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Tax and ESG

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Learning objectives

1	Identify key trends across sustainability and Tax and their impacts on the Tax function and business strategies
2	Understand the various governance and reporting items that companies will have to, or choose to, comply with
3	Understand how clients are engaging EY Tax around their Sustainability agenda
4	Recognize the various sustainability tax funding considerations and taxes

Agenda

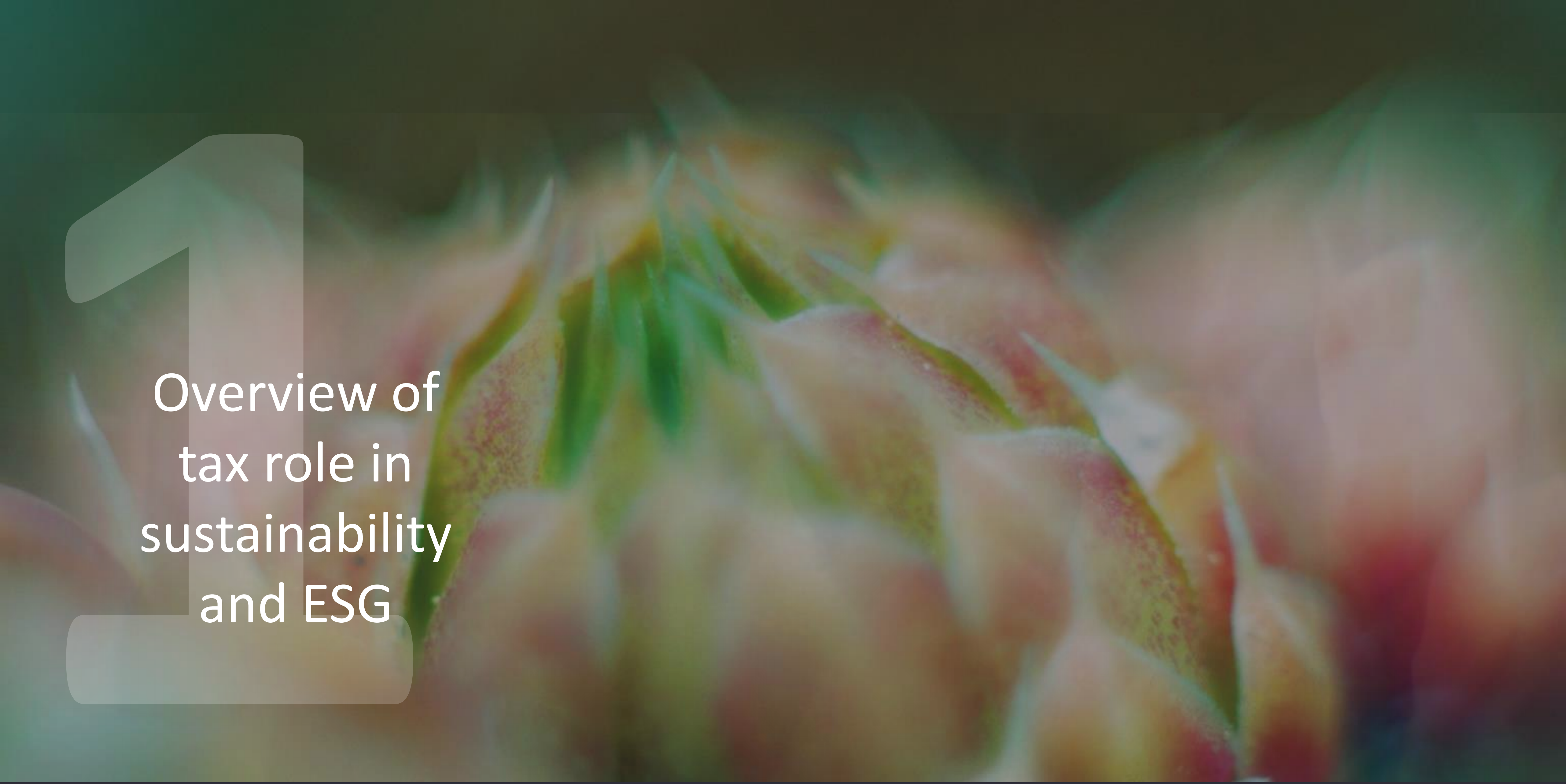
1 Overview of tax role in sustainability and environmental, social and governance (ESG)

2 Strategic governance and reporting

3 Environment tax compliance

4 Sustainability incentives and funding

5 Impact on operations



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Overview of tax role in sustainability and ESG

Multiple factors are driving a focus on sustainability

1. Rising employee expectations on mobility and flexibility amid growing skills gaps
2. Rapidly evolving regulatory requirements
3. Political and socioeconomic pressures
4. Decreased trust and greater scrutiny in an age of social media
5. Ability to attract and retain **capital**
6. Resource scarcity and climate risk
7. Increased business complexity and global disruption
8. Brand reputation and changing consumer decision criteria and preferences
9. Correlation between environmental, social and governance (ESG) ratings and financial performance

Shortcomings of traditional shareholder focus were made clearer through the COVID-19 crisis.

