkielmassa tarkastellaan julkisten veroraportointivaatimusten vaikutuksia yhteisöverotuksen avoimuuteen kansainvälisessä kontekstissa. Julkisten veroraportointivaatimusten kehitystä arvioidaan OECD:n, EU:n ja voittoa tavoittelemattoman sektorin näkökulmasta. Verotuksen avoimuuteen syvennytään analysoimalla monikansallisten yritysten nykyistä veroraportointia sekä sijoittajien odotuksia raportoinnin suhteen. Empiirisessä osuudessa aihetta syvennetään teemahaastattelujen avulla neljää monikansallista yritystä ja yhtä voittoa tavoittelematonta organisaatiota haastattelemalla.

Tutkimuksen tulokset osoittavat, että useat raportointivaatimukset lisäävät veroympäristön monimutkaisuutta ja voivat aiheuttaa mittavaa hallinnollista taakkaa monikansallisille yrityksille. Näiden tekijöiden voidaan nähdä heikentävän verotuksen avoimuutta. Kansainväliset päättäjät ovat kuitenkin myös yhdenmukaistaneet ja standardoineet verosäännöksiä, mikä voi pitkällä aikavälillä parantaa verotuksen avoimuutta. Tulevaisuudessa yritysten on integroitava yhteiskuntavastuu ja verotus entistä tiiviimmin toisiinsa, jotta avoimuutta voidaan kehittää edelleen. Monikansallisten yritysten täytyy myös laatia kattavampia verokertomuksia tarkan verodatan tueksi, jotta sidosryhmien ymmärrys veroasioista paranee. Viestintä sijoittajien – kuten myös kaikkien muiden sidosryhmien – kanssa on elintärkeää sen varmistamiseksi, että heidän tarpeensa ja odotuksensa täytetään. Verotuksen avoimuutta ei itsessään nähdä tavoitteena, vaan keinona verotusympäristön parantamiseen.

LIST OF REGULATIONS

Act on Taxation Procedure 1558/1995

The Act on Publicity and Confidentiality of Tax Information 1346/1999

Council Directive (EU) 822/2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.

Directive (EU) 2101/2021 of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches.

Directive (EU) 34/2013 as regards disclosure of income tax information by certain undertakings and branches.

Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The government's proposal to Parliament for a new limited liability company act. HE 109/200.

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1 Introduction

In today's globalized economy, international investment and free movement have created enormous possibilities for businesses but at the same time, corporate taxation has become an extremely controversial topic (De la Cuesta-González & Pardo 2019, 2167; Hillenbrand, Money, Brooks, Tovstiga 2019, 403). Locally composed tax laws create issues for international business taxation, and the current tax systems are no longer able to address the challenges posed by today's globalized and digital economy (Ting & Gray 2019). Local treatment of tax issues leads to differences between countries, such as different tax rates or possible deductions for certain industries. Governments compete over investments, using tax incentives as allurement. Multinational enterprises (MNEs) exploit incompatibilities between tax systems to reduce their tax payments by shifting profits to jurisdictions with low tax rates. These practices can be interpreted as aggressive tax planning or even tax avoidance, which have raised the need to redesign the international tax system. (FitzGerald & Dayle 2018, 246; Knuutinen 2013, Knuutinen 2019; Cantos 2022)

The public has become aware of MNEs' advanced tax avoidance practices, leading to stakeholders demanding more openness related to tax issues. Effective and fair tax system is needed to repair trust, enable responsible investment, and fulfil sustainable development goals (B Team 2018; European Commission 2016a; Boerrild et al. 2015). Governments are facing severe public finance problems in the aftermath of covid pandemic, not to mention the funding problems that Russia's war in Ukraine or the energy crisis will bring about. The difficulties in public finances have led countries to focus increasingly on securing the corporate tax base. (Knuutinen 2014, 71; Knuutinen 2019, 496)

Corporate social responsibility (CSR) has been acknowledged as a critical part of business operations. Despite the immediate and quantifiable impact irresponsible tax practices can have on business profits and the global economy, taxes have received little attention as part of CSR and when developing sustainability reporting requirements (Bourne et al. 2021, 4). It was only in 2019 when Global Reporting Initiative (GRI) published its reporting standard on tax transparency (GRI 2019). In 2013, OECD and G20 countries launched Base Erosion and Profit Shifting (BEPS) project to redesign rules on where MNEs pay taxes and to end tax avoidance practices that are taken by corporations in the hope of lower tax rates (Bunn 2019). After the extensive work on harmful tax practices done by the OECD and the EU, MNEs must now report more than ever regarding their tax issues. There is widespread discussion related to the effects of the increased disclosure requirements, especially in the context of the amount, content, and format of disclosure. (Olbert & De Simone 2021)

1.1 Theoretical background and motivation

Requirements around CSR disclosures have expanded considerably, and corporations are already experienced in reporting on sustainability matters. Traditionally, there has been little requirements to disclose tax-related information other than what is required under International Financial Accounting Standards (IFRS). Disclosures on income taxes have been limited to basic figures in the notes of the financial statements which have lately been understood not to give a full picture of corporations' taxation. Rather, it has been argued that corporations should integrate taxation more deeply with other CSR issues (Ylönen & Laine 2015). After the BEPS issues began gathering attention, governments and international policymakers have started to require MNEs to disclose more information on their taxation. On top of the income tax returns that are legally required to be filed to the tax authorities, MNEs share also other tax information with tax administrations. For instance, documentation of transfer pricing or tax-related items on a country-by-country basis are shared privately with tax authorities. Recently, however, it has been pointed out that private tax returns alone may not be enough to put an end to harmful tax practices by multinational companies. (Hoopes et al. 2018; De la Cuesta-González & Pardo 2019)

Public tax disclosure is said to increase the transparency around MNEs' tax practices. For too long, MNEs have been able to hide their tax practices from the public. Especially the European Union (EU) argues that with public tax disclosures, transparency is increased, regulatory powers are strengthened, and accountability is improved (European Commission 2016b). Initiatives on public tax disclosure are still quite new as for instance, the EU published the directive requiring large MNEs to publicly disclose certain financial tax information on a country-by-country (CbC) basis at the end of 2021 (EU 2101/2021). MNEs were given over two years for the implementation into local laws and regulations, but some

MNEs are already voluntarily publishing CbC information. Public country-by-country-reporting (CbCR) means that MNEs must disclose, for instance, revenues, profits, and taxes paid by jurisdiction. This is among the major reforms in the public tax reporting field because earlier, those items were disclosed only on a global level, if at all. (PricewaterhouseCoopers 2022) However, there is a lot of discussion currently on public tax disclosure's benefits and costs. The supporters of public tax disclosure argue that responsibility on taxation can be increased via public tax disclosure (De la Cuesta-Gonzales & Pardo 2019). The opponents are afraid that public tax disclosure can reveal sensitive corporate information and that the information might be prone to misunderstandings (Hoopes et al. 2018).

It should also be evaluated whether stakeholders benefit from public tax disclosure. There is a risk of information overload when tax disclosure requirements are still to be increased. As a result, stakeholders are not able to distinguish the relevant information from the irrelevant (Oats & Tuck 2019). This in turn, can provide MNEs with even better opportunities for aggressive tax practices because stakeholders can be distracted away from the possibly harmful tax practices. If tax disclosure requirements lead to information overload, transparency is not improved, and a better international tax system is not achieved. In addition, despite the increased disclosure requirements, MNEs' tax disclosures remain incomplete and fragmented, and they are not fulfilling stakeholders needs (Bourne et al. 2021; Karananou & Guha 2015). Therefore, it is also interesting to study what kind of tax disclosure benefits stakeholders. Investors are an interesting stakeholder group to analyze because traditionally, investors have treated tax as a cost and wanted to minimize it to increase cashflows to them (Hanlon & Heitzman 2010). Lately, investors have started to change their approach to taxation, realizing more also the risks associated with aggressive tax strategies (Laguir et al. 2015). There is also evidence on the fact that investors would nowadays be the most powerful group to encourage companies towards more responsible tax behavior (De la Cuesta-Gonzales & Pardo 2019).

The area of tax disclosure and transparency is not yet comprehensively covered in the literature (De la Cuesta-González & Pardo 2019), partly because initiatives in the field are so new. There have been some efforts to link corporate taxation with social responsibility and deepen the understanding of tax and shareholders' expectations (Hillenbrand et al. 2019), as well as to define what different stakeholders consider as tax responsibility (De la

Cuesta-González & Pardo 2019). Still, most of the research has been focusing on tax avoidance as a sustainability issue (Sikka 2010; Dowling 2014; Bird & Davis-Nozemack 2018). Because public tax disclosure initiatives for large MNEs are still new and not in force yet, the field is lacking empirical evidence. However, multinational financial institutions have been required to publish CbCR data already since 2014 (EU 36/2013). There is a decent amount of literature available on the public CbCR implications on financial institutions (Overesch & Wolff 2021; Joshi 2020; Brown 2020). In addition to analyzing the impacts of public tax disclosure on financial institutions' tax-related behavior, also investor reactions have been examined (Dutt et al. 2019). These results can be utilized when evaluating the impacts of public tax disclosure for large MNEs other than financial institutions.

1.2 Research objectives and questions

The purpose of the master's thesis is to explore the effects of public tax disclosure on corporate tax transparency. Effects on tax transparency are explored through analyzing the development of public tax disclosure requirements from the perspective of international policymakers, namely the EU and the OECD. It has been found that frameworks for measuring tax transparency within corporations remain less developed compared to other CSR issues (Bourne et al. 2021). To be able to analyze the effects public tax disclosure has on tax transparency, it is important to examine how MNEs perceive the public tax disclosure requirements and what are the effective ways to increase tax transparency. In addition, the benefits and drawbacks of public tax disclosure should be evaluated by looking at the recipients of the tax information, that is the stakeholders. In the master's thesis, investors' expectations on public tax disclosure are reflected to find out if MNEs are answering to them or not. The aim is to clarify how MNEs' tax transparency is affected by public tax disclosure requirements.

The aim of the master's thesis is formulated in the following research question:

RQ: What are the effects of increased public tax disclosure requirements on corporate tax transparency?

To make better assessments on how public disclosure requirements affect tax transparency, MNEs' current actions for tax transparency should also be evaluated. In addition, it is analyzed if MNEs' tax disclosures are useful for investors. Thus, the following sub-research questions were developed:

RQ 1: What actions do MNEs take to improve tax transparency?

RQ 2: How do investors benefit from public tax disclosures?

1.3 Delimitations and key concepts

It has been stated that MNEs benefit most from aggressive tax planning (Knuutinen 2014a). Also, public tax disclosure obligations concern mainly large MNEs. For instance, the EU directive (EU 2101/2021) on public CbCR requires MNEs with revenues of more than 750 million euros to publish the report. Thus, the focus of the master's thesis is only on large corporations with international operations. As the focus is on MNEs' tax practices, only international tax disclosure rules are covered in the master's thesis. When discussing MNEs' financial statements, the international level is also retained and thus, only tax disclosures required under IFRS are discussed. Although the practical implementation of, for instance, public CbCR, is done on a jurisdictional level, the overall impacts can most effectively be analyzed in a global context.

Tax information that is required from an MNE can be classified into two categories which are private and public information. MNEs disclose tax information privately to tax authorities both by the consolidated group perspective but also on a local level in the jurisdictions where they have operations. With this information, tax authorities can detect tax risks and make enforcement easier. However, it has been observed that only private information sharing is insufficient when aiming at increased transparency and accountability (Hoopes et al. 2018; De la Cuesta-González & Pardo 2019). Also, the discussion on the benefits and costs of tax disclosure are mainly related to the public tax information. Thus, it is reasonable to focus only on MNEs' public tax disclosures in the master's thesis. The delimitation can be justified also through access to information, which might not be realized if private information was to be gathered.

If tax transparency is to limit the consequences of harmful tax practices, it is important to define what prejudicial actions MNEs take to avoid taxes. Knuutinen (2013) presents three levels of tax minimization which are *tax evasion*, *tax avoidance*, and *tax planning*. *Tax evasion* is easy to conceptualize in the sense of legality, as tax evasion practices are criminalized. Knuutinen (2014a) adds that illegal tax avoidance is quite exceptional for MNEs. While tax evasion is illegal, MNEs can practice *tax avoidance* with legal formalities. In tax avoidance, MNEs would for instance attempt to benefit from a specific tax regime to reduce income taxes payable. Tax avoidance is also characterized by transactions which are made only for tax purposes, lacking genuine business reasons. Irrespective of the relative legality of tax avoidance practices, they are still not considered responsible from the perspective of the law's purpose or the stakeholders.

It is relatively easy to differentiate tax evasion and avoidance from each other, but the line between tax avoidance and *tax planning* is harder to be drawn. Tax planning activities are normally corporations' legal operations, for instance, for choosing to conduct business as a company or as a partnership. Tax planning is the most common form of tax minimization among MNEs, and it can become problematic when MNEs utilize the incompatibilities between tax systems to their own benefit. Aggressive tax planning can be conducted through extensive use of different financial tools, utilizing foreign tax havens, or dishonest use of tax treaties. According to the European Commission (2015b), tax avoidance is the result of using aggressive tax planning activities. The problem is that aggressive tax planning is still not a legal concept, so acceptability is defined more in terms of morality. When discussing tax responsibility and transparency, stakeholders also define the level of acceptability. As Knuutinen (2014a, 61) states, aggressive tax planning may comply with legal requirements, but it does not meet the expectations and needs of stakeholders. The focus of this master's thesis is on harmful tax practices, including all three forms of tax minimization discussed above. In practice, the attempts to limit harmful tax behavior focus on the most sophisticated form of tax minimization, which is aggressive tax planning that cannot be caught by legislative measures. When referring to this kind of behavior in the master's thesis, term aggressive tax planning is used.

Tax transparency has been presented to correct the problems posed by harmful tax practices, and to increase the overall corporate responsibility (Oats & Tuck 2019). Rather than a goal, transparency can be formulated as a means for achieving some other goal of corporate strategy (Nielsen & Madsen 2009). As tax transparency is the sum of multiple responsible tax management choices, the exact definition has been missing from the research field. De la Cuesta- González and Pardo (2019, 2186), however, highlight the importance of providing a more specific explanation for the term, so that greater tax transparency could be achieved.

Albu and Flyverbom (2019) explore organizational research on transparency, providing a two-folded framework that underpins the discussion. They classify two approaches for transparency which are *verifiability* and *performativity approach*. Verifiability approach on transparency draws on functional and normative strains in the literature. Central to this approach is that information disclosure leads to more regulated behavior. Albu and Flyverbom (2019) explain that when information is disclosed, it reveals what the entity is really like and can be used as a basis for assessing its legitimacy. Quality and quantity of information is important for this approach because via disclosure, accurate and justified topics can be demonstrated. This in turn provides clarity, predictability, and understandability on corporate behavior. Nielsen and Madsen (2009) supplement by saying that within verifiability approach, it is believed that transparency addresses information asymmetry problems. Performativity approach, in turn, addresses the dynamic nature of transparency stating that more information does not always lead to better outcomes. Disclosures are more complex communication and interpretation processes than straightforward transmissions of information. As collaboration and social relationships can affect the information that is being disclosed, disclosures do not always reflect the real situation within the corporation. The social aspect of this approach challenges verifiability approach, because the events described and verified through disclosure also affect the external reality. (Albu & Flyverbom 2019) The framework is visualized below in Figure 1.