ESG and tax

No sustainability journey is complete without Tax

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Environmental

- Carbon pricing measures — carbon taxes, carbon border adjustment mechanism (CBAM), Emissions Trading System (ETS)
- Plastic and packaging taxes
- Other resource and pollution taxes
- Environmental incentives and tax credits
- Renewable energy incentives and tax credits
- Mineral and resource taxes

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Social

- Remote/digital workforce and tax impacts
- “Gig” employment operating model and tax impacts
- Social impacts of environmental policies
- Diversity, equity and inclusion policies and initiatives
- Embed ESG in rewards, learnings and operations
- Total tax and economic contribution
- Country-by-country tax disclosure

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Governance

- Business and tax considerations and governance
- Increase in public disclosure and transparency for tax
- Tax information in ESG ratings
- New business and operating models
- New incentives available with environmental focus
- Tax controversy/dispute management

- ESG ratings
- Sustainable supply chain (TP, global trade, VAT)*
- Operating model structure and integrity
- Legal structure (excluded entities)
- Investments and capital allocation
- Tax considerations

*** TP = transfer pricing, VAT – value-added tax**

Overview of the global tax landscape

Sustainability taxes and regulations are proliferating around the globe — each region with their own focus.

Europe

Front-runner for environmental regulations

- Mixed policy environment of both incentives and regulations
- The EU Green Deal accelerating the developments
- Green Deal Industrial Plan — a new proposal to enhance competitiveness and accelerate the transition

Americas

Front-runner for environmental incentives

- US: prioritizes incentives for private sector investment rather than regulations, with over $370b funding in Inflation Reduction Act
- Canada: currently more regulations than incentives (with $80b in incentives proposed), though a compliance credit market exists
- Latin America: a mixed regulatory approach

APAC

Mixed policy system

The sustainability policy environment includes a mix of measures, including especially new emission regulations and incentives.

Africa

Carbon measures are currently the focus

South Africa focuses their sustainability efforts on carbon measures at the national level and applies an in-country cost to industrial greenhouse gas emissions.

Elevating the role of tax in sustainability

Tax Sustainability journey

Strategy, policy and economics

- Track/interpret evolving legislative landscape
- Model policy impact
- Manage sustainability policy risk
- Track new sustainability reporting requirements
- Define tax function responsibilities

Workforce experience

- Adapt tax function
- Embed ESG in culture, benefits, employee matters and operations
- Employee ESG learning and development (L&D) framework
- Develop DEI strategy
- Implement employee strategy
- Analyze carbon footprint from operations and travel

Decarbonizing the supply chain

- Enhance operating model
- Legal support for agreements
- Measure carbon intensity, sourcing and risk
- Secure funding for transformation projects
- Assess CBAM and deforestation impact and readiness
- Identify transfer pricing implications

Financing and funding

- Identify and secure funding sources to implement sustainability strategy
- Identify and secure R&D and other tax exemptions/reliefs
- Model incentives consideration (related to emissions, energy, waste and water)
- Secure funding through financing instruments and tax equity
- Develop bespoke tools for ESG incentives and manage funds for NGOs

Tax reporting and compliance

- Manage emerging taxes
- Advise business on green tax matters
- Voluntary and mandatory reporting regimes
- Update tax data, people, processes and technology
- Develop a strategic roadmap for tax transparency

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Strategic governance and reporting

Public release of information on tax practices by 70 Forbes 2000 companies

Top 10 companies in each of seven industry markets

Global tax transparency

42 (36) companies chose to publish some global tax information

Global tax approach

35 (21) companies discussed global tax approach and policies

Tax risk control framework

30 (21) companies talked about tax risks and control framework

Tax incentives

18 (18) companies discussed tax incentives

Total tax contribution

24 (17) companies discussed total tax contribution

Transfer pricing

23 (16) companies mentioned transfer pricing

CbCR*

15 (15) companies discussed CbCR

Listed and other low-tax jurisdictions

14 (12) companies mentioned intent to not operate in certain listed or other low-tax jurisdictions