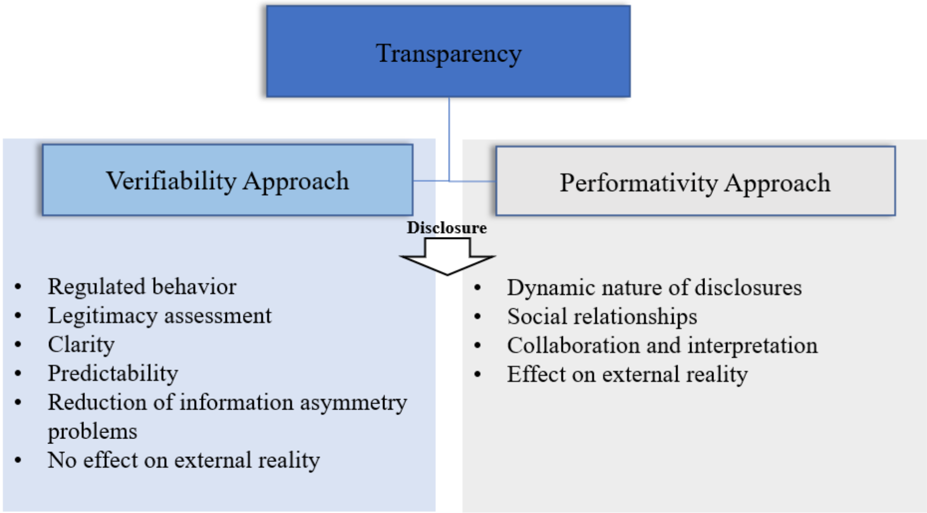

Figure 1. Two approaches to transparency. (Albu & Flyverbom 2019)

Albu and Flyverbom (2019, 286) do not favor one approach over another, but rather offer a tool to broaden views on the role of transparency. Verifiability approach is important because it highlights transparency for the purposes of accountability and trust within corporate relations. They, however, highlight the need for more research attention in the line of performativity approach, which would bring insight into the dynamic nature of transparency. As Albu and Flyverbom (2019, 288) mention, the approaches can support one another, and be used in combination in future research. In the master's thesis, the two approaches are used to improve conceptual clarity around tax transparency.

One general problem about MNEs' tax behavior has been the large invisibility of tax information towards other stakeholders than tax authorities. According to the discussion paper by Boerrild et al. (2015), rather than MNEs' intentional attempt to maintain secrecy, this opacity is the result of consolidated accounting, differences between financial and tax accounting, as well as the absence of requiring companies to file publicly available accounts in many jurisdictions. Tax transparency is not achieved by only publicly disclosing tax payments by country, it requires clear explanations on why profits have been allocated the way they are, as well as what explains the difference between annual profits and tax charge in each jurisdiction. (Boerrild et al. 2015, 19) A tax transparent company also closely cooperates with different stakeholders, such as customers, employees, legislators, and civil society, to better define what information is needed from them. In addition, comprehensive information about tax governance and management is needed, as well as breakdowns of the different types of tax the corporation pays. (SustainAbility 2006)

1.4 Research methodology

Qualitative research methods are applied in the master's thesis. Typical for qualitative research is that it aims at studying the research object in as encompassing way as possible. Qualitative methods are suitable when it is important to hear the perspectives of the research subjects (Hirsjärvi et al. 2009, 161–164). In the master's thesis, multiple case design is applied to develop a deeper understanding into the effects of public tax disclosure and tax transparency. Case study as a research method is suitable when the research focus is on explaining why and how certain circumstances are occurring. Also, when the research questions require extensive and profound descriptions, case study method is relevant (Yin 2009, 4).

After the literature review, direct interaction with people familiar with international taxation is required so that actual perceptions of public tax disclosure and tax transparency can be explored. In the empirical part, thematic interviews are conducted separately with representatives of four MNEs and one not-for-profit organization (NPO). Altogether, five interviews are conducted, each lasting one hour. In addition to gathering answers to the main research question, the empirical part deepens the understanding of MNEs' actions for tax transparency, as stated in the first sub-research question. In the interviews, investor expectations for tax disclosure are also discussed from MNEs and NPO's perspective. There is no direct interaction with investors in this study, but because MNEs and NPOs are in constant dialogue with investors, valuable insight of their expectations can also be gathered via interviewing corporations. As stated in the second sub-research question, the aim is to explore how investors benefit from public tax disclosures.

All interviewees are experts in international taxation, either leading the whole tax department of the organization or being responsible for one area such as policies or transparency. All interviewees are also actively participating in public discussion on international tax challenges, thus ensuring that the interviewees have decent knowledge of the current changes in the legislation and guidelines. Thematic interviews enable gathering results that cannot be obtained with other research strategies, and they also highlight the differences between stakeholders better than other methods (Hillenbrand et al. 2019). Thematic interviews ensure that all material topics are covered but at the same time, new aspects may arise when keeping the discussion open (Hirsjärvi & Hurme 2008; 59; Eskola & Suoranta 1998, 63).

The interviews are analyzed based on theory-driven content analysis. Typical for this approach is that earlier information guides the analysis, but rather than testing prior literature, it aims at creating new ways of thinking. Typical for theory-driven content analysis is that although the results rely on the main themes that arise from the interviews, classification of the data analysis can be based on previous theories or concepts. In this study, interviews were analyzed by classifying the results according to the theoretical concepts of the literature review. In addition, combining empirical data with prior literature can provide completely new information. (Tuomi & Sarajärvi 2018, 81)

1.5 Research structure

The research structure of the master’s thesis is as follows. The theory part is divided into two sections. Chapter 2 focuses on describing the changes in the international public tax disclosure environment. It begins with a brief analysis of the latest changes in the international tax environment after which the progress made by the OECD, EU, and the NPO sector are presented. In chapter 3, MNEs’ current actions for tax transparency are more closely analyzed. Also, it is shortly explained, what is the current situation within investors’ expectations in relation to tax disclosures. The fourth chapter presents the research methods of the thesis as well as how the empirical data was collected and analyzed. In chapter 5, the results are presented. In chapter 6, answers to the research questions, discussion based on the results, as well as suggestions for future research are given.

2 Development of public tax disclosure requirements

In this chapter, the development of public tax disclosure requirements is explored by analyzing recent literature. First, the characteristics of international taxation are presented, after which moving to analyze the most significant public tax disclosure requirements for MNEs. The aim of the chapter is to give a comprehensive picture of the current state of international public disclosure requirements, and to understand regulators and organizations' intentions and goals when developing the requirements.

2.1 Characteristics of international taxation

Because MNEs operate globally, laws and regulations differ between jurisdictions. It is worth noticing that corporations are obliged by law to pay taxes, and to a minimum extent, taxes are an unavoidable cost of business operations. But while there is a legal obligation to pay taxes, the practical realization of the amount of taxes paid comes from MNEs' tax strategy. (Middleton & Muttonen 2020, 7) MNEs include tax planning activities in their tax strategy, which in the end affects the amount of taxes paid. If the only goal of an MNE is to comply with legal requirements, it can try to minimize tax payments with aggressive tax planning. At the same time, this behavior might not be responsible in terms of CSR, where taxes are seen as a contribution to the society for the public goods MNEs consume in their operations. From a welfare society point of view, it is obvious that responsible and transparent taxation is important and desirable. Also, the stakeholder theory recognizes taxes as an important part of CSR. On the other hand, the continuance and success of corporations are also crucial for the functioning of society, thus paying excessive tax payments that harm corporations' competitiveness would neither be promoting the welfare of society. In conclusion, it can be said that paying "fair" share of taxes is very important, but there is no single way to determine the responsible amount of taxes that should be paid. (Middleton & Muttonen 2020; Knuutinen 2014a; De la Cuesta-González & Pardo 2019)

MNEs are required to disclose basic income tax figures in their financial statements when publishing their consolidated financial statements in accordance with IFRS. However, the information provided in the annual statements has been noticed to be insufficient and as response, both legislative requirements and voluntary initiatives have been established to reach more responsible and transparent tax reporting. There are multiple players in the field of taxation that have turned corporate taxation from a technical topic to be part of public and political discussions. (Middleton & Muttonen 2020) However, not all international public tax disclosure requirements have a legally binding force. For instance, GRI's tax transparency standard GRI 207 encourages organizations to apply it alongside other GRI standards, but it does not contain a legal obligation for tax reporting (GRI 2019). These public disclosure rules can be determined as a form of "soft law" (Knuutinen 2014a).

Corporations often justify their tax decisions by stating that they have acted according to the laws and regulations, which often refers to the letter of the law. Knuutinen (2014a) presents a clear distinction between the letter and the spirit of the law. In addition to complying with the law, today's society expects that MNEs operate also according to the law's spirit, meaning the intention and purpose of the law. Also, OECD (2011) supports this way of action as part of responsible taxation in its guidelines for multinational enterprises. Ostas (2004, 566) distinguishes quite similarly the concepts of cooperation and compliance: "One complies with the letter of the law; one cooperates with the law's spirit." Corporations should cooperate with the law, especially when laws are incoherent or include loopholes (Knuutinen 2014a, 54–55). For instance, public disclosure of tax strategies requires cooperation with the law's spirit because with a few exceptions, MNEs are not facing a legal requirement to publish them. Publication of tax strategies requires that MNEs consider taxes as part of their CSR. In some studies, taxes are seen as a technical and legal topic with only a limited role in CSR (Hasseldine & Morris 2013). However, there is continuous evidence that taxes should be considered as a CSR topic (Sikka 2013; Ylönen & Laine 2015) and that high CSR can reduce aggressive tax practices (Ortas & Gallego-Álvarez 2020).

There have been some attempts to redesign or even repeal the current taxation system. Especially mandatory public disclosure is said to improve accountability and compliance around tax matters (Hoopes et al. 2018). Also, requirements for mandatory disclosure are seen to be positively associated with voluntary public disclosure (Bozanic et al. 2017).

OECD's BEPS project, started in 2013, has attempted to reform international tax rules with the support from over 135 countries, and the purpose of the project is to guarantee that corporations are taxed fairly where their actual operations are located, and where value is created (OECD 2022; Knuutinen 2014, 53). OECD's original Action Plan on BEPS failed to address the challenges posed by the digital economy (Bunn 2019). In the original Action Plan, it was attempted to give jurisdictions a taxing right even though an MNE did not have a physical presence in that jurisdiction, but the participating countries could not reach consensus on the matter (Ting & Grey 2019).

In November 2021, OECD/G20 Inclusive Framework countries joined a two-pillar solution to reform the international tax system and ensure that MNEs pay their fair share of taxes wherever they operate. This BEPS 2.0 aims to transform international tax system with pillar one which aims at creating a new taxing right for market jurisdictions – where customers and users are located – and allocating this right based on the sales amount across jurisdictions. Perhaps even more debated reform concerns the second pillar which sets a global minimum tax rate of at least 15 percent for MNEs in each jurisdiction where they operate. (OECD 2021b) It is worth noticing that the two-pillar solution has not yet been implemented, thus not much research is yet available on the issue. One study has found that the tax base estimations for pillar one are unrealistic, and implementation would create high administrative and compliance costs. It was also concluded that profits transferred to tax havens would not be reduced significantly after the application of the minimum tax rate. (Cantos 2022)

OECD's project first started to improve information exchange between governments and corporations, but it is slowly moving towards making this information publicly available, with active participation also from the EU's side. Tax information can also be made public by governments. In Australia, tax authorities attempted to decrease MNEs' tax planning by disclosing total income, taxable income, and income tax payable, from Australian companies' tax returns. Kays (2022) finds that corporations which might face reputational costs accruing from the disclosure, are likely to voluntarily disclose information that supplements the governmental disclosure.

Foss, Mudambi, and Murtinu (2018) argue that MNEs can disperse their value chain by directing highly specialized activities to low-tax jurisdictions. Reasons for these arrangements are often justified only from tax minimization perspective, and thus MNEs' investments do not contribute to the global value creation in the jurisdiction where real activities take place. It can also be said that actions of this kind often lack the business reason behind them. In addition, as operations of MNEs are highly mobile, taxing them is inefficient because the activities will move to another jurisdiction in response to taxes. As a solution, Mudambi et al. (2018) present that tax system should be designed so that MNEs pay for their consumption of local public goods. In this model, taxes are paid on less mobile objects such as sales (consumers) and dividends (shareholders). Ting and Grey (2019) argue that taxing consumers and shareholders is problematic, not only because shareholders are nowadays almost as mobile as profits, but also because if taxes occur only when profits are distributed, it can lead to managers preferring profit retention over dividend distribution. This, in turn, would contradict one of the main principles of a good tax system, which is efficiency. Corporate tax rate of zero would also create a significant tax loophole, because MNEs' could decide themselves on the timing of taxation. Few jurisdictions have adopted such a tax system, which means that most governments do not accept it (Ting & Grey 2019, 1661). In addition, taxing sales instead of profits would require fundamental reform of the international tax system, which could cause enormous political resistance.

Despite Ting and Grey's (2019) criticism towards the proposal of Mudambi et al. (2018), they still realize the need to reform the international tax system. The core issue of the current tax system is that profits of MNEs are treated on an individual entity basis. This creates the possibility for an MNE to shift profits between entities though intra-group transactions. Schreiber (2018) addresses this problem by proposing a tax system where MNEs' consolidated worldwide profits would be allocated to jurisdictions based on the proportion of sales to customers in those jurisdictions. Tax base would then be created in the sales countries, and profits would be taxed with the national tax rates. The sales country would then grant a tax credit for the parent company. This model guarantees that tax revenue is effectively shared between sales and manufacturing companies. Ting and Grey (2019, 1664) argue that the EU's CbCR facilitates the change towards sales-based taxation because the sales figures of MNEs will be readily available. OECD's pillar one aims at moving a portion of MNEs' profits to sales jurisdictions for taxation. However, it should be noted that pillar one applies only to MNEs with revenues over 20 billion and profitability greater than 10 percent (OECD 2021b). It is expected that most of the MNEs in the scope of pillar one will be from the United States (Bunn and Bray 2022).

2.2 International rules on public tax disclosure

Next, recent international developments on public tax disclosure are presented. It is worth noticing that tax laws are designed and enacted under national sovereignty, and neither the EU nor any other international treaty has a direct role in collecting taxes or setting tax rates. However, the EU monitors national tax laws to support free flow of goods, services, and capital in the single market, to prevent unfair tax competition, and to ensure that taxes do not act as a discriminatory tool for corporations from other EU countries (European Union 2022). Due to EU's directives on tax disclosure, national sovereignty of the Member States is restricted (Oats & Tuck 2019).

Historically, tax authorities, governments, and other organizations with expertise in taxation have been dominating the international tax debate. Forstater and Christensen (2017) state in their European Tax Policy Research Paper that a much wider array of participants is included in the modern international tax discussions. They present that seven key groups can influence the modern international tax debates: Tax Justice Network, development non-governmental organizations (NGOs), transparency and accountability NGOs, international bureaucracies, media, political champions, and funder foundations. The players have different resource capacity and expertise related to taxation, which is illustrated below (Figure 2).

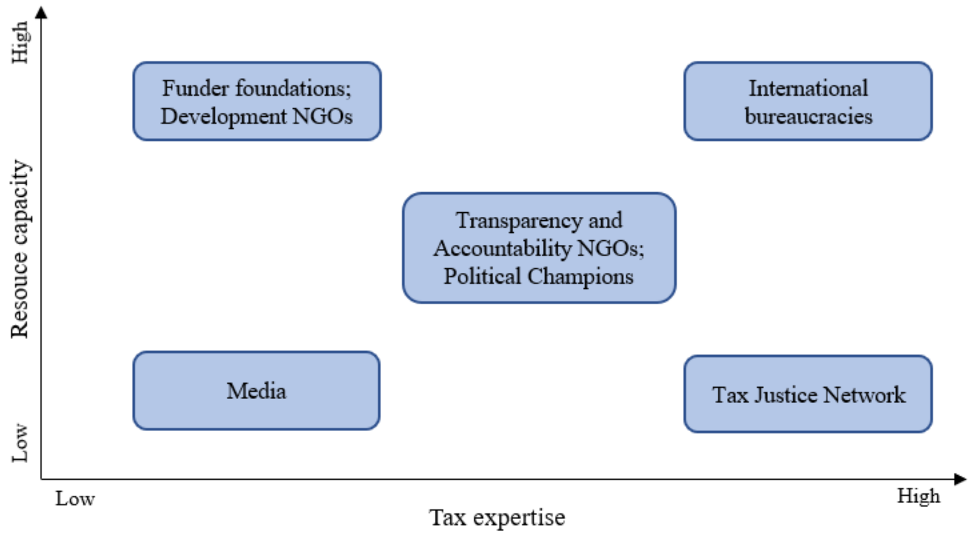

Figure 2. Seven key groups in international tax debates. (Middleton & Muttonen 2020; Forstater & Christensen 2017)

Tax Justice Network has high tax-related expertise and scarce resources but nevertheless it has been a pioneer in getting international tax issues into the public consciousness. Media has both low resources and expertise but still has a massive impact on tax matters because of the public attention it gathers. In their book, Middleton and Muttonen (2020) draw upon the aforementioned classification and focus only on international bureaucracies, namely the OECD and EU, when examining the change of tax regulation landscape. Because OECD and EU have high tax expertise and resource capacity, they can implement their regulations and thus affect the international tax system (Middleton & Muttonen 2020, 10).

Middleton and Muttonen's (2020) approach is implemented in this master's thesis when analyzing the recent regulative developments in public tax disclosure. In addition, tax return data is published by tax authorities in some countries and a couple of studies have covered the transparency effects from that (Lenter et al. 2003; Morris 2015; Hoopes et al. 2018). Because national tax authorities still have a significant impact on international taxation, the effects from income tax return disclosure are also explored. NGOs gain important public awareness with their work and thus strongly affect the direction where governments and international bureaucracies guide tax disclosure improvements (Dallyn 2017; Forstater & Christensen 2017; Dyreng et al. 2016). The issue of corporate tax responsibility was first raised by NGOs and multilateral development institutions (De la Cuesta-González & Pardo 2019). Therefore, the work done by multiple NGOs is considered in the master's thesis as well. Forstater and Christensen's (2017) classification of development NGOs and transparency and accountability NGOs is modified by combining these into one group of not-for-profit organizations (NPOs), so that the initiatives also from this sector can be covered.

When analyzing the regulative developments by the OECD and EU, it is worth noticing that their work is significantly overlapping with each other. In 2013, the OECD launched the Action Plan on BEPS and just two years later, the European Commission published the Tax Transparency Package. Regulations were needed because corporations were benefitting from the complexity of tax rules as well as jurisdictions' low level of cooperation with each other. This enabled aggressive tax planning practices such as the utilization of double deductions, when corporations were able to deduct certain expense when calculating their taxable income, both in the source jurisdiction of that expense and in the jurisdiction of the MNE's residence. OECD (2015) evaluated that USD 100-240 billion of tax revenues were lost annually due to BEPS practices. These international policymakers have a common goal of increasing transparency into corporations' tax behavior and to reduce aggressive tax practices. The OECD gives its guidelines and rules for all the OECD member countries while the EU applies them in a European context. (European Commission 2015a; OECD 2015)

The focus will be on the EU's proposal of public CbCR but first, the initiatives of the OECD are presented. Although OECD's work currently supports mostly private disclosure, presenting their development in the area is important to gather sufficient background information on tax disclosure. Thus, also the evaluation of possible negative impacts of public tax disclosure can be conducted in a more effective manner.

2.2.1 OECD Base Erosion and Profit Shifting

To restore trust in the fairness of the tax systems, equalize the MNE playing field for taxation, and to ensure the effectiveness of governments' tax policies, OECD together with G20 countries, launched Action Plan on BEPS in 2013. (OECD 2015) Forstater and Christensen (2017, 33) designate the plan as the century's most comprehensive attempt to reform the international tax system. Also, De la Cuesta-González and Pardo (2019) state that

BEPS Action Plan has elevated transparency as the key aspect when fighting against harmful tax practices.

As part of the BEPS project, 15 international standards or practical measures for countries to repel BEPS issues were developed. Action 13 is specifically related to tax reporting since alongside the standardized approach to transfer pricing documentation, it provides a country-by-country-reporting (CbCR) package for MNEs with revenue over 750 million euros. Action 13 is also part of the transparency pillar of the BEPS Action Plan. OECD’s guidelines require MNEs to report revenue, profit before taxes, income taxes paid and accrued as well as other indicators of economic activities annually and by each jurisdiction the MNE operates in. The CbC report is filed in the jurisdiction of the ultimate parent entity of the MNE group, and the information is also automatically shared to other jurisdictions through government-to-government exchange of information. Over 90 countries, including the US, EU, China, and India, have incorporated CbCR into their local legislation (Bourne et al. 2021). This means that private CbCR has already become very common across countries. In Finland, CbCR was implemented according to the corresponding EU directive (881/2016) and the contents are stipulated in the Act on Taxation Procedure (1558/1995, 2.14d, 2.14e). (OECD 2015; OECD 2021a)

The impacts of private CbCR have been largely positive, and it seems like the effects arising from actual implementation are in line with the goals of CbCR. Olbert and Simone (2021) find that corporations subject to CbCR reduced the number of subsidiaries in preferential tax regimes or tax havens and that the same effect was visible with organizational complexity. These results can be interpreted as increased tax transparency after CbCR. Similar findings are also stated in other studies, such as slight increases in effective tax rates (ETR) after the introduction of CbCR (Joshi 2020; Hugger 2020). However, Joshi (2020) was not able to find that CbCR would have affected income shifting. The rise in the ETRs is likely accruing from reducing other aggressive tax practices pointed out by Olbert and Simone (2021), such as disposing of subsidiaries in tax havens. However, Joshi (2020) concluded that increased transparency can limit corporate tax avoidance. Although some studies can show only limited support for CbCR (Hugger 2020), it can still be stated that CbCR has brought uniformity into MNEs’ tax disclosures and greater insight for tax authorities into the global tax positions of MNEs (Joshi 2020; Ting & Grey 2019). When evaluation of MNEs’ international tax practices is more detailed, enforcement effectiveness can also potentially be improved when harmful practices are detected earlier than before (Schön 2021).

Although private communication between tax authorities and corporations was the initial scope of CbCR, a lot of discussion has lately emerged on the publication of CbC reports to increase transparency. While for instance, the EU is proposing the publication of CbC reports, OECD supports the private version of CbCR (Bourne et al. 2021, 10). According to Joshi (2020), OECD argues that public CbCR might have unintended consequences on the corporation, such as increased proprietary costs. Opponents of public CbCR argue also that commercially sensitive information or trade secrets might be revealed in case CbC information was made public (De la Cuesta-Gonzales & Pardo 2019; Morris 2015). Opponents are concerned that if secret information was released, it might create a competitional disadvantage for the corporations in scope of the disclosure requirement (Lenter et al. 2003; Kirwin 2019).

As part of Action 11 of the BEPS project, members of the Inclusive Framework agreed to regularly publish anonymized and aggregated CbCR data. OECD published this data for the second time in 2021, concerning the year 2017. According to OECD (2021a), this data is an important new source for analyzing MNEs and their global activities and in the long run, it can enhance economic analysis of harmful tax practices. Jurisdictions compile anonymized and aggregated tabulations of financial information and business activities based on the private CbCR filings they have received from the MNEs. This data is then shared to OECD who publishes it on their website. OECD acknowledges certain limitations which reduce the usefulness of the CbCR data, such as the data can be too aggregated for proper analysis or that not all jurisdictions are able to file the aggregated report to the OECD. (OECD 2021a)

2.2.2 European Commission

The EU published the Tax Transparency Package in 2015 to reduce the complexity of international tax rules and to increase the cooperation between the Member States (European Commission 2015a). The aim of the Tax Transparency Package was to require Member States to disclose and automatically exchange information on their cross-border tax arrangements between relevant tax authorities. The project led to the publication of an EU directive that has been known as the Directive on Administrative Cooperation (DAC), and the latest version, DAC 6, was published in 2018 (822/2018). (European Commission 2012; Bloomberg Tax 2022)

The Transparency Package also created the basis for CbCR in the EU. While the private version of CbCR has only just been published, the EU already in 2016 mentioned about requiring MNEs to publicly disclose their tax information on a country-by-basis (European Commission 2016b). At the same time, the EU already required public CbCR from the multinational financial institutions (EU 36/2013) and from the extractive and logging industry (EU 34/2013). In November 2021, the EU published the directive on public CbCR for MNEs in the Official Journal of the European Union (EU 2101/2021). Member States were given implementation time to apply the directive in their laws and regulations. At the latest, it will take effect from financial years starting on or after 22 June 2024 (EU 2101/2021).

The EU requires MNEs with revenues more than 750 million euros and operations in more than one country to publicly disclose almost the same tax information as it is required in the private CbCR, including revenues, profit before taxes, amount of taxes paid and accrued, as well as number of permanent employees in each EU country for the previous financial year. MNEs must also publish tax information concerning countries that are on the Union’s list of non-cooperative jurisdictions. A list of all subsidiaries established in the EU or in non-cooperative jurisdictions is required as well. (EU 2101/2021) According to Dyreng et al. (2016), disclosure of subsidiaries improves geographic visibility of MNEs, and it helps to identify the use of tax havens. According to European Parliament (2021), public CbCR improves transparency and makes it more difficult for MNEs to avoid paying their fair share. Also having to publish figures on the operations in non-cooperative jurisdictions, increased public scrutiny leads to MNEs facing more questions on their approach on taxation.

The European Commission (2016a) analyzed the views of different stakeholders for further corporate tax transparency via a public consultation. 422 different stakeholders, covering private individuals, NGOs, companies, industry associations, trade unions, and consultancies, answered the consultation questions. Almost 90 percent of corporations taking part in the consultation were large MNEs. Opinions about public CbCR dissented drastically between NGOs and the private sector. NGOs and trade unions believed that public disclosure would contribute to all tax transparency objectives set by the EU – such as paying taxes where the profits were generated and helping tax authorities to orientate tax audits in a more effective way.

According to European Commission (2016a), almost half of the business respondents did not support that the goal of the EU’s possible new transparency initiative would be that corporations should pay taxes where the profits were generated. Corporations were also worried that public tax disclosure would create a competitional disadvantage for companies operating in the EU, compared to other companies who do not have to comply with the requirements. On the other hand, aggressive tax planning is currently distorting competition between smaller corporations and MNEs as the latter can shift profits internationally and thus gain benefits in the form of reduced tax payments (Bourne et al. 2021, 11).

Olbert and Simone (2021) interestingly suggest one negative impact of public CbCR to be that corporations might align their business operations by increasing economic activities in jurisdictions with preferential tax rules. This in turn, could force countries with less favorable tax rules to lower their tax rates as well, to mitigate the shift of investments. In reality, it would not be that easy to shift economic activities suddenly to low-tax jurisdictions. Corporations would have to reorganize their main business structures without proper business reasoning, which might relatively soon raise public suspicion. Theoretically of course, this could be a potential strategy for some corporations, but it is not likely that all corporations would exploit this possibility. BusinessEurope (2016) expresses in their position paper on public CbCR that the EU’s proposal would undermine the roles of tax authorities and the OECD, which together have the expertise and information to enforce tax rules. When proposing public CbCR directive in 2016, one reason for negative business reactions was that corporations wanted to keep the power of transparency regulation in the hands of tax authorities. In addition, the private sector saw no need for the EU to be the pioneer of tax transparency but rather supported the Union’s role in developing the requirements at the same pace with the OECD and other global partners. (European Commission 2016a)

With an optimal tax transparency instrument, the reconciliation of profits and tax payments would mean a reduction in corporate tax evasion. Precise estimations on the effects of public CbCR are hard to make because the directive has not yet been implemented. The possible effects can still be analyzed via presenting the effects of public CbCR on the banking sector. From 2014, Capital Requirements Directive IV (36/2013/EU) has required multinational banks to disclose key financial and tax data in the form of public CbCR. Some scholars investigating the effects of financial institutions' public CbCR do not support the view that public CbCR unquestionably decreases corporate tax avoidance (Joshi 2020; Brown 2020). Overesch and Wolff (2021) do not either find significant impacts when comparing all European multinational banks with domestic banks, but when analyzing only those banks which were exposed to the regulation, they find that public CbCR can act as an additional policy instrument to decrease tax avoidance. For this instrument to work, it is crucial that tax haven activities are exposed to public scrutiny (Overesch & Wolff 2021). Moreover, Brown et al. (2019) and Akamah et al. (2018) state that aggregated geographic segment reporting is related to tax haven involvement. Brown et al. (2019) however, are not able to identify that public CbCR would change the number of geographic or country segments, or number of line items reported in the segment reporting required by IFRS 8. They still support the fact that public CbCR enables to better detect tax haven involvement. If public CbCR was to increase transparency, it would be beneficial that it would also create disaggregation in segment reporting. However, there is no study to this knowledge giving evidence on the matter.

One policy argument is that public scrutiny and the risk of reputational damage that come within public CbCR will increase tax compliance. Graham et al. (2014) conducted a survey study on corporate tax executives, finding that reputation ranks second among all factors explaining why corporations do not adopt a specific tax planning strategy. In the study conducted by the European Commission (2016a), four-fifths of companies believed that public CbCR might have unintended consequences, such as public misinterpretations of the figures due to lack of understanding or complex accounting technicalities, scrutiny done by competitors, or subsequent reputational harm on the firm. Almost half of businesses and industry associations estimated that public CbCR would not affect their tax planning at all.

Publishing confusing, incomplete, or misleading information can unfairly shame corporations that comply fully with the legal requirements (Hoopes et al. 2018). However, the intention of the EU directive on public CbCR is to implement the filing of the reports so that data are comparable. The European Commission is to set up a common template for electronic filing of the reports which should be machine-readable (EU 2101/2021). So, the intention is that information would be filed by all companies in a similar way. The completeness and clarity of the information would also be guaranteed by the content of the public CbCR being the same for all reporting companies. The EU also states that increased transparency will enhance corporations' relations with stakeholders, which in turn will enhance reputation (EU 2101/2021). It could thus be argued that the reputation effects depend on what kind of information is becoming public and what stakeholders consider bad or good news.

Hoopes et al. (2018) mentioned about unfairly shaming corporations which otherwise comply with all legal requirements. If corporations practice tax planning within the legally accepted framework, the risk of tax avoidance is low (Dyreng, Hanlon, Maydew 2019). As Knuutinen (2014a, 54–55) explains, simply complying with the laws is not sufficient anymore but a more active and cooperative attitude is required from corporations so that the law's "spirit" can also be followed. Even though tax avoidance does not fit into the legal tax management activities, aggressive tax planning might still be used. When complying with every legal requirement but still publishing incomplete or misleading tax information, corporations are not supporting the law's spirit. When transparency is the goal of public CbCR, corporations need to actively publish figures that the public can trust and that are not misleading. De la Cuesta-Gonzales and Pardo (2019) interviewed different stakeholders familiar with international taxation, finding that all interviewees consider that corporate taxation extends beyond the legal obligation and that the spirit of the law is what matters nowadays. Boerrild et al. (2015) explain that certain legally acceptable behavior can be insufficient because stakeholders consider it unfair.

The UK Treasury (Gov.UK 2017) evaluated before the implementation of BEPS CbCR that both one-off and annual costs would be negligible for MNEs. Middleton and Muttonen (2020) state that MNEs have had the information required in a public CbCR readily available already since 2017. Thus, it could be assumed that the implementation costs of public CbCR would not be enormous for the MNEs. In the European Commissions (2016a) public consultation results report it was also highlighted that intelligent software is used to manage company accounts, and almost any sort of information can be taken out from the systems. Costs would only occur if some new information was to be disclosed, which is not the case of either private or public CbCR. Overall, benefits would by far outweigh the costs associated with CbCR implementation.

2.3 Public disclosure of tax returns

The income tax return is filed to the tax authorities. However, tax authorities at least in Finland, Sweden, Norway, and Australia, annually publish certain income tax information of corporate taxpayers. In Finland, The Finnish Act on Publicity and Confidentiality of Tax Information provides rules on what tax information is to be published (The Act on Publicity and Confidentiality of Tax Information 1346/1999, 2.5). Finnish tax office publishes for instance, taxpayers' business identification number, taxable income, and tax to be paid, as well as taxpayer's balance of tax refunds or residual taxes. (Vero 2022b) Lenter et al. (2003) argue that disclosure of the entire income tax return could lead corporations to reduce the information content of tax returns, and it could create unfair competitive advantage for companies whose tax returns are not being published. Disclosing the entire tax return would significantly increase the number of details the public had to understand. Opponents of public tax return disclosure argue that rather than more clarity, public tax returns cause more confusion around corporate taxation. It would also increase the risk of disclosing proprietary information or other classified content, because tax returns contain quite detailed information on corporate operations. (Morris 2015)

It is stated on the web page of the Finnish tax office that by publicly disclosing certain tax information, the tax authority supports openness and public discussion on taxation (Vero 2022a). According to the study conducted in an Australian setting by Hoopes et al. (2018), regulators' intention with tax return disclosure is to decrease tax avoidance practices and collect more corporate tax revenues. Publishing certain bottom-line items, standalone total income tax liability, or reconciliation of accounting and taxable income, are seen to potentially increase transparency of the tax system. Differences between financial and tax accounting can be seen to cause confusion if tax returns were made public (Morris 2015). On the other hand, it could be beneficial to explain the differences to the public rather than resist disclosure because of that (Lenter et al. 2003). Lenter et al. (2003) argue that increased transparency would reveal possible drawbacks in the current tax system and enable regulators to understand what corporations want from a tax system. They also highlight that disclosure might decrease aggressive tax planning activities because corporations are afraid of consumers' negative reactions when low tax payments become public. However, Lenter et al. (2003) ponder that investors' negative reaction to low tax payments is not so clear because they might pursue to find the company with the lowest tax liability so that cash flows from the investment can be maximized. But if investors' objective was to minimize tax payments, they should also consider increases in future tax payments through penalties that might originate if low tax payments were found out to be tax avoidance practices. Consistent with investors' negative reaction to low tax payments, it is stated in several studies that on average, information on harmful tax practices led to a decline in the corporation's stock price. (Hanlon & Slemrod 2009; Hamza & Zaatir 2021). However, the empirical results of the link between aggressive tax practices and firm value are mixed (Hamza & Zaatir 2021, 58).