Note: Information as of CYE 12/31/2021; prior-year data in parenthesis.
* CbCR = Country-by-Country Reporting

Tax transparency is coming … it's a New Age of Tax Reporting

Stakeholders are demanding more information around why, where and how much tax companies are paying across their footprint | These actions come in different forms but with the same goal — greater transparency in tax

Tax transparency is happening today |

External forces from stakeholders are creating momentum

- Multiple frameworks under development
- Dynamic regulatory environment
- Outgrowth of ESG rating agencies' impact
- Investors increasingly focused on sustainability
- ESG is influencing employees' and customers' decisions

Standard setting, regulatory bodies and sustainability frameworks

- Public Country-by-Country Reporting
- BEPS 2.0 Pillar 1 and Pillar 2
- Total tax contribution/economic contribution
- Global and country tax policy disclosures
- FASB Income Tax Disclosure Exposure Draft
- Digital/real-time filing
- Global Reporting Initiative
- Corporate Sustainability Reporting Directive
- ISSB IFRS S1 & S2

How does that change your thinking for tomorrow |

- **Data** — **Quality**
- **Technology** — **Usage**
- **Organization** — **Collaboration**
- **Tax methodologies** — **Scrutiny**

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Tax transparency is coming … it's a New Age of Tax Reporting

What's current and what's coming

New governance and reporting requirements

	2022		2023				2024				2025			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
BEPS 2.0	Monitor for local regulation passed based on the OECD Framework Prepare/plan for new reporting (2022 Q3 – 2023 Q4); Targeted reporting requirement (2024 Q1 – 2025 Q4)													
Public country-by-country reporting (CbCR)	Current voluntary reporting — EU required reporting in 2025 Prepare/plan for new reporting (2023 Q1 – 2024 Q4); New reporting (2025 Q1 – 2025 Q4)													
Total tax contribution/GRI 207	Current voluntary reporting — monitor ISSB and other developments													
Carbon-related taxes (CBAM, other carbon taxes)	Current compliance requirement and CBAM (2023: reporting, 2026: reporting + liability) — monitor new developments													
Plastic packaging taxes	Current compliance requirement (UK and Spain) and potential expansion to broader EU — monitor new developments													
Other "green" taxes (4,500 globally)	Current compliance requirement (e.g., consumer-type taxes, sugar, chemical-related taxes) — monitor new developments													
EU mandatory disclosure regime	Current EU required reporting — monitor new developments													

Tax transparency and mandatory reporting
What companies can do now to prepare

Sustainability and ESG governance

- Gain awareness (consider training) — reporting standards, rating agency requirements and impacts
- Perform peer analysis — comparable disclosures (e.g., tax approaches and governance, total tax, direct and indirect impacts); companies can also complete a sustainability statistical benchmarking analysis
- Assess processes and controls — nonfinancial reporting, systems, data flow, workflow, reliability, efficiency, etc.
- Review global tax risks — transparency and governance over tax communications: compliance, statutory reporting, transfer pricing master/local file, CbCR, tax authority tax risk ratings/horizontal monitoring, controversy management
- Model and draft tax reporting and disclosures — considerations should be made to discuss items including:
  - Total tax contribution
  - Total economic contribution
  - Stakeholder narrative
- Align with business on environmental and social initiatives and tax approaches with governance framework
- Assess ESG ratings tax impact — identify approaches to improve tax impact of ESG ratings from agencies

3 Sustainability incentives and funding

Finance and funding

2,000+ sustainability incentives available globally

Types of sustainability incentives

Sustainability incentives can generally be divided into three categories:

1. Those that encourage a reduction in natural resource consumption
2. Those that encourage a switch to renewable or alternative energy sources
3. Those that encourage innovation of new low-carbon products and manufacturing processes

Many programs are a mix of the three containing multiple elements.

Prevalent measures used to influence sustainable behavior include tax credits, grants and loans.

Reduce	Switch	Innovate
Construct or retrofit energy-efficient buildings	Alternative fuels	R&D credits
Procure energy-efficient process equipment	Renewable energy generation (such as solar, wind, geothermal, etc.)	Research funding grants
Apply emission reduction technologies	Qualifying on-site generation	Funding rebates for green job training

Source: EY jurisdiction professionals.