Supporters of tax return data disclosure often argue that the result of public disclosure is increased transparency which in turn, improves tax compliance by reducing tax avoidance (Hoopes et al. 2018). Tax avoidance is also reduced because corporations are afraid of stakeholders' negative reactions when tax information is disclosed (Lenter et al. 2003). Hasegawa et al. (2013) fail to find evidence suggesting that compliance was improved due to public disclosure. They study public disclosure of tax return data in Japan where data was published only for large corporations with taxable incomes over certain threshold. It was observed that corporations which had taxable income just above the threshold, interpreted the disclosure so costly that they manipulated their taxable income to be below the threshold. It is worth noticing that this might be due to having an income threshold in the public disclosure system. For instance, in Finland, there is no threshold for taxable income except for the fact that information on entities having a loss is not published (Vero 2022b).

Information on corporate taxpayers for the year 2021 was released 9th November 2022, so there is almost a one-year time lag between the end of the financial year and the disclosure of tax information. Despite of this lag, Kays (2022) argues that stakeholders might change their perception of the company in cases where some important item that corporation itself did not disclose, is disclosed by the tax authority. In Finland, the timing of the publication of the tax return data is favorable in the sense that it is close to the end of the financial year. If something unexpected is revealed, stakeholders can pay special attention if the corporation addresses the issue in the annual statements a few months later.

Hoopes et al. (2018) analyzed if publication of tax return data led to more income taxes paid in Australia, finding that an average Australian corporation did not pay any more taxes after the publication of tax return information. Kays (2022) supports these results and finds that instead of paying more taxes, corporations anticipating negative reputation effect from the disclosure are likely to supplement governmental disclosure with their own voluntary disclosure. Voluntary disclosure is seen to minimize the reputational costs and public scrutiny followed by the publication. These results show that public disclosure of tax return data might not increase tax revenues because corporations deal with possible reputational effects by disclosing more tax information on a voluntarily basis, thus by being more transparent about their tax issues.

2.4 Initiatives from not-for-profit sector

Even though the private sector has had quite a negative reaction towards the publication of tax information, 75 percent of NPOs believed that public CbCR would reduce profit shifting (European Commission 2016a). The NPO sector has called for tax transparency as a corrective measure to harmful tax practices (De la Cuesta-Gonzales & Pardo 2019). NPOs also argue that the EU should go further than BEPS measures, while the business sector believes that international initiatives are decent enough. (Oats & Tuck 2019) NPOs have benefitted from MNEs’ exposure to public scrutiny, and the media attention following questionable tax strategies has helped to put taxation on MNEs’ agendas (Forstater & Christensen 2017).

According to Oxfam (2021), public CbCR is a good start for building more comprehensive tax transparency rules but as MNEs have for years benefitted from profit shifting, they must play their part in funding the recovery as well. The organization encourages the EU to create strong transparency rules which cover operations in all countries and not only in the EU Member States. Finnwatch (2017) supports this argument and states also that the information required in a public CbCR should be complemented with the amount of operating profit in each country. Publishing only revenue and profit before taxes does not give a full picture on tax planning activities performed via financing arrangements. The NPO sector also criticizes public CbCR definition of the companies in scope. For the corporation to be in scope, it is instructed that MNEs should have revenues of at least 750 million euros for two consecutive years (EU 2101/202). According to the estimations by the OECD, only 10–15 percent of all MNEs will then be obliged to file a public CbCR. Moreover, definition of “a large undertaking” by the EU differs from the public CbCR definition of a large MNE. “Large undertaking” relies on the Accounting Directive (EU 34/2013), which says that a company is considered a large undertaking if at least two of the following criteria are fulfilled: balance sheet total is 20 million euros, net turnover is 40 million euros, or average number of employees during a financial year is 250. Finnwatch (2017) comments that public CbCR should be required from all MNEs fulfilling the Accounting Directive definition, because all those corporations have incentives to practice aggressive tax planning and profit shifting.

De la Cuesta-Gonzales and Pardo (2019) conducted interviews with different stakeholders familiar with international taxation, finding that the biggest problems in the current tax system are perceived to be the complexity of the tax laws, the fact that there is no universal definition for tax terms, and that information disclosure after all, creates costs for companies. De la Cuesta-Gonzales and Pardo (2019) also add that these issues explain why tax disclosures are confusing or of poor quality, as stated by Boerrild et al. (2021). Especially the NPO sector supports EU as the pioneer of international taxation because that would provide a common framework and standardized definitions for taxation. All the interviewees within the NPO sector also support public disclosure of tax information, on a disaggregated and country-by-country basis. (De la Cuesta-Gonzales & Pardo 2019) Boerrild et al. (2015) state that corporations voluntarily publishing their CbCR will become the forerunners of tax transparency which in turn will build their reputation in terms of responsibility and good governance.

Boerrild et al. (2015) also conclude that instead of total standardization of tax reporting, corporations must consider the different expectations of stakeholders when improving their tax transparency. They support close cooperation with customers, employees, legislators, and civil society to understand what kind of information is needed and in what format. Also, decisions to withhold certain items should be justified by the MNE in an open manner. It is also important not to limit public transparency to cover only statutory reporting such as public CbCR. Comprehensive transparency also requires other publications, such as the list of tax incentives or reliefs used in certain jurisdictions that for instance, remarkably inflate the difference between accounting and taxable incomes. The NPO sector also often comments that the requirements set by IFRS on income tax reporting are not comprehensive enough. (Boerrild et al. 2015)

It can be argued that the motives of NPOs and international policymakers are quite aligned (De la Cuesta-Gonzales & Pardo 2019). As Joshi (2020) states, the OECD stands more with private CbCR, from which it can be concluded that NPOs' interests are even more aligned with the EU than with the OECD. Both the EU and NPO sector in general state that by requiring MNEs to disclose more tax information, transparency is increased, regulatory powers are strengthened, and accountability is improved. Social pressure and possible media attention following the non-compliance push companies to focus on tax responsibility. Mitchell (1997) indicated that the stakeholder impact on managerial decisions consists of three attributes which are power, legitimacy and urgency. De la Cuesta-Gonzales and Pardo (2019) bring this classification into the context of taxation, concluding that while the power is provided by the governments and policymakers such as the OECD and the EU, legitimacy is reinforced by the media and NPOs. Without the pressure from these other representatives of the society, corporations would not necessarily have the incentives to develop their tax transparency.

It can, however, also be argued that the result of increased reporting requirements is information overload. With limited resources, the recipients of this information might not anymore be able to distinguish what is relevant for them and thus, transparency might not achieve the goals argued by its proponents. It is also argued that increasing private reporting requirements imply too many costs on tax authorities. (Oats & Tuck 2019) However, public tax disclosures supported by NPOs is available to all stakeholders which in theory, would spread the costs more evenly. NPOs also argue that by making tax information available to multiple stakeholders, monitoring of BEPS practices is improved (European Commission 2016a). For monitoring to be strengthened, stakeholders should be able to understand the tax information being published. At least when there is not any common framework for public reporting, the information can be complex and distinguishing relevant information might be difficult for some stakeholders (Oats & Tuck 2019).

3 Tax transparency: MNEs & investors

In this chapter, the focus is on analyzing how MNEs can practically improve their tax transparency. First, it is discussed how corporations contribute to transparency through the information they provide in their financial statements and through disclosures of tax management-related topics. Then, investor expectations are assessed by analyzing if investors nowadays expect MNEs to be transparent on their tax matters and if MNEs are answering to their needs. It is also examined whether public tax disclosures are useful for investors. When using the term investor, the focus will be on institutional investors such as pension funds which usually have a much larger stake in MNEs than individual investors. Investors are also assimilated with shareholders since they can be seen to have quite similar intentions.

Tax disclosures in the financial statements are discussed via the International Accounting Standard (IAS) 12 on Income Taxes (IAS 12 2001). When exploring the qualitative disclosures of MNEs, the Global Reporting Initiative (GRI) standards are utilized. The older set of the GRI standards did not include a specific section for tax transparency. Corporations were required to disclose tax matters only in relation to government-related payments. (GRI 2016) In 2019, GRI published a new standard for taxes (GRI 207) to encourage businesses towards good tax practices. The standard has been effective for corporate materials published after January 2021. Global Sustainability Standards Board (GSSB) acknowledges the role of public reporting in increasing tax transparency, trust and credibility of corporations and their tax practices. From January 2023 onwards, the standard on tax serves as a Topic Standard – meaning that if organizations have determined tax as a material topic, they can comply with all disclosures in the standard that are relevant to the organization’s tax-related impacts. The standard includes three different disclosure sections that are connected to tax management: approach to tax (207-1), tax governance, control, and risk management (207-2) and stakeholder engagement and management of concerns related to tax (207-3). All of them will be discussed further as part of the management of tax-related topics. (GRI 207 2019)

It is not possible to fully understand investors’ expectations and reactions on tax transparency without considering also other stakeholders, such as customers or the corporation itself. When evaluating how the corporation's future profits will be affected by the disclosure, investors will predict the reactions of managers, tax authorities, consumers, and the public (Dutt et al. 2019, 1265; Hanlon & Slemrod 2009). Further, the corporation's reaction depends on how the managers think the stakeholders will react (Gallemore et al. 2014). Thus, in this setting, all stakeholders are inter-connected. Relationships between stakeholders are acknowledged in the master's thesis, but the focus will be only on corporations and institutional investors to guarantee a strict research focus. Investor expectations are considered so that it can better be evaluated if MNEs are answering to investor needs.

3.1 Public tax disclosure and transparency in MNEs

De la Cuesta-González and Pardo (2019) found from their interviews with different stakeholders such as NPOs, scholars, tax advisors, and MNEs that almost all of them considered tax disclosure to be part of CSR. In addition, all interviewees agreed with the fact that tax transparency acts as a tool to improve tax responsibility and to align with stakeholders' expectations. Many respondents perceived that CbCR is the most important form of tax transparency, but some MNEs and tax advisors supported the privacy of those reports. Tax transparency has not yet been achieved because of the lack of a well-defined reporting framework and because of the costs associated with disclosure. One group of costs accrues from obtaining and publishing the data, and the other group can be defined as costs associated with competitiveness. (De la Cuesta-González & Pardo 2019, 2182) Ylönen and Laine (2015) state that corporations remain silent about their tax planning activities because they realize how sensitive topic that is to society. That means that corporations understand the possibly negative impact their activities might have on the economy but sometimes it is even in their favor to keep taxation separate from CSR. (Ylönen & Laine 2015, 19)

Measures for tax transparency are remarkably less developed compared to other sustainability indicators and tax information is also considered to lack coherence and completeness. Analysis by Bourne et al. (2021) shows that only a third of large or mid-sized corporations globally have put in place policies or commitments to enhance their tax practices while 98 percent of them improve health and safety issues with such policies or commitments. With health and safety issues, 63 percent of corporations publish quantitative data on the matter, while only seven percent of corporations provide country-by-country breakdown of global tax payments. (Bourne et al. 2021, 4–7)

In the absence of tax reporting standards and regulation, it is evident that the extent of tax disclosure varies significantly between regions and industries. There are disclosures with meaningless content or only vague commitments to the tax legislation. Some disclosures also include in-depth analysis of tax practices, governance, and payments. (Bourne et al. 2021, 8). Most of the research argues that harmful tax practices are associated with less transparency (Lewellen 2022). However, it has been documented that corporations might increase the amount of their tax disclosures to legitimize their harmful tax behavior (Lanis & Richardson 2013). Furthermore, disclosures of corporations having tax avoidance practices tended to be generally descriptive, not verifiable, and contain more justification-related phrases and soft claims than quantitative information. (Kao & Liao 2021) Corporations can also increase the readability of their CSR reports to offset the legitimacy risk posed by aggressive tax planning strategy, that way distracting stakeholders from analyzing their tax behavior (Xu et al. 2022). Overall, it can be said that corporations must choose between tax benefits and financial transparency when choosing their tax strategy (Balakrishnan et al. 2019).

Standardization is one tool to increase MNEs' tax transparency (De la Cuesta-Gonzales & Pardo 2019) and it is hopefully the goal of public disclosure requirements and the overall outcome of the renewal of the current international tax system. Xu et al. (2022) state that whole CSR reporting should be standardized and made more common so that MNEs would not be able to distract stakeholders from their tax planning activities. Thus, also the likelihood of MNEs paying their fair share would be increased because there would not be any other possibility to overcome the stakeholders' legitimacy concerns. Alongside the benefits from standardization, disclosing key quantitative measures expressing the level of tax transparency would improve the informativeness of tax reporting. MNEs' innermost approach to taxation as well as values are at the core of tax transparency improvement because even after the complex renewal of the current tax system, loopholes for MNEs to exploit will not disappear completely. Boerrild et al. (2015, 11) state that the change in the approach to taxes creates a tax-responsible company that practices "responsibility beyond legal compliance”. Therefore, MNEs should also have an active role in the improvement of international tax rules. In the following sections, different perspectives related to public disclosure are presented, through which MNEs can increase their tax transparency.

3.1.1 Quantitative tax disclosures

Tax laws are applied on a jurisdictional basis and therefore, they can differ from one jurisdiction to another. On the contrary, IFRSs are applied globally as a single set of financial accounting standards, providing most MNEs outside of the USA with the same approach to the preparation of financial statements. Because taxable income and ultimately, income taxes, are calculated based on jurisdictional tax rules, and accounting profit is determined by the rules of IFRS, taxable income and accounting profit are usually not the same. There are a lot of adjustments that need to be performed, to arrive at the taxable income. The adjustments reflect the fact that the tax expense rarely equals the taxable income multiplied by the statutory tax rate of the corporation’s parent entity. (Bakker et al. 2015)

The differences, referred to as book-to-tax differences, arise when there are differences in how some items are calculated for the financial statements’ purposes, and how these same items are calculated for tax purposes. For instance, the book value of property, plant, and equipment (PPE) can be calculated as the cost less accumulated depreciation. While the calculation of PPE for tax purposes can follow the same logic as for financial statements, the depreciation time for tax purposes can be different. This leads to a temporary difference between book and tax value. There are different cases in which temporary differences can arise, and as a result, they give rise to deferred tax liabilities or deferred tax assets. (Bakker et al. 2015) IAS 12.79 and 12.80 require corporations to disclose separately the major components of both current and deferred tax expense or income (IAS 12 2001, 31–32). Usually, corporations disclose this information in the notes of their financial statements.

According to IAS 12.81(c) (2001), corporations are required to numerically explain the relationship between the accounting profit and tax expense. Because of all the tax adjustments explained above, tax expense in the income statement rarely equals to the accounting profit multiplied by the statutory tax rate. The effective tax rate (ETR) of a corporation is its tax expense or income divided by the accounting profit (IAS 12.86 2001). This is the most common definition for ETR that is also used in the literature (Graham et al. 2014; Flagmeier 2021 et al.). Although IAS 12 requires a numerical explanation of the ETR, there are no specific requirements to provide a verbal narrative to support the line items in the rate reconciliation table. In 2020, only half of the 100 biggest companies listed in the Johannesburg stock exchange included a narrative to explain the ETR items. It was even less common to disclose the future projections of the ETR as only two percent of the companies discussed that in their reports. (PricewaterhouseCoopers 2022) As there is a risk of misinterpretation regarding quantitative tax data, more detailed explanations of the numbers would be needed to improve the understandability of the disclosure (Bourne et al. 2021; Hoopes et al. 2018).

According to the estimation by OECD (2021, 9), average statutory corporate tax rates have fallen over 8 percentage points from 2000 to 2021. However, ETRs can provide a much more accurate picture of the effects corporate tax systems can have on corporations' actual tax liabilities. OECD (2021, 16) designates the normal ETRs of corporations as "backward-looking" and instead presents alternative measures that do not incorporate any information about corporations' historical tax payments. These measures can be used for cross-jurisdictional analyses on tax system impacts on investment decisions. There are suggestions on the fact that concerns of reduced tax rates should concentrate on ETRs and not on statutory tax rates. OECD (2021, 18) found that the effective average tax rate that considers the tax contribution per investment project, was on average 1.1 percentage points lower than the average statutory tax rate. Stewart (2018) also calculated alternative measures for normal ETRs, concluding that the ETRs published in MNEs' financial statements were remarkably higher than the alternative ETRs calculated by him. Tax avoidance has also been found to be associated with lower ETRs (Hanlon & Heitzman 2010). FitzGerald and Dayle (2018, 249) summarize that instead of the corporate tax rates, the key issue is the corporate tax base, which is eroded by different reliefs.

Quantitative tax disclosures provide a useful starting point for stakeholders on analyzing if tax payments are aligned with revenue generation or if corporations are engaging in different profit-shifting practices but still, Bourne et al. (2021) find that only 13 percent of large or mid-sized companies provide domestic and international breakdown of taxes paid. It is documented that corporations with aggressive tax practices tend to make less quantitative tax disclosures and their text in the income tax footnotes it also less readable (Liu 2022; Inger et al. 2018). Explanations of the items that contribute to a significant difference between the accounting and taxable profit or a significant reduction in the ETR of that jurisdiction are also needed. Boerrild et al. (2015) present that tax-responsible companies should publicly disclose information on tax incentives and reliefs, as well as basic statutory accounts for every subsidiary where reconciliation between statutory and effective tax rate would be visible. In the notes of the financial statements, the ETR is disclosed from a consolidated group perspective, and not many MNEs yet provide more specific information on their ETR.

As tax aggressive corporations tend to disclose less quantitative data in their financial statements' notes, compliance around taxes could be increased if additional income tax disclosures were required (Liu 2022). The Financial Accounting Standards Board (FASB) has answered to this need by starting a project to improve the decision usefulness and transparency of income tax disclosures. As of November 2022, the focus of the project is on income taxes paid and the rate reconciliation table. For income taxes paid, all corporations will be required to publish their payments either by jurisdiction or on a federal and foreign basis. For rate reconciliation, the aim is to require public entities to disclose the rate reconciliation with specific categories and require a qualitative disclosure of the factors affecting the change of the effective tax rate from the prior reporting period. (FASB 2022)

Public CbCR is supported also by the GRI standard on tax. The standard includes a topic disclosure requirement in the form of public CbCR. The GRI standard requires corporations to disclose almost the same information as it is required by the EU Directive, except for information on accumulated earnings. In addition, in the GRI standard, it is required to disclose the information in all jurisdictions where the corporation is present for tax purposes, thus the disclosure is not limited to EU Member States. (GRI 207 2019) It is highlighted in the PricewaterhouseCoopers' (2022) annual study that public transparency goes beyond the disclosures in the financial statements, of which one example is public CbCR. Quantitative disclosures are strongly focused on corporate income taxes but there is high interest towards seeing the wider contribution to the society as well. Total tax contribution consists of taxes borne which are direct costs for the company, such as the corporate income tax or employment taxes. In addition, total tax contribution includes taxes collected which refer to taxes that corporations collect on behalf of the governments. Among others, payroll taxes and withholding taxes belong to this category. Among the 100 biggest companies in the Johannesburg stock exchange, only 12 percent publish detailed breakdown of their total tax contribution in 2020 (PricewaterhouseCoopers 2022). Although public CbCR focuses solely on corporate income tax, it is expected that also the voluntary total tax contribution disclosures will increase in the future (Packman 2022).

3.1.2 Management of tax-related impacts

Ylönen and Laine (2015) document that corporations can use positive CSR commitments to cover their irresponsible tax planning activities, and that they at the same time consciously hide tax disclosures from their CSR reports. Simultaneously, Laguir et al. (2015) find that high activity especially in the social dimension of CSR can lead to a lower level of tax aggressiveness. Incorporating taxes into MNEs' CSR is reducing the risk of hiding aggressive tax planning strategies (Sikka 2013). Earlier, corporations disclosed their tax contributions to show off the positive impact they are making on society (PricewaterhouseCoopers 2010). This is no longer enough and for instance, GRI is providing a comprehensive framework to corporations for disclosing different tax-related aspects. The UK has been a forerunner in this area because since 2016, large corporations have been obliged to publish a board-approved tax strategy statement which is consistent with the overall strategy of the company (Oats & Tuck 2019).

Organizations that have determined tax as material topic make disclosures according to GRI Topic Standard on tax (GRI 207). Organizations can choose the standard aspects relevant for their tax-related impacts, meaning that MNEs are not necessarily required to report all parts in the standard. GRI's standard on tax is an example of the integration between tax and CSR and as of 2022, it is the only global standard corporations can use to report on taxation. (PricewaterhouseCoopers 2022) There are also other operators in the field, trying to incorporate taxes in corporations' CSR agendas, such as the B Team's Responsible Tax Principles or the International Business Council's work "Toward Common Metrics and

Consistent Reporting of Sustainable Value Creation" (B Team 2018; World Economic Forum 2020).

PricewaterhouseCoopers (2022) states that the key to transparency is to whom the corporation is providing the information and for what purpose. GRI 207 can act as a baseline for the reporting, but each corporation should have their own reporting approach that is based on their individual needs. GRI 207-1 includes the disclosure of corporations' approach to tax. In this section, MNEs shall disclose information on their tax strategy, the governance body that formally approves the strategy, and how the strategy is linked to other business and sustainable development strategies of the corporation (GRI 207 2019). Board approval for tax strategies or principles is important to ensure that the governance and culture of the corporation endorse the tax disclosures. PricewaterhouseCoopers (2021) find in their annual study of FTSE100 companies that 24 companies published a standalone tax report in 2020, compared to 18 companies in 2018. PricewaterhouseCoopers (2022) analyzed 100 biggest companies in the Johannesburg stock exchange, revealing that 67 percent of companies communicated their tax strategies publicly but only 31 percent linked the tax strategy with the sustainable development strategies. Nowadays, it is not enough to just describe the tax environment with fancy words, but rather the deeper meaning of the tax strategy in corporations' overall strategy should be opened up. Long strategies with sophisticated graphics and opaque statements do not lead to better quality reporting (Oats & Tuck 2019; Forstater 2016).

GRI 207-2 includes requirements on tax governance, control, and risk management. This requirement guides the organization to explain how its approach to tax and tax strategy are embedded in the organization and that compliance is effectively monitored. Tax risks can be related to uncertain tax positions or changes in legislation which can have a negative impact on the organization's goals. The organization can also explain its risk appetite on tax planning and for instance report which practices it has amended because of misalignment with the approach to tax. (GRI 207 2019) In 2020, only 10 percent of Johannesburg stock exchange companies disclosed detailed information on their positioning with aggressive tax strategies which indicates that corporations are still insecure to report on this matter (PricewaterhouseCoopers 2022). GRI 207-3 instructs on how to report about stakeholder engagement and management of concerns related to tax. With this disclosure, organizations can indicate how they deal with evolving expectations related to taxes. It includes a requirement of reporting about relationships with tax authorities and tax lobbying activities. A description of how the stakeholders can contribute to the engagement is also required. (GRI 207 2019)

3.2 Tax transparency and investors

De la Cuesta-Gonzales and Pardo (2019) interviewed different stakeholders to gather insight into the meaning of responsible tax management. When considering responsible tax behavior beyond legal requirements, stakeholders perceived shareholders as the most empowered group to push corporations towards more responsible tax behavior (De la Cuesta-Gonzales & Pardo 2019, 2180). Traditionally, however, shareholders' interests in tax responsibility have been limited. Limited interest into responsible tax practices derives from financial theory, according to which taxes are a cost that when above the minimum legal requirement, they reduce cashflows to shareholders. From this perspective, the only responsibility of a limited liability company is to generate value for shareholders. Other kinds of social responsibility are allowed only when it is legally required or secondly, when at least within some period, it is considered to contribute to the growth of the shareholders' wealth. The advocate of this approach is Friedman (1970), considered as the father of neoliberalism. Through the lens of traditional financial theory, maximization of shareholders' wealth supports or even obliges that MNEs conduct tax planning at least on some level. Knuutinen (2014b, 59) suggests a prevailing contradiction between social responsibility and financial theory. Although even aggressive tax planning would be considered acceptable from the perspective of financial theory, proponents of social responsibility consider such activities irresponsible and harmful (Ylönen & Laine 2015). Globalization has radically increased competition over investments, which can in some circumstances incentivize the management to conduct aggressive tax planning to meet the return requirements of capital providers (Knuutinen 2014a).

The economic purpose of a company can be determined by its responsibilities towards shareholders, debtors, employers, and public entities. Especially in the international setting, MNEs are obliged to follow laws and regulations which nowadays consider the benefits of multiple stakeholders. Society also expects companies to act in a socially responsible way. (Knuutinen 2014a, 38) Corporations' responsibility issues can still be analyzed via either a narrow or wide perspective. While narrow perspective includes responsibilities according to financial theory, social responsibility perspective comprises corporations as part of society, thus being responsible also to other stakeholders than just the shareholders. (Knuutinen 2014b, 62)

Neoliberal and social responsibility viewpoints can also be bridged with a couple of arguments. As one mission of corporate management is to mitigate all business risks, paying their fair share of taxes and having a responsible tax strategy can be seen as risk mitigation. It can also be seen as an investment which improves competitiveness, and that way contributes to long-term value creation. As stated in the Finnish proposal to parliament for a new limited liability company act (HE 109/2005 vp.), profit generation is not evaluated only on a short-term basis. To guarantee the long-term success of a corporation, it is important that a corporation conducts a socially acceptable behavior even if it would not be legally required (HE 109/2005). Also, public reputation plays a significant role in defining the long-term value of a corporation. (Knuutinen 2014b) Responsible tax practices and transparent reporting about them is vital so that tax scandals and potential reputational damage can be prevented.

While responsible taxation has gained more importance within the financial theorists, it is found also that investors' approach to responsible taxation is changing (De la Cuesta-Gonzales & Pardo 2019; Laguir et al. 2015). One investor argument has traditionally been that aggressive tax planning can increase shareholder wealth and reduce corporate costs (Hanlon & Heitzman 2010). Investor reactions to public tax disclosure requirements have mostly been studied in the context of financial institutions because public CbCR has been in effect for them already since 2014 (36/2013/EU). Some studies have documented negative stock price reactions related to new regulations requiring specific public income tax disclosure (Hoopes et al. 2018; Johannesen & Larsen 2016). Negative reactions can be caused because investors are afraid that the new disclosure requirement will decrease corporations' future profits. Corporations can reduce their profit shifting because of increased scrutiny from tax authorities, as documented by Overesch and Wolff (2021). Corporations can also start to pay their fair share because of increased public scrutiny. As many studies highlight, reputation plays a vital role when deciding on the tax planning strategy (Graham et al. 2014; Dyreng et al. 2016). Investors might be worried that responsible tax behavior leads to increased tax payments which in turn reduces the financial flows towards investors (Dutt et al. 2019). Also, investors might anticipate increased costs for corporations because of reputational damage that could occur if aggressive tax planning was discovered (Hanlon & Slemrod 2009; Boerrild et al. 2015). Knuutinen (2014a, 57–58) states that reputation acts probably as the most concrete motivator for responsible tax behavior but, not all stakeholders understand all the choices management must make regarding taxation.

On the other hand, investors can predict a reduction in the cost of capital after the disclosure requirements. This prediction is reflected in the positive reaction of the stock price. It can originate if the capital market evaluates that public tax disclosure brings more certainty over MNEs' tax positions or that it helps to better analyze the geographical distribution of activities and profits. (Dutt et al. 2019) According to Karananou and Guha (2015, 11), investors suffer from the lack of transparency into MNEs' tax strategies and are thus unable to assess their tax risks. Shareholders can also predict that public CbCR enables them to better monitor the management. All these benefits reduce information asymmetry between management and shareholders, which is presented by Dutt et al. (2019) as one channel which drives the investors' reaction to the public CbCR obligation for financial institutions. In addition, quantitative disclosures enable investors to compare companies, point out red flags as well as validate tax commitments (PricewaterhouseCoopers 2022).

Although shareholders' interests in tax responsibility have formerly been limited, De la Cuesta-Gonzales and Pardo (2019) highlight their role as the most important group to push MNEs towards more responsible tax behavior. Investors are starting to attach great importance on how MNEs could incorporate tax policies with their other CSR reporting frameworks, which have already become usual part of their practices (Boerrild et al. 2015, 11). Karananou and Guha (2015) state that investors should start an engagement dialogue with corporations by asking questions about their tax profiles. Aggressive tax planning can create governance problems, earnings risk, or reputational damage. It can also hamper brand value and cause different societal distortions. Disclosing tax matters openly can also contribute to reputation building. If an MNE is found to be tax aggressive, it might hamper its whole CSR strategy. (Karananou & Guha 2015)

There are some arguments against publishing tax returns. As different rules are used to compile consolidated financial statements than to file tax returns, it might create confusion for investors (Tax Executives Institute 2002). According to Lenter et al. (2003), although experts would be able to gather insight from tax returns, it might create too heavy burden for investors to shift from financial accounting logic to tax accounting. On the other hand, if corporations knew that investors would scrutinize their tax returns alongside the information disclosed in the financial statements, it could incentivize them to develop their tax disclosures in the financial statements as well. Lenter et al. (2003) also criticize the argument that published tax returns would create confusion and insufficient analysis. If the confusion comes from complex tax rules, the solution should be to address the issues of complexity rather than to resist disclosure. As investors have gained valuable information from corporations' individual financial statements, they might benefit significantly also from public tax returns. Until they are not disclosed, it will not be possible to evaluate what kind of usefulness might derive from public tax returns (Morris 2015).

4 Methodology and research design

In this chapter, the research methods selected for the master's thesis are presented. The characteristics of the research methods are explained, as well as why they were chosen applicable for the master's thesis. It is also described how the data was collected as well as how it was analyzed.

4.1 Research method

Qualitative research methods are applied in the master's thesis. Typical for qualitative research methods is that it aims at describing the real world and it also understands the multidirectional relationships of different events. Rather than validating existing statements, qualitative research aims at finding or revealing facts in the real world. The research is usually conducted with profound analysis of a rather small number of cases. As the aim of the master's thesis is to explore how public tax disclosure requirements affect corporate tax transparency in MNEs, it is useful to hear how tax professionals in MNEs have experienced the issue. Therefore, this study aims at revealing facts in the corporate setting, in a way that the results could be connected to the findings of the literature review. (Hirsjärvi et al. 2009, 161–164; Eskola & Suoranta 1998, 14; Puusa & Juuti 2020, 67)

The master's thesis is conducted as a qualitative multiple case study. The focus of the study is on four MNEs and one not-for-profit organization (NPO) where each of them represents one individual case. Multiple case design is applicable when there is a need to develop a deeper understanding of the research object, in this case MNEs' tax transparency. This method is also suitable because corporate tax transparency is not yet well-researched, and the research questions require extensive and profound descriptions. While developing a deeper understanding into the research object, it is useful to distinguish similarities and differences between the cases. Choosing multiple cases for the analysis is of help also when fulfilling this aim of the study. (Yin 2009, 4; Voss et al. 2002).

4.2 Data collection

The data for this study was collected from four MNEs and one NPO with thematic interviews. To be able to explore the effects of public tax disclosure requirements, it was important that the interviewees were all experts in international taxation. As the study focuses on MNEs, it was also decided that all interviewees should be part of an MNE or international organization. Thereby, the interviewees were selected in a discretionary manner by contacting suitable persons for this study. Five interviews were then conducted individually with each tax professional. In qualitative research, interviews with only a few people can provide valuable information about a specific event. (Hirsjärvi & Hurme 2008) In thematic interviews, it is important that the interviewees can express themselves freely (Juuti & Puusa 2020, 107). As MNEs can interpret taxation as a sensitive topic, it was decided that the companies and interviewees of the study would stay anonymous. Thus, it was ensured that the interviewees were able to express their opinions on public tax disclosure in as sincere way as possible. Four interviews were conducted via Teams and one interview was held as a physical meeting. Each interview lasted an hour, and the interviews were recorded as well as transcripted to ease the analysis. After conducting the interviews, the recordings were listened through to ensure the accuracy of transcription.