US Inflation Reduction Act — $369 billion in climate and energy incentives

Act Description

- On August 16, 2022, President Biden signed into law a $740 billion reconciliation bill, the Inflation Reduction Act of 2022, which addresses inflation, health care, certain tax matters and climate change.
- Embedded in the bill is $369 billion in climate and energy-related provisions designed to (1) incentivize and accelerate the build-out of renewable energy, (2) accelerate the adoption of electric vehicle (EV) technologies, and (3) improve the energy efficiency of buildings and communities.

Other major provisions

- American inflation/debt payoff
- IRS tax enforcement
- 15% corporate alternative minimum tax rate (CAMT)
- Prescription drug price control
- Affordable Care Act (ACA) subsidy extension

US Inflation Reduction Act – general overview

Fleet decarbonization

- 30C – Alternative Refueling Infrastructure
- 30D – Clean Vehicle Credit
- 45W – Qualified Clean Commercial Vehicles
- Clean Heavy-Duty Vehicles Grant Program

Renewable fuels

- 40A – Biodiesel & Alternative Fuels Credit
- 40B – Sustainable Aviation Fuel Credit
- 45Z – Clean Fuel Production Credit
- Alternative Fuel & Low-Emission Aviation Technology Program*
- Incentives for Biodiesel, Renewable Diesel, and Alternative Fuels*

Carbon Sequestration

- 45Q – Carbon Capture & Sequestration Credit

Advanced manufacturing

- 45X – Advanced Manufacturing PTC
- 48C – Advanced Energy Project Credit
- ATVM loan program*
- Domestic manufacturing conversion grants*
- Advanced Industrial Facilities Deployment Program*

Renewable/Clean Energy

- 45 – Clean Energy PTC
- 45U – Zero-Emission Nuclear Power PTC
- 45V – Hydrogen PTC
- 45Y – Technology-neutral PTC
- 48 – Clean Energy ITC
- 48E – Clean Electricity Investment Credit

Energy Efficient Buildings

- 45L – New Energy Efficient Home Credit
- 179D – Energy Efficiency Commercial Buildings

Note: Please note that applicability is generalized and is not meant to be exhaustive.

* Grant, loan or other federal options

Transferability (Section 6418)

- Eligible taxpayers can make an irrevocable election to transfer all, or any portion of certain credits to an unrelated transferee taxpayer
- Limitations:
  - Transfer must be a one-time transfer, paid in cash
  - Credit transfer must be elected no later than the due date of the tax return for the tax year for which the credit is determined
  - Cannot be included in the income of the recipient taxpayer or deductible by the paying taxpayer
- Applicable entities eligible for direct pay under Section 6417 would not be eligible to make a transfer election
- **Impact:** Introduces more options for project developers and sponsors to monetize tax attributes, giving them alternatives to tax equity financing (it will need to be determined which opportunity yields a better benefit)

Section 6418 also includes a modified 3-year carryback period for certain credits including those under Sections 30C, 45, 45Q, 45X, 48C, 48

Credits could be transferred under the following tax credits:

- Section 30C AFV Refueling Property Credit
- Section 45 PTC
- Section 45Q Credit for Carbon Capture and Sequestration
- Section 45U Zero-Emission Nuclear Power Production Credit
- Section 45V Hydrogen PTC
- Section 45X Advanced Manufacturing Credit
- Section 45Y/Section 48E
- Section 48 ITC
- Section 48C Qualifying Advanced Energy Credit
- Section 45Z clean fuel production credit
- Section 48E Clean Electricity ITC

Direct Pay (Section 6417)

- Under IRA, an "applicable entity" could make a direct pay election for certain credits, which would effectively treat tax credits as tax paid on a filed return.
- "**Applicable entities**" include tax-exempt entities, state or local governments, the Tennessee Valley Authority, Indian tribal governments or an Alaska Native Corporation (subject to certain exceptions).
- Exceptions to the "applicable entity" limitation:
  - First **5 years** of Section 45V credit (clean hydrogen)
  - First **5 years** of Section 45Q credit
  - **5-year** period of Section 45X credit
- Specifically related to the Section 45Q credit, the direct pay election applies separately with respect to carbon capture equipment originally placed in service by the applicable entity during a taxable year.
- It is unclear what the review process will entail and how this will impact the timing of the refund.

The provision would allow applicable entities to elect to be treated as having made a payment of tax equal to the value of the credit for which they would otherwise be eligible under:

- Section 30C Alt Fuel Vehicle (AFV) Refueling Property Credit
- Section 45 Production Tax Credit (PTC)
- Section 45Q Credit for Carbon Capture and Sequestration
- Section 45U Zero-Emission Nuclear Power Production Credit
- Section 45V Hydrogen PTC
- Section 45W Clean Commercial Vehicles
- Section 45X Advanced Manufacturing Credit
- Section 45Y/Section 48E
- Section 45Z
- Section 48C Qualifying Advanced Energy Credit
- Section 48 ITC
- Section 48E Clean Electricity ITC

Tax credit modification overview

Tax credit[1]	New/modified	Two-tier credit structure	Direct pay (Section 6417)[2]	Transferability (Section 6418)
Section 179D – Energy Efficiency Commercial Buildings Deduction	Modified	X		
Section 30C AFV Refueling Property Credit	Modified	X	X	X
Section 30D – Clean Vehicle Credit	Modified			
Section 45 PTC	Modified	X	X	X
Section 45L New Energy Efficient Home Credit	Modified	X		
Section 45Q Credit for Carbon Capture and Sequestration	Modified	X	X	X
Section 45U Zero-Emission Nuclear Power Production Credit	New	X	X	X
Section 45V Clean Hydrogen PTC	New	X	X	X
Section 45W Clean Commercial Vehicles	New		X	
Section 45X Advanced Manufacturing Credit	New		X	X
Section 45Y/48E Technology-neutral PTC/ITC	New	X	X	X
Section 45Z Clean Fuel Production Credit	New	X	X	X
Section 48 ITC	Modified	X	X	X
Section 48C Advanced Energy Project Credit	Modified	X	X	X

[1] This represents a list of select provisions; it is not meant to be a comprehensive list.
[2] Subject to eligible entity restrictions.

Holistic approach to investment

Potential federal, state/local and utility incentives (examples)

Deploying a holistic approach to capital investment may help increase ROI on an annual basis by potentially reducing operational, tax and financial costs.

Federal government

- Cash grants/ forgivable loan(s)
- Investment/ production credits
- CHIPS
- Energy tax credits (e.g., Section 48C)
- New markets tax credit
- Opportunity zones
- IIJA