All the MNEs selected for this study operate worldwide but main continents for tax purposes are Europe, Africa, and Asia. Every MNE is also in the scope of the EU’s public CbCR directive, and thus they generate more than 750 million euros of revenue annually. The NPO chosen for this study is also an international organization focusing on improvement of companies’ tax practices. The interviewees are either leading the whole tax department of the group or have a management position in certain areas, such as tax transparency or tax policy. The international tax experience of the interviewees ranges from six to 30 years. Interviewees’ areas of responsibility and amount of international tax experience are illustrated below in Table 1.

Table 1. Interviewee information.

Company	Area of responsibility	International tax experience (years)
MNE1	Tax policy and sustainability	15
MNE2	Head of Tax	30
MNE3	Head of Tax	16
MNE4	Head of Tax Policy	22
NPO	Strategist; tax and corporate reporting	6

When the purpose of the study is to hear the perspectives of the research subjects, thematic interviews are a suitable method (Hirsjärvi et al. 2009, 161–164). Thematic interviews highlight the interviewees' subjective perceptions on the issue. The presumption is that the interviewees have gone through certain process or event, in this case they are familiar with the changes in the international tax environment. The researcher has become familiar with the research problem by exploring prior research and literature. Thematic interviews are often used in CSR studies because they provide a chance for deeper analysis of the issues than other methods. (Juuti & Puusa 2020, 107; De la Cuesta-Gonzales 2019) As tax transparency connects to CSR issues on many levels, thematic interviews can be seen as a relevant method for this study as well. Although thematic interviews were the main data source of the study, also the tax disclosures of the case companies were utilized to supplement the interview findings. Only annual tax disclosures, as part of companies' CSR reports or as standalone reports, were in the focus of the study.

Thematic interviews can be characterized as a semi-structured research design as the themes developed at the planning phase stay the same in each interview (Hirsjärvi & Hurme 2008, 48). Themes for the interviews were developed beforehand to reflect the structure of the literature review and they can be found in attachment 1. The themes covered international tax environment and transparency, role of tax in the company, public tax disclosure requirements, as well as company and investor perspective. The themes guided the interview, but they also provided a chance to highlight certain theme more than another when needed. The interviewees were encouraged to speak about international taxation quite freely. Order and extent of the questions also differed between interviews because the interviewees tend to answer the questions in different ways (Juuti & Puusa 2020, 107; Hirsjärvi et al. 2009, 208). When interviewing the NPO, the same interview body was used with little modifications. When discussing aspects that were directly connected to companies' own actions, the questions were modified to better fit the NPO context. For instance, instead of asking about the role of tax in the company, it was asked what the NPO thinks the role of tax should be in companies.

4.3 Data analysis

Method for data analysis was theory-driven content analysis. Qualitative content analysis highlights the relationship between research data and its context, finding similarities and differences between the two (Graneheim et al. 2017). Typical for theory-driven content analysis is that the influence of earlier literature can be identified from the analysis, but its purpose is not to test the theories, but rather to create new ways of thinking (Tuomi & Sarajärvi 2018, 81). The logic of theory-driven content analysis derives from abductive reasoning, which is used also in this study to improve the analysis. Abductive reasoning is influenced both by the inductive and deductive approaches and requires movement between these two (Graneheim et al. 2017). In theory-driven content analysis, the main themes can be developed based on prior literature or the literature review results can be used at the end to combine the results into a more general form (Tuomi & Sarajärvi 2018).

In this study, the initial analysis of the interview data followed the three-step process introduced by Miles and Huberman (1994). The steps include simplification of the data, grouping of the data, and creation of theoretical concepts. The simplification of the data was conducted based on the transcripted interviews, which were analyzed, and phrases useful for the research problem were highlighted. The simplified phrases were then listed to find differences and similarities between the interviewees. Simplified phrases were used to classify them first into subclasses, after which they were combined into more general upper classes. Ultimately, the interview themes guided the creation of main classes, where upper classes were combined into the interview themes. (Tuomi & Sarajärvi 2018, 92–93)

5 Results

In the following part, empirical results are presented. The results are presented by combining the structure of literature review and interview body. First, it is presented how the interviewees think international tax environment has changed. Then, it is covered how the interviewees determine tax transparency, and what is the role of tax in the company as well as what tax information they disclose publicly. Then, it is reported what the companies think about increasing public disclosure requirements. Lastly, it is presented how the companies think investors are benefitting from public tax disclosures. Term “company” is used when referring to all interviewees in general, whether it is an MNE or NPO.

5.1 International tax environment

Discussion with each interviewee started with a question of how the international tax environment has changed during the last 10 years and how it connects to the company’s tax management. According to MNE3, MNE4, and NPO, most significant change in the international tax environment has been the OECD’s BEPS project. MNE4 describes that the international tax environment is currently in a strong integration process, and even a worldwide taxation system is about to be created instead of having sovereign national tax systems anymore. The NPO commented that a “fundamental principle” within the international tax system is changing. The principle that the BEPS project is changing is that taxes are not paid anymore only based on the booked profits, but also based on companies’ operations. This is the case especially with OECD’s two-pillar solution which aims at creating a new taxing right that would benefit market jurisdictions as well as setting a minimum tax rate of 15 percent to countries where MNEs have operations (OECD 2021b). The NPO highlighted that the international tax system has not become more complex just because of new rules and regulations, but also because of changes in the nature of business. Globalized operations and supply chains create much more complex tax consequences than intra-state transactions. International trade and free movement bring multiple benefits within, but studies have also found it as the reason why the tax system has become more complex (FitzGerald & Dayle 2018).

Moreover, the international tax principles and regulations are being modified for a reason. According to MNE3, many regulatory incentives were initially introduced to ensure that MNEs paid their fair share of taxes. MNE1 supported that view when stating that back then, lack of public focus on corporate taxes enabled MNEs to put a lot of effort into minimizing taxes. MNEs were not paying their fair share because of their efforts for aggressive tax planning, which in many studies has been mentioned as the reason why the international tax system needs to be changed (FitzGerald & Dayle 2018, 246; Knuutinen 2013, Knuutinen 2019; Cantos 2022). In addition, MNE1 elaborated more deeply on the reasons behind the changes in international tax environment, suggesting that the strongest impact on international tax environment has come from financial crisis and digitalization. These two have turned international tax environment into a political subject, as stated also by Middleton and Muttonen (2020).

"The first was the global financial crisis and what that allowed large countries to do was to really stamp down on tax havens. […] digitalization is the other big driver and that has been much more difficult because it is a much more fundamental change to taxing rights. […] I think that's purely a function of politics actually rather than complexity." (MNE1)

The political aspect comes from the fact that many MNEs have head offices in industrialized countries, so-called home jurisdictions, where they also pay most of their taxes, thus paying much less to their market jurisdictions. Thus, MNE3 pondered that tax authorities in home jurisdictions might have that in mind when not actively advocating for publishing all tax information. This, in turn, directly affects the OECD's work. For instance, when publishing CbCR, it would become obvious that most of the taxes are paid to industrialized countries. Market jurisdictions would like to change that which ultimately, could lead to home jurisdictions losing out. MNE3 stressed that sometimes the EU may feel like a market jurisdiction, when in reality, many MNEs are based in the EU. That could be one explanation why the EU considers publication of tax data as a good thing.

5.2 Tax transparency and role of tax in the company

In academic literature, tax transparency is listed among the key factors when fighting for harmful tax practices (Middleton & Muttonen 2020; De la Cuesta-González & Pardo 2019). In addition to complying with tax laws and requirements, tax transparency has much to do with complying with the law's intention and purpose (Knuutinen 2014a). This way of action is highlighted also by the OECD (2011) in its guidelines to multinational enterprises. In the interviews, the intention was to find out how companies see the role of tax transparency in their operations. Firstly, it was asked how the companies define tax transparency. In every interview, it was distinct that tax transparency is an important part of overall sustainability. Like the findings of De la Cuesta-Gonzales and Pardo (2019), all interviewees agreed that corporate taxation goes beyond legal obligation and that the spirit of the law is what matters nowadays. It was also visible that tax transparency is very company specific as each company has its own approach to it.

"Every company does it differently or in some cases not at all, but I would say it's being open with all stakeholders about how much tax you pay, where you pay it, when you pay it, and why you're paying it." (NPO)

"Sustainability touches every aspect, including taxation. So, we want to have a very sustainable approach to tax and tax planning and compliance. And I think as a part of that, we also want to be transparent, not that transparency is an end goal in itself. But I think it's a means to a goal because through being transparent, we can show that we walk the talk." (MNE3)

The definition of MNE3 is in line with Nielsen & Madsen (2009), who emphasize transparency as a means of understanding rather than a goal. MNE3 highlighted that by being transparent, they can credibly participate in international tax debates and while they are open about their tax treatment, the public cannot assume or suspect what they are doing and for which reasons. The public debate continues to focus on MNEs not paying their fair share but as Middleton and Muttonen (2020, 8) point out, determining the fair share is becoming increasingly difficult. According to MNE3, the issue will be solved if MNEs openly show how much taxes they pay as well as where and when they pay them. The discussion should be based on data and not just concepts, because then misunderstandings could be avoided. As Hoopes et al. (2018) present, risk of misunderstanding is currently one argument opposing public tax disclosure.

Additionally, MNE4 commented that companies should be transparent also on more negative aspects. If the company is present in a tax haven for an acquisition, it should disclose it openly and explain when it expects to stop the operations. Tax transparency provides companies a chance to demonstrate how the value is created and how it is distributed among different stakeholders (Nielsen & Madsen 2009). MNE3 added that transparency provides confidence to stakeholders when for instance, local communities know MNEs are paying the right amount of tax in the jurisdiction. MNE4 evaluated that when communicating openly with, for instance tax authorities, it will support open communication with other stakeholders as well. MNE1 underscored the role of tax transparency in holding governments and companies to account for their operations. Because companies now must publish so much information, tax publications should be treated as just one form of public reporting among others.

"You have to publish how many employees you have and what their wages and salaries were, why should you not have to publish how much you paid to the government?" (MNE1)

Albu and Flyverbom (2019) provided two approaches for assessing organizational transparency which are verifiability and performativity approach. When reflecting the interviewees' answers with the two approaches, companies seem to think tax transparency more from the verifiability perspective. According to this approach, information disclosure leads to more regulated behavior which creates clarity, predictability, and understandability of corporate behavior. Typical of this approach is that accurate information helps reveal what the company is really like. As the interviewees highlighted that tax publications should include answers to questions "how much, where, when, and why", it is visible that the companies believe disclosure helps stakeholders to understand MNEs' operations better than before.

It was also discussed what the companies think about the attention tax transparency receives from stakeholders. NPO pointed out that tax is not receiving enough attention in the public debates, mostly because generally, it is still not understood as important topic as climate-related disclosures, for instance. The problem is that taxes are not understood as a CSR topic. As stated in the literature, taxes should be incorporated as part of CSR because it reduces the possibility to hide aggressive tax planning strategies (Sikka 2013; Ylönen & Laine 2015). MNE1 agreed with the NPO in the sense that tax still receives the wrong kind of attention. Mostly, taxes are seen as a cost that companies must pay and not as a contribution that companies make to meet sustainability targets. MNE1 also added that tax responsibility might not be the priority of the public, thus the stakeholders most interested in taxes would be governments, NGOs, investors, and the media. MNE2 thought that investors care more about responsibility of their business, such as emissions and energy efficiency. According to MNE2, taxes come somewhere behind.

MNE4 also added that communication is key when developing tax transparency. In the past, tax professionals have worked in total isolation from other corporate functions which has enabled taxation to become such a technical topic. Now it would be extremely important to change the technical tax language into clear communication with other functions within the company. NPO supported this point of view and in addition, added that although tax professionals know everything about taxes, they are not aware of CSR topics. Thus, cooperation between CSR and tax functions would be extremely important when incorporating taxes as part of CSR. Nielsen and Madsen (2009) also highlight that transparency is built through interaction and as a means and not a goal, it needs a voice and an ear.

With the interviewees, it was also discussed if they think increasing disclosure rules could have negative consequences for tax transparency. As the performativity approach presented by Albu and Flyverbom (2019) states, disclosures are more complex communication and interpretation processes than straightforward transmissions of information. Thus, more disclosure does not always lead to better outcomes. Compared to obligatory tax disclosures, MNE3 emphasized the positive impact voluntary tax reporting can have:

"If we take companies that have become transparent out of their own free will and through stakeholder pressure, [...] it is something made by the company itself and it's a very true story [...] and I think the public requirements in the UK to publish your tax strategy, it's just

the same. It doesn't really say anything about what the company is doing and how the company will act. It's just words on a paper, and I fear that with pressure or with legal requirements, some companies will just do the bare minimum." (MNE3)

When the UK tax strategy publication requirement was released, a common template was developed which can lead to tax strategy publications becoming meaningless. But as Forstater (2016) states, UK tax administration's main intention with the requirement was to target the companies with tax avoidance or aggressive tax planning activities. Thus, the requirement's intention was via pressure, to guarantee basic compliance for those companies. MNE3 added that the template-driven approach can also prove to be sufficient, and forerunners of tax transparency will take the publications to the next levels. Rather than legal requirements, companies themselves are sometimes better at finding the proper approach to their everyday problems, in this case to their tax transparency (Knuutinen 2014a).

On the other hand, mandatory public disclosure is said to improve accountability and compliance around tax matters (Hoopes et al. 2018). Mandatory public disclosure has also been found to foster voluntary tax reporting (Bozanic et al. 2017). MNE1 pondered on the number of current reporting requirements and how that can affect transparency:

"Sometimes you need to go too far in the wrong direction before you snap back into the right direction. If you're in a world with no transparency, it's very difficult to move very quickly to a world with just the right amount of transparency." (MNE1)

MNE1 also felt that sometimes a report is prepared and published simply because it is a legal requirement, such as payments to governments report. Compared to CbCR, the report has a very different logic, and MNE1 did not think many stakeholders would find it useful. MNE2 considered publishing the balance of deferred tax assets and liabilities in their financial statements as a similar, only legal requirement. The company did not consider GRI 207 to be relevant at this time but felt that reporting information on every operating country could lead to information overload. Oats and Tuck (2019) present that information overload can lead to a situation where recipients of tax information are not able to distinguish relevant information from irrelevant. While in the verifiability approach to transparency, more disclosure is seen only as a good thing, performativity approach also acknowledges the possibility of information overload (Albu & Flyverbom 2019). Nielsen and Madsen (2009) add that transparency ultimately is in the eyes of the information receiver, not the sender. In the interviews, it was visible that some reports might not be that useful to the recipients. The interviewees underscored that there must be a clear need for the information to be reported, and it should be of importance to all stakeholders. Before publishing certain pieces of tax information, MNE2 evaluates what is the purpose it is needed for and whether it is relevant to all stakeholders. Nielsen and Madsen (2009) discuss management driven information disclosure, where only the "right" information is being disclosed. That form of disclosure is different from generic reporting, where stakeholders are said to benefit from as much information as possible. In the interviews, it is visible that companies want to avoid publishing useless information. However, Nielsen and Madsen (2009) point out also that managers selecting the "right" information can have undesirable affects which in turn, can decrease transparency. With bounded rationality and other constraints such as time, more effective decisions might be made by choosing only the "right" information, but also hiding details from stakeholders could become easier than before.