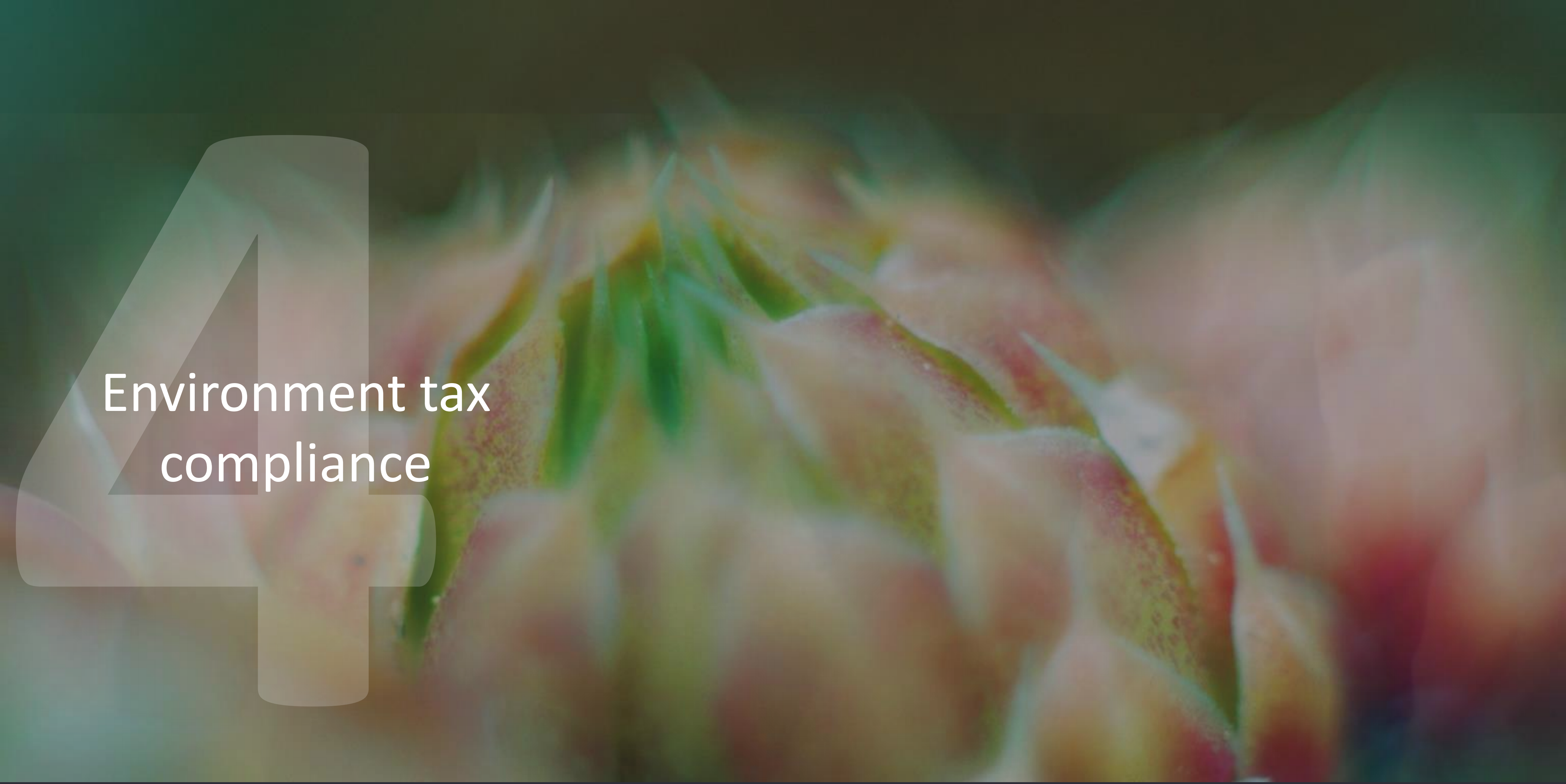
Utility and infrastructure providers

- Renewable energy (PPA/ VPPA, etc.)*
- Electric utility rate discounts
- Utility and transportation infrastructure assistance

State and local governments

- Cash grants and rebates
- Free/discounted land or building
- Property tax abatements and reductions
- Utility and transportation infrastructure assistance
- Sales tax refunds and exemptions
- Tax credits (refundable and nonrefundable)
- Tax increment financing/industrial revenue bonds
- Training and recruitment assistance
- Expedited permitting
- Local fee reductions and waivers related to permitting, construction and utility connection
- Zone changes/ annexation agreements

* PPA = physical purchase agreement; VPPA = virtual power purchase agreement



4 Environment tax compliance

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Environmental taxes and exemptions

Environmental taxes

Within the overall taxation framework, environmental taxes function not only as a source of revenue but also as an instrument of environmental policy. As a result, governments use taxes on a variety of products to encourage or discourage consumption. Similarly, governments offer exemptions from environmental taxes for certain qualifying products, uses or taxpayers.

Water, pollution and effluent charges
- Consumption taxes
- Greenhouse gases
- Discharge fees

Recycling, waste and landfills
- Disposal fees
- Recycling fees

Electronic waste
- Disposal fees

Emissions and air pollution
- Congestion charge
- Tax on certain chemicals
- Emissions fees

Conventional and alternative fuels
- Gasoline, coal, natural gas, etc., taxes
- Aviation taxes

Energy/electricity generation, distribution and consumption
- Taxes on oil, coal, natural gas, etc.
- Electricity fees

Energy-efficient industrial and manufacturing processes
- Taxes on gasoline, coal, natural gas, etc.