In the interviews, it was discussed how the companies think their approach to taxation has changed. MNE1 commented that its industry has received a lot of interest and pressure to reform and become more transparent already in the 1990s and early 2000s. That is why MNE1 feels that they are "already ahead of the curve" with regards to taxes as part of sustainability. MNE4 sets their limit for tax compliance very high and lately, they have focused on preparing comprehensive narratives to support their numbers. They focus especially on connecting tax payments with economical activities because that reduces the technicality of tax topics. The hard work MNE1 was pressured to do has paid off in the form of the company showing a good example to the whole industry. This has led to MNE1 focusing lately on aligning their actions both from a tax and non-tax perspective. For instance, they base their tax transparency and sustainability reports on the same numbers and publish them on the same day. The aim is to put taxes into a broader sustainability context, and not just talking separately about sustainability and taxes. MNE3 also considered themselves in a position where they can show example to others:

"Since we've been so much at the front, we've not really had a lot of pressure that we received, more praise, to be honest." (MNE3)

The difference to MNE1 is that MNE3 did not feel that they have had pressure on their transparency development. MNE3 added that although their current position is very comfortable, they still must stay vigilant in tax matters. MNE2 has not determined tax as a focus area when discussing sustainability reporting, and it has not received many questions on that treatment either from the outside. Thus, it is visible that the attitude on taxes of MNE2 is a little different compared to other MNEs. MNE2 added that they constantly discuss and evaluate what tax aspects they would like to report and foremost, what is important to their stakeholders. What is seen here is also that the industry of the corporation can significantly affect how tax is treated in the company. As Boerrild et al. (2015) state, total standardization is not the end goal but rather, different stakeholder needs should be considered when developing transparency.

Interestingly, the NPO reflected on the impacts covid pandemic has had on tax treatment in corporations but stressed that the reflections were quite anecdotal. The NPO commented that corporations received huge amounts of public support that helped them survive the economic downturn caused by the pandemic. In many boardrooms, tax was seen as a cost before the pandemic, but state bailouts helped corporations to see the benefits of paying lots of taxes. NPO said that this might have turned taxes to become a contribution instead of a cost in some boardrooms, but the NPO did not want to highlight this too much.

"I don't want to overstate that. I still think the vast majority of companies see it as a cost rather than a contribution." (NPO)

The NPO felt that one of the biggest problems related to taxes is that no one is drawing the line between CSR and tax. In the literature review, many studies concluded that tax disclosures are considered as an important part of CSR (De la Cusesta-González & Pardo 2019; Knuutinen 2014a) or at least that they should be classified as a CSR issue (Ylönen & Laine 2015). Similarly, all interviewee companies recognize taxes as part of CSR but as NPO noted, in the big picture, companies can still see taxes rather as a cost. However, NPO also felt that this is beginning to change. One way to make the change is that CSR rating agencies are beginning to incorporate taxes as part of their methodologies. MNE1 added that the Dow Jones index is the most important for them and it requires companies to be compliant with GRI 207. MNE3 did not want to give too much importance to rating agencies, because sustainability considered in them can be more of a superficial thing rather than real sustainability.

Recent study by Bourne et al. (2021) concluded that tax disclosures are lacking coherence and completeness, and current measures for tax transparency are less developed compared to other sustainability indicators. It is worth noticing that the number of interviewees in this study is so small that statistical generalizations about companies' tax disclosures cannot be made. However, to find out how increased public disclosure requirements affect tax transparency, it is still useful to compare what kind of tax disclosures companies make. The focus of this study is on the interviews themselves, which is why detailed content analysis on the companies' tax disclosures is not conducted. Below in Table 2, it is visible on a general level, how MNEs disclosed their tax transparency report in year 2021, how many pages they reported on tax issues as well as whether their disclosures were compliant with GRI's standard for taxes (GRI 207). As the NPO focuses on the improvement of companies' tax practices, it does not have relevant tax disclosures to analyze in this study.

Table 2. Public tax disclosures of MNEs in 2021.

Company	Tax transparency report	Number of pages	GRI 207 applied
MNE1	Separate report	30-40	Yes
MNE2	Tax strategy on the webpage, general tax information in the sustainability report	< 5	No
MNE3	Tax transparency report part of annual report	10	Yes
MNE4	Separate report	100-150	Yes

As can be seen from the table, MNE1 and MNE4 published a separate tax transparency report and MNE3 incorporated taxes as part of its annual report. MNE1, MNE3 and MNE4 also applied GRI 207 in their tax transparency reports. Bourne et al. (2021) states that the extent of tax disclosures varies significantly between companies. The same characteristic can be found from the interviewee MNEs as the number of pages reported on tax topics ranged from less than five to more than 100 pages. Standardization is presented as one tool to increase MNE’s tax transparency (De la Cuesta-Gonzales & Pardo 2019), of which one example is the GRI 207. Most of the MNEs in this study published tax information according to the requirements of GRI 207. All these companies also reported the greatest number of pages about their tax issues, although within these companies, significant variation still exists.

MNE2 does not comply with GRI 207 because tax is not identified as a focus area for the company. GRI 207 serves as a Topic Standard which means that if organizations have determined tax as a material topic, they can comply with all disclosures in the standard that are relevant to the organization’s tax-related impacts (GRI 207 2019). Thus, it can be concluded that GRI 207 might not be the best option for every company, and non-compliance with it does not automatically mean poor tax transparency. MNE2 considered it more relevant to publish tax information only on the biggest operating countries instead of disclosing information on all countries. As performativity approach of transparency addresses, increasing disclosure can have also other than positive consequences (Albu & Flyverbom 2019). According to MNE2, publishing information on all operating countries would create confusion. MNE4 also has operations in many countries, and it still considered it valuable to disclose information on every country. This approach is more in line with the verifiability approach of transparency (Albu & Flyverbom 2019). Companies’ opinions on the form of disclosure that increases transparency vary.

Although most of the literature argues that firms with harmful tax practices usually also have less transparency (Lewellen 2022), there are also results stating that companies can try to legitimize their harmful tax behavior with more tax disclosure (Kao & Liao 2021; Lanis & Richardson 2013). MNE3 did not believe that companies publish tax information while knowingly acting in violation of the publications, because in the long run, the matter would become public, and the company could be exposed to significant penalties and fines. The NPO also felt that when tax transparency is raised as an important topic, standardization plays a key role:

“I think it's not only good but imperative that [companies] disclose in a similar format.” (NPO)

As many companies are still solely focusing on the effects of their income taxes, there are surveys showing that the number of companies publishing their total tax contribution is also rising (Packman 2022). Among the interviewees, MNE1, MNE3, and MNE4 provided information on their total tax contribution by breaking down the amounts of taxes borne and collected.

5.3 Public tax disclosure requirements

Through OECD launching the Action Plan on BEPS in 2013 and EU releasing the Tax Transparency Package in 2015, international tax disclosure requirements have only been increasing during the last 10 years (European Commission 2015a; OECD 2015). All the interviewees agreed with the fact that international tax landscape has become more complex, and compliance burden has increased remarkably. In November 2021, OECD published a two-pillar solution, BEPS 2.0, to ensure MNEs pay their fair share wherever they operate. Pillar two sets a global minimum tax rate of at least 15 percent for MNEs in each jurisdiction they operate (OECD 2021b). Pillar two evoked a lot of discussion among companies. MNE4 highlighted that global minimum tax is the first form of worldwide taxation, and the rules are not easy to apply.

"And what we see on pillar two is it's not a global minimum tax of 15%, it's an absolute administrative nightmare." (MNE1)

MNE2 agreed and it also mentioned that BEPS 2.0 will not have major tax effects for the company, but rather it will create a lot of extra work to comply with the requirements. MNE1 commented that rather than resulting from too little tax payments in a jurisdiction, pillar two top-up tax payments will reflect differences between accounting logic and pillar two rules. MNE3 specified that increased disclosure requirements result in the same tax information being reported in multiple different formats.

"I can't see the value at neither for the tax community such, nor for the fiscal interests of the states we're operating in […] when you take those steps the only thing it will lead to is that tax agencies are overwhelmed with documentation." (MNE3)

Additionally, MNE4 considered it challenging to organize different processes, understand the rules and to know whom to ask about interpretation of the new rules.

OECD's BEPS Action Plan has been designated as the century's most comprehensive attempt to reform international tax system (Forstater & Christensen 2017, 33). As part of the action plan, OECD now requires MNEs to report revenue, profit before taxes, income taxes paid and accrued as well as other indicators of economic activity annually and by each jurisdiction the MNE operates in (CbCR). The intention of CbCR was to increase communication between tax authorities and MNEs, and private CbCR is said to harmonize MNEs' tax disclosures and improve tax authorities' understanding of their tax positions (Joshi 2020; Ting & Grey 2019). From June 2024, MNEs with revenues more than 750 million are required to publish their CbCR (EU 2101/2021). As MNE1, MNE3, and MNE4 reported their tax matters according to GRI 207, they already also publish CbCR. Experiences with public CbCR were mostly positive among the companies.

"I don't really understand when companies say they can't publish it because it's commercially sensitive information there." (MNE1)

In the European Commission's (2016a) public consultation, there was unanimous agreement among companies that public disclosure would create reputational damage due to misinterpretations of the data. As Graham et al. (2014) states, reputation is among the most important factors when corporations choose tax planning strategies. Thus, if MNEs considered reputational risk accruing from CbCR, it could lead corporations choosing not to publish CbCR. On the other hand, companies can also voluntarily publish tax information when they expect reputational risk accruing from public disclosure (Kays 2022). MNE3 agreed with this statement:

"I think if you are concerned that public disclosure will reveal less flattering information, you should probably address that problem instead of trying to hide it." (MNE3)

MNE2 considered reputation more as a management topic but added also that when a company is aware of its own facts, it can protect its reputation. MNE2, MNE3, and MNE4 are already publishing their CbCR, and they seem to think that additional public disclosure can boost their reputation. Boerrild et al. (2015) state that corporations voluntarily publishing their CbCR can become the forerunners of transparency which in turn builds their reputation in terms of responsibility and good governance.

In some studies, it has been shown how MNEs and NPOs, to some extent, have differing opinions on the development of public disclosure requirements. Generally, NPO sector supports public tax disclosure on a country-by-country basis, and disclosure requirements should go even further than what the EU is presenting (De la Cuesta-Gonzales & Pardo 2019; Finnwatch 2017; Boerrild et al. 2015). In the interviews, MNEs and the NPO were nevertheless quite aligned in their opinions about public disclosure requirements.

Opponents of public CbCR have traditionally argued that commercially sensitive information or trade secrets could be revealed when CbCR was to become public (De la Cuesta-Gonzales & Pardo 2019; Morris 2015). MNE3 had long and thorough discussions before deciding to publish the CbCR to ensure that sensitive information is not disclosed, so the company recognizes the existence of such risk. The company was willing to do all the preparatory work because it wanted to be a transparent and responsible company. The NPO stressed that companies with which it has cooperated are happy to provide tax information to the tax authorities, but the risk of misinterpretation of the data might affect their willingness to provide all that information publicly.

"*Country-by-country-report is a snapshot of what happened in the last reporting year. And there are good reasons why companies will pay a lot more or a lot less tax than might be anticipated in a given year.*" (NPO)

In the European Commission's (2016a) public consultation, only six percent of NGOs and trade unions believed that public CbCR can have unintended consequences while among companies, 80 percent expressed concerns over that matter. Unintended consequences listed by companies included public misinterpretations of the data due to complex accounting technicalities or simply a lack of understanding. NPO highlighted that there are multiple situations where for instance, taxes paid are very low, and it can be misleading for the public. NPO felt that the reader would get a better sense of the company's tax aggressiveness if the report contained numbers from four or five years. In the interviews, both the NPO and companies identified the risk of public CbCR misinterpretation.

"*The number data is one thing, but very few people who read it are taxation experts, so those numbers should be really simple, so maybe the verbal part matters more then.*" (MNE 2)

"*The CbCR was born as an information model for tax authorities, I think it doesn't give a real picture of tax matters.*" (MNE4)

It is stated also in the literature that quantitative tax disclosures are characterized by the risk of misinterpretation. Thus, to improve the understandability of tax reports, more detailed explanations of the numbers are needed (Bourne et al. 2021). Confusing or misleading information can cause unfair consequences for corporations who otherwise comply fully with legal requirements (Hoopes et al. 2018). The EU aims to implement the filing of the CbCR in a common, machine-readable format to reduce problems related to incomplete and confusing data (EU 2101/2021). However, as stated earlier related to the UK tax strategy publications, common template format can create a risk of the data becoming meaningless when companies just report for the sake of reporting. By contrast, numbers in the CbCR are very company-specific which can result in unique and in-depth narratives. NPO highlights that tax strategy publications can be meaningless because the statements are not based on data. Thus, public CbCR can bring more meaning also to strategy statements. Packman (2022) believes also that public CbCR will cause more companies to bring their tax numbers into context.

MNE4 believed that the issue for corporations is not how to produce the CbC report but rather how to attach comprehensive narratives to the report. Before private CbCR came into force, Government of the UK estimated that both the one-off and annual costs of providing the report would be negligible (Gov.UK 2017). The costs of public CbCR are said to be minimal also because many MNEs already have the information ready from the private version of the report (Middleton & Muttonen 2020). According to MNE1 and MNE3, narratives are a prerequisite for CbCR, because the numbers need to be put into broader context. MNE1 recognized the creation of narratives as the most expensive part of CbCR, and therefore understands companies who decide not to produce the report at all because of the resources needed. Therefore, it can be concluded that there are costs associated with public CbCR, especially related to explanation of the numbers.

In the interviews, publication of income tax returns was also discussed. In some countries, parts of income tax returns are disclosed publicly. It is stated that disclosure of certain tax information supports openness and public discussion on taxation, and it also aims at decreasing tax avoidance practices (Vero2022a; Hoopes et al. 2018). Publication of tax return information did not raise many opinions among interviewees as that disclosure is not in their hands. However, MNE1 and MNE3 agreed on the fact that publication of the entire tax return would not be favorable because of detailed information on income and expenses.

5.4 Investor perspective

Traditionally, the perception has been that investors prefer as low tax payments as possible to increase cashflows to them (Hanlon & Heitzman 2010; Dutt et al. 2019). Thus, they have not been considered as a great motivator for corporations in increasing their tax responsibility. However, there is some evidence suggesting that investors' attitudes are changing, and that nowadays they attach great importance to how MNEs incorporate taxes as part of CSR frameworks (Boerrild et al. 2015, 11; Laguir et al. 2015). According to the survey results of De la Cuesta-Gonzales and Pardo (2019, 2180), shareholders of the company are considered the most powerful stakeholder group in pushing corporations towards more responsible tax behavior.

The intention of the interviews was to find out if the companies think investors benefit from public tax disclosures. Research has covered investor reactions especially to public disclosure requirements for financial institutions, because public CbCR has been in effect for them already since 2014 (36/2013/EU). There are findings suggesting a negative stock price reaction to new disclosure requirements (Hoopes et al. 2018; Johannesen & Larsen 2016). The general cause for negative reactions is for instance that investors think tax responsibility leads to increased tax payments which in turn, reduces investors' wealth (Dutt et al. 2019). Also, investors might anticipate increased costs for corporations because of reputational damage that can occur if aggressive tax practices were discovered (Hanlon &

Slemrod 2009; Boerrild et al. 2015). On the other hand, investors can react also positively to new disclosure requirements. For instance, the capital market can evaluate that new public disclosures bring certainty over MNEs' tax positions in the form of better analyses of the geographical distribution of activities and profits (Dutt et al. 2019). Although direct investor reactions were not collected in this study, it is certain that MNEs have communication with them. Thus, it was possible to evaluate how MNEs think investors are benefiting from their tax disclosures, which is useful when determining if investors can motivate MNEs in improving their tax transparency.

MNE1 and MNE2 felt strongly that tax responsibility is still quite underdeveloped area for investors. MNE1 commented that although investors all the time want more information on tax, they are not yet able to use all information given to them. They want to ensure that companies publish CbCR and have a board-approved approach to tax, but according to MNE1, it is still more of a tick-box exercise for them. MNE2 shared its own experience where recently, one investor group has approached them asking for more regional tax information. The company has spent time to find out if the information is really needed and for what purpose.

"*Whether it's some kind of tick-the-box which guarantees that this kind of information exists so that we would look better.*" (MNE2)

It is visible that MNE1 and MNE2 agree on the investor expectations they are facing. MNE3 emphasized that their interactions with investors have proved that investors take tax matters seriously, and it is not just a tick-the-box exercise. MNE3 added that shareholders rely a lot on analysts who take multiple tax factors into account when assessing MNEs' tax positions. In addition to knowing how much taxes are paid and where, they want to be assured that MNEs are in control of their tax risks, by for instance, explaining what disagreements they have with tax authorities. Thus, although investors are not expecting pioneering tax transparency from MNEs, their expectations can change when analysts become more advanced in tax matters. MNE1 commented that MNEs' proactivity in tax disclosures will eventually also affect investors:

“*I think things are moving because the more companies that publish, the more sophisticated investors become, the more data they have to run analyses of what these things mean and what's good and what's bad. So, I think there's going to be a lot of movement in that area in the coming years.*” (MNE1)

MNE4 distinguished also between long-term and short-term value creation, noting that investors' expectations can be very different depending on the investment period.

“*If the investor looks at your company in the short period, it is interested in reducing the tax. If the investor invests in your company for a long period, you have to be sustainable.”* (MNE4)

The NPO also did not believe that investors see taxes as a mere expense. De la Cuesta-Gonzales and Pardo (2019) state that although the power of improving tax transparency lies in the hands of policymakers, NPOs nowadays have an important role in reinforcing the legitimacy of tax issues. Corporations need the pressure from these other representatives of society, because otherwise they would not necessarily have the incentives to develop their tax transparency. (De la Cuesta-Gonzales & Pardo 2019) The NPO believed that investors nowadays have a significant role in pressuring MNEs to become more transparent:

“10 years ago, all the pressure to be tracked, tax transparency was coming from NGOs and activists. And now it's completely different. It's all from investors.” (NPO)

The NPO also believed that it can influence the development of international tax landscape. It highlighted that especially when standards for improving tax transparency are developed, NPOs should be involved in the process because they have valuable information from the companies they are working with. Although MNEs agreed on focusing on transparent relationships equally with every stakeholder, MNE1 commented that sometimes more time is spent with NPOs than with investors to find out why the information is needed.

“It's a discussion. We lead that discussion, trying to keep control of that discussion. We won't just publish something because NPOs are telling us to.” (MNE1)

MNE1 explained that investors are prioritized compared to other stakeholders when discussing more specific tax disclosures, but with more general tax transparency, all stakeholders are equally important. MNE3 rationalized that discussions with NPOs are more profound, whereas investors and analysts ask more specific questions related to certain tax cases or regimes. However, MNE3 highlighted that they give the same information to all stakeholders, as all stakeholders are equally important for them. MNE2 agreed with the statement when saying that as all stakeholders should be treated equally, the company must verify that tax disclosures benefit all stakeholders. Thus, if only one party asks for certain information, MNEs must verify that the disclosure also benefits other stakeholders.

6 Summary and conclusion

In this chapter, summary and conclusion to the master's thesis are drawn. Firstly, answers to the research questions are given by answering the sub-research questions and then, forming the conclusions by answering the main research question. Secondly, discussion of the results is conducted to put them into a broader context. Lastly, limitations of the study are covered, and further research topics are presented.

6.1 Answers to the research questions

The purpose of this master's thesis was to explore the effects of public tax disclosure on corporate tax transparency. From theoretical perspective, the effects were studied both from regulators and companies' perspective. Also, investor expectations related to tax transparency were addressed. Additional information was then gathered through the empirical part, where tax professionals from four MNEs and one NPO were interviewed.

The first sub-research question was formulated as follows: "*What actions do MNEs take to improve tax transparency?"*. MNEs' main form of tax disclosure was found out to be disclosures in the notes of the financial statements and in this study, International Accounting Standard (IAS) 12 on income taxes was explored. However, applying the standard is obligatory for companies when they comply with IFRS. As was concluded in the literature review as well as interviews, improvement in tax transparency also requires other types of disclosures (Bozanic et al. 2017; Kays 2022; Boerrild et al. 2015).

Tax disclosures according to GRI Topic Standard on tax (GRI 207) were covered in the master's thesis. As several studies have shown, integration between tax and CSR is urgently needed to reduce companies' tax aggressiveness (Laguir et al. 2015; Sikka 2013) and GRI 207 can be seen as the first global standard trying to do so. Three out of four MNEs in this study already published their tax transparency reports according to GRI 207 and in general, opinions of the standard were positive among the interviewees.

Standardization was noticed as an important topic when the aim is to increase transparency. The EU and the OECD have the possibility to create a common framework and standardized definitions for international taxation. Lack of universal definitions for taxation, complexity of tax laws, and costs related to information disclosure are currently said to explain why tax disclosures are confusing and of poor quality (De la Cuesta-Gonzales & Pardo 2019; Boerrild et al. 2015). On the other hand, in the interviews, it was noted that total standardization should not be the end goal of tax system development. Tax issues will remain unique for each company and thus, the needs of different stakeholders must be carefully considered. Through close cooperation, it is to be found what kind of disclosure is needed and in what format.

The second sub-research question was formulated as follows: "*How do investors benefit from public tax disclosures?"*. One of the main results regarding investors was that their approach to taxation is radically changing. De la Cuesta-Gonzales and Pardo (2019) highlighted investors as the most important group to push MNEs towards more responsible tax behavior. Opinions on this issue were divided between interviewee companies. Two out of four MNEs stressed more the fact that investors do not yet know what to do with all the information given to them, as also found in a few studies (Tax Executives Institute 2002; Lenter et al. 2003). They want to ensure that companies are complying with the laws, but their assessment of tax responsibility is still more of a tick-box exercise. It was also stated that investors are interested in tax matters and especially when analysts develop their skills in their analyses, investors become more sophisticated. One MNE also commented that on top of knowing where taxes are paid and when, investors want to be assured that MNEs are in control of their tax risks. More disclosure can help investors to form better analyses on MNEs' activities and profits, which increases certainty over their tax positions (Dutt et al. 2019).

Compared to MNEs in the study, the NPO strongly believed that all the pressure for increasing tax transparency is now coming from investors. Although the opinions between interviewee companies in the study were divided, it still can be concluded that disclosures have more benefits than disadvantages for investors. Investors can motivate MNEs to develop their tax transparency and through active communication, MNEs can understand their needs and expectations continuously better.

The main research question of the master's thesis was formulated as follows: "*What are the effects of increased public tax disclosure requirements on corporate tax transparency?".* It can be concluded that increased disclosure requirements have both negative and positive effects on corporate tax transparency. One of the main effects is the complexity that the requirements bring into the tax landscape. When trying to follow multiple guidelines, rules, and recommendations that can even overlap with each other, it can become extremely difficult to communicate them clearly to the stakeholders. Information overload was also noticed as one risk related to disclosure. It leads to a situation where recipients of tax information are no longer able to distinguish relevant information from irrelevant (Oats and Tuck 2019).

Some of the requirements also impose a considerable administrative burden, which was noticed especially with OECD's pillar two. Costs associated with the disclosure can prevent a company from disclosing certain information. In particular, the costs were related to the preparation of tax narratives that support tax data. However, the consensus was that when tax data is accurate and correct, it is the explanation behind the numbers that makes the difference in terms of transparency. To improve transparency, companies should invest in creating high-quality narratives that are based on accurate tax numbers.

Tax transparency is seen as a mean towards a better tax environment rather than a goal. Public CbCR is expected to improve transparency and reduce the possibilities for tax avoidance (European Parliament 2021; EU 2101/2021). Financial institutions have published CbCR already since 2014, and regarding that, there are findings supporting the fact that public CbCR has decreased aggressive tax practices or at least helped at detecting harmful behavior (Overesch & Wolff 2021; Brown et al. 2019; Akamah et al. 2018). Three out of four MNEs in this study believed that additional public tax disclosure can boost their reputation. Boerrild et al. (2015) highlight also that voluntary tax disclosure can improve companies' reputation in terms of good governance and responsibility. Public disclosure requirements are developed mainly by the EU and the OECD, so the requirements can also be seen to reduce the complexity and the number of different disclosure rules. If international policymakers are aligned in their decisions, standardization can make tax landscape simpler and clearer.

6.2 Discussion

The results of this study can also be discussed in a managerial context to give suggestions for companies for the future. Although in multiple studies it was stated that taxes already are part of CSR (De la Cuesta-González & Pardo 2019; Knuutinen 2014a), some of the interviewee companies commented that worldwide, it is not yet the case. It was clear that the interviewee companies put in a lot of effort for their tax transparency, and most of them hold a forerunner position in tax transparency. Thus, the managerial suggestions in this part are given to companies that already are progressive in tax matters and that want to further improve their tax transparency.

Based on this study, it seems like tax transparency is currently improved mostly by the forerunners. Tax-responsible companies actively seek ways to report in a more transparent and informative way. Companies with aggressive tax practices can continue like before if the forerunner companies are the only ones making progress in terms of tax transparency. The current situation has been enabled because most of the disclosure requirements have been voluntary to comply with. Thus, also mandatory disclosure requirements are important for tax transparency. It has been found that mandatory disclosure can incentivize companies to disclose more on a voluntary basis as well (Bozanic et al. 2017).

Public disclosures should always have a clear need and purpose, and they should also benefit all stakeholders equally. Currently, these concepts are to some extent forgotten in the political arena. According to MNEs, some reports are produced only for the sake of reporting. One way to ensure the need for disclosure requirements would be to include companies more actively in the development of tax disclosure requirements. As stated in the results, the NPO sector has a significant role in putting forward important tax matters, so close cooperation with NPOs is needed to understand the needs of different stakeholders. Improved transparency also requires active communication and cooperation between tax and CSR units within the companies. When other than tax professionals are included in the preparation of tax disclosures, it is also likely that complex expressions and technical language in the reports are reduced.

Corporations should actively think about how to improve their tax transparency. One issue raised with tax strategy publications by the MNEs was that some of them are becoming meaningless as all companies publish them in similar format and with similar statements. By applying GRI 207, companies can create value for their strategy publications. As stated by one MNE, when statements are based on data, there is less room for misinterpretation. Accurate statements create trust among stakeholders which is beneficial for companies' long-term success. Disclosing total tax contribution is a concrete example of additional disclosure that creates value for the stakeholders. As other than income taxes significantly contribute to corporations' total tax contribution, more attention should be given to them as an increasing factor of transparency.

To increase tax transparency, corporations should connect their tax statements more tightly to actual data. In particular, with regard to the UK tax strategy publication requirement, MNEs in the study commented that the requirement has led corporations to publish template-based information and statements that are not based on anything. While accurate and correct tax data is important, MNEs should also ensure that tax narratives are given in an understandable way. Currently, some stakeholders can find tax information too complex. Linking tax data to business examples can make companies' tax reporting more practical.

Companies should be more transparent about issues related to their effective tax rates (ETRs), which often differ significantly from the statutory tax rate applicable in a certain jurisdiction. Although MNEs are obliged by IFRS to provide a short explanation of their ETR reconciliation, they could also provide a more comprehensive and understandable ETR narrative alongside the numbers. As stated by PricewaterhouseCoopers (2022), only a few companies publicly discuss how their ETR is likely to perform in the future. By incorporating future ETR projections, MNEs could increase the understandability of their tax positions.

6.3 Limitations and suggestions for future research

This study was a qualitative multiple case study with a small sample of companies. Therefore, statistical generalizations are not able to be made based on this study. Also, when having interviews as a research method, interviewees might give only the answers they consider socially acceptable. As taxation can be considered a sensitive topic, this may prevent interviewees from raising some important themes. This issue was mitigated in the master's thesis by retaining anonymity of the interviewees as well as the companies they were working in. However, it should be noted that the results might be different if for instance, an anonym survey study had been used. On the other hand, interviews enabled an in-depth discussion which may not be the case with a survey study.

Tax transparency offers multiple possibilities for future research. One way to study the quality of companies' tax transparency reporting would be to conduct a content analysis of a bigger sample of companies' tax reports. Public Finnish companies could offer an interesting point of view for the tax reporting research. Therefore, the quality of tax reporting could better be assessed and compared to for instance, the situation elsewhere in Europe. Also, public CbCR implications on tax transparency could be studied in the near future when companies start applying the directive. It would also be interesting to study tax transparency only from the perspective of information recipients, who ultimately determine the level of transparency. For instance, focusing solely on investors needs could reveal important development points for future tax transparency.

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Appendices

Appendix 1. Interview body.

General questions

- How many years of international tax experience does the interviewee have?
    - Where are the company's main business areas? (by continent)
    - If the interviewee company is an MNE or other organization.
    - Are financial statements compiled according to IFRS?

International tax environment & transparency

- How do you think the international corporate tax environment has changed during the last 10 years?
    - Have the possible changes created any challenges or possibilities?
    - Do you see the differences between jurisdictions' tax systems as a challenge for an effective tax system?
- How do you see the number of regulations or guidelines on tax disclosure has changed during the last 10 years?
    - Has the company you work in had to change the approach to taxation?
- How would you define tax transparency?
    - What is the role of public and private disclosure in improving tax transparency? Do you think one is more important than another?
    - Do you think tax transparency has received the attention it deserves (when compared e.g. to other CSR issues)?
- What do you think about the current amount of tax information that is needed to be shared (publicly and privately)?

The role of tax in your organization

- How would you describe the role of taxes in the company you are working in?
    - What do you think should be the role of taxes in company's overall strategy?
    - Has the role changed during the last 10 year?
    - Do you think taxes are a part of CSR? Should they be?

Public tax disclosure requirements

- What are the most important reasons why you publish or don't publish tax information.
- Do you publish your tax information according to some global guidelines?
- What will happen when CbCR is to be made public?
- What impacts might public CbCR have on your operations?

  - The OECD seems to stand with the private version of CbCR and the EU supports the publication of the data. What do you think about differing opinions between the policymakers?
  - It is also visible that the NGO sector strongly supports publication of tax data. How much impact do you think NGOs can have on shaping tax disclosure requirements?
  - What implications do you think public CbCR has on tax transparency?
  - How would you evaluate the costs associated in implementation of public CbCR?

- Arguments for and against public CbCR. Please indicate do you agree or disagree.
  - <u>Against</u>
    - Public tax disclosure will reveal secret company information. This will create competitional disadvantage for companies who must disclose.
    - Public tax disclosures would undermine the role of tax authorities who have the expertise and power to enforce tax rules.
    - OECD supports only the publishing of aggregated and anonymized figures.
    - Stakeholders might misunderstand or lack the skills to understand the figures being published. Also information overload reduces the usefulness of information.
    - Differences in financial and tax accounting; stakeholders should adopt the logic of tax accounting to be able to understand e.g. public tax returns.
    - Reputational damage after the disclosure; company might be alleged of aggressive tax planning even though it is complying to all legal requirements.
    - Impact highlighted in one study: it could be that MNEs would increase economic activities in jurisdictions with preferential tax rules (align profits with activities). This would force countries with less preferential rules to decrease their tax rates. As a result, new disclosure rules would only increase the race to the bottom.

  - <u>For</u>
    - Further disclosure will help that taxes are paid where profits are generated (as a result, tax avoidance is reduced)
    - Information asymmetry decreases. Tax audits by tax authorities will be conducted more effectively.
    - Accountability and compliance around tax matters increases.
    - Investors (and also other stakeholders) have asked for more tax information already for some time. Public disclosure answers to their needs.
    - Public disclosure creates public scrutiny over tax matters. Public scrutiny and reputation risk it brings within is the only way MNEs will be forced to reduce harmful tax practices. It also affects the selection of tax planning strategy.
    - Mandatory public disclosure increases the number of voluntary disclosures from MNE.

- Public disclosure of income tax returns
  - Are your tax return filings subject to public disclosure?
    - If yes, what implications has that had if any?
    - If no, do you have any thoughts on this procedure on general with regards of transparency?
- Other forms of public disclosure

Company & investor perspective

- What do you think should be the role of MNEs when developing more responsible and efficient tax systems?
    - Do you think that MNEs should have an active role in improving international tax system?
    - In general, what motivates MNEs to develop responsible tax system?
- If you publish tax transparency report, why do you do it? Which stakeholders benefit mostly from it?
    - Do you publish your tax information according to GRI 207?
    - What information do you publish there? (Quantifiable information, Strategy & Policy, Governance & Control)
    - Do you measure tax transparency with specific measures?
    - What is the role of other taxes than corporate income tax?

- Do you think cooperation with different stakeholders is important when improving tax transparency?
    - Do you take investors into account when improving your tax transparency?
    - If yes, in what way?

- Do you think investors benefit from your public tax disclosures?
    - If yes, in what way?
    - Have investor expectations changed during the last few years? In what way?
    - What is the most important tax information for investors? (e.g. reconciliation between accounting and taxable income vs. info on tax policies)
    - Do you face pressure coming from investors who want to increase the company's tax transparency?