Plastics and packaging taxes
- Tax on single-use plastics

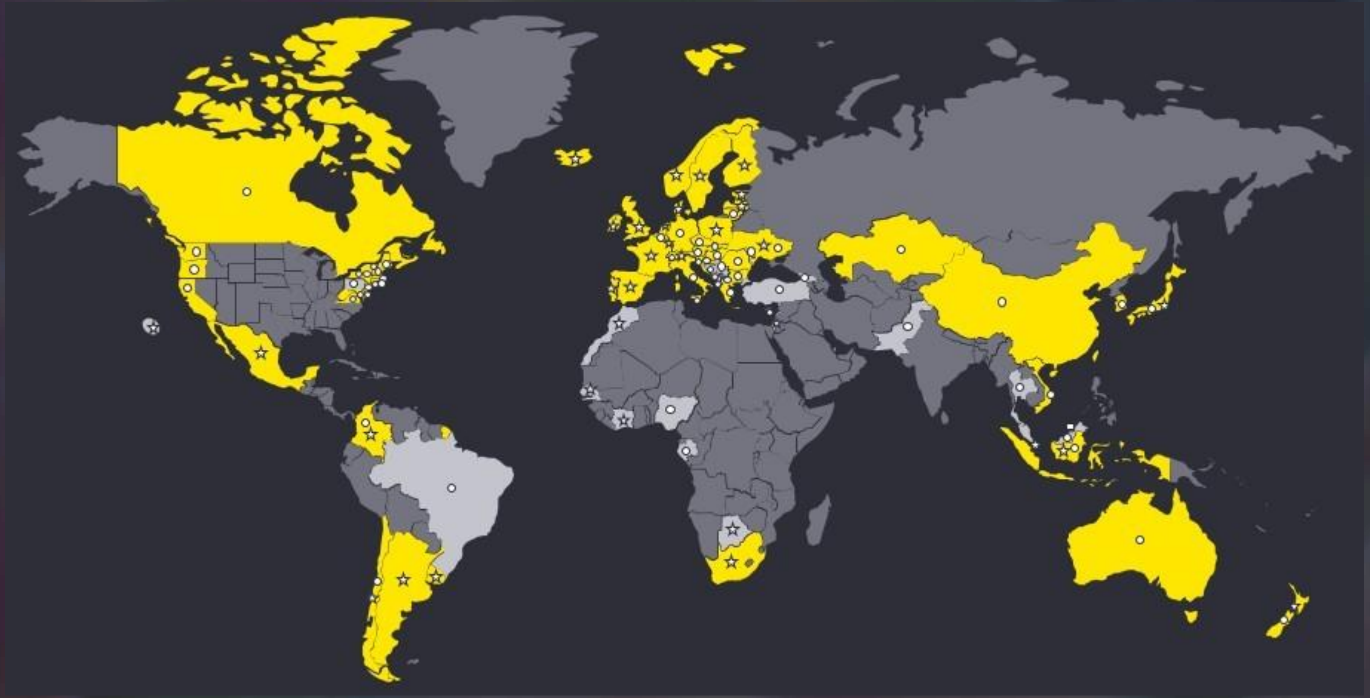
Others
- Taxes on other products

Source: EY jurisdiction professionals.

Evolving global sustainability tax policies in the EY Green Tax Tracker

91 Carbon regimes

There are **50** national and **36** local jurisdictions currently putting a price on carbon



- ★ Carbon tax
- ● Emissions trading system (ETS)
- ■ Undecided

- Implemented or scheduled for implementation
- Under consideration
- No carbon regime in place

2,000+ Sustainability incentives*

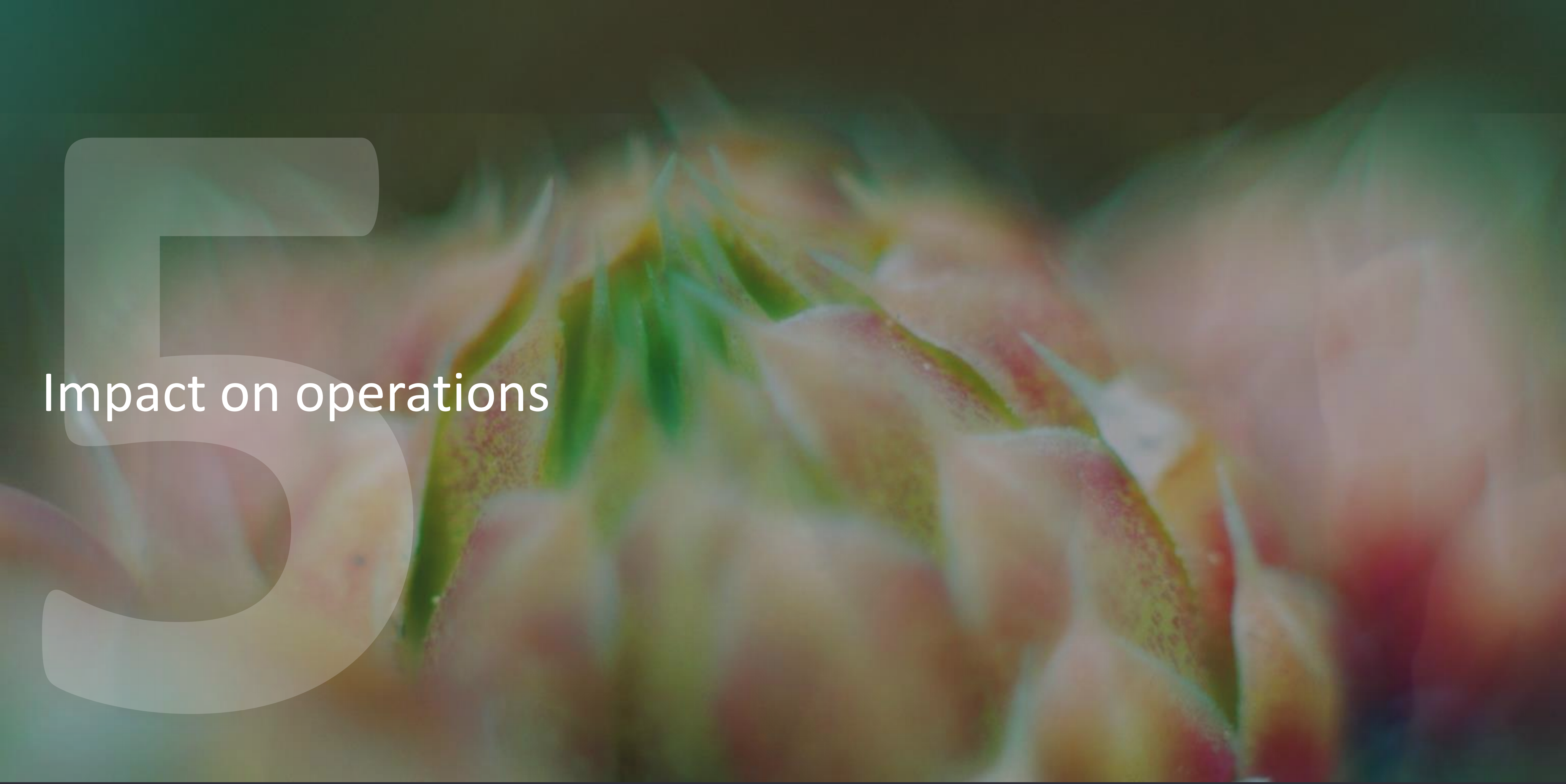
1,300+ Reduce	900+ Switch	220+ Innovate
Construct or retrofit energy-efficient buildings	Alternative fuels	Research and development (R&D) credits
Procure energy-efficient process equipment	Renewable energy generation (such as solar, wind, geothermal)	Research funding grants
Apply emission reduction technologies	Qualifying on-site generation	Funding rebates for green job training

3,000+ Environmental taxes*

- Fuel taxes
- Emissions and air pollution charges
- Plastics and packaging taxes
- Water, pollution and effluent charges
- Recycling, waste and landfill fees
- Electronic waste fees
- Other taxes, charges and fees

And 1,100+ exemptions*

* Included in the 61 jurisdictions represented in the GTT.



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Impact on operations

Supply chain

Sustainability impacts all aspects of the value chain

Value chain elements

Critical enablers/change drivers

1 R&D and innovation

- Materials and product innovations
- New intangibles
- Process redesign and innovation
- New services

2 Sourcing and procurement

- Sustainable suppliers
- Certification control
- Alternative materials
- Recycling

3 Manufacturing

- Energy and waste management
- New production processes
- Revised production for separable goods

4 Supply chain and logistics

- Blockchain for traceability (OpsChain)
- Electric transport
- Renewable energy transport
- Avoiding transport

5 Sales and marketing

- Brand(s)
- Green sells
- Price management
- Recycle/reuse/no packaging

6 Customer service

- Spare parts
- Repair services
- Guarantee
- Buy back

People

- Innovative team
- Recycling team
- Materials knowhow
- Repair and services team
- Sustainability team
- Adjusted KPIs

Support

- Financing investments
- Management strategic goals
- IT support

Topics

- Incentives and grants
- Credits and deductions
- Border adjustments

- IP creation/identification
- Value driver change
- Risk location change

- Value of intangibles
- Transfer pricing policy
- Transfer pricing methodology

- Character of revenue
- Foreign tax creditability
- PE analysis

- Indirect tax application and processes
- Dutiable services
- TP/VAT/Customs value alignment

Sustainability impacts on transfer pricing (TP) and tax supply chain

How to determine the tax impacts of sustainability business changes

The focus on sustainability introduces new levers impacting the operating model and related tax and TP implications:

People functions

Sustainability teams or dedicated employees arise across the organization (whether centralized or dispersed)

Business models and processes

New sustainable strategies, business models (e.g., circularity, servitization) and processes are developed

Intangibles, risks and value drivers

New intangibles, risks and value drivers are emerging across the value chain

The operating model, intellectual property (IP) model and transfer pricing policies should be aligned to the new business reality, creating new challenges and approaches:

- Determine best-fit future operating model
- Determine best-fit future IP model
- Design the TP policy in line with the operating and IP model

Questions?

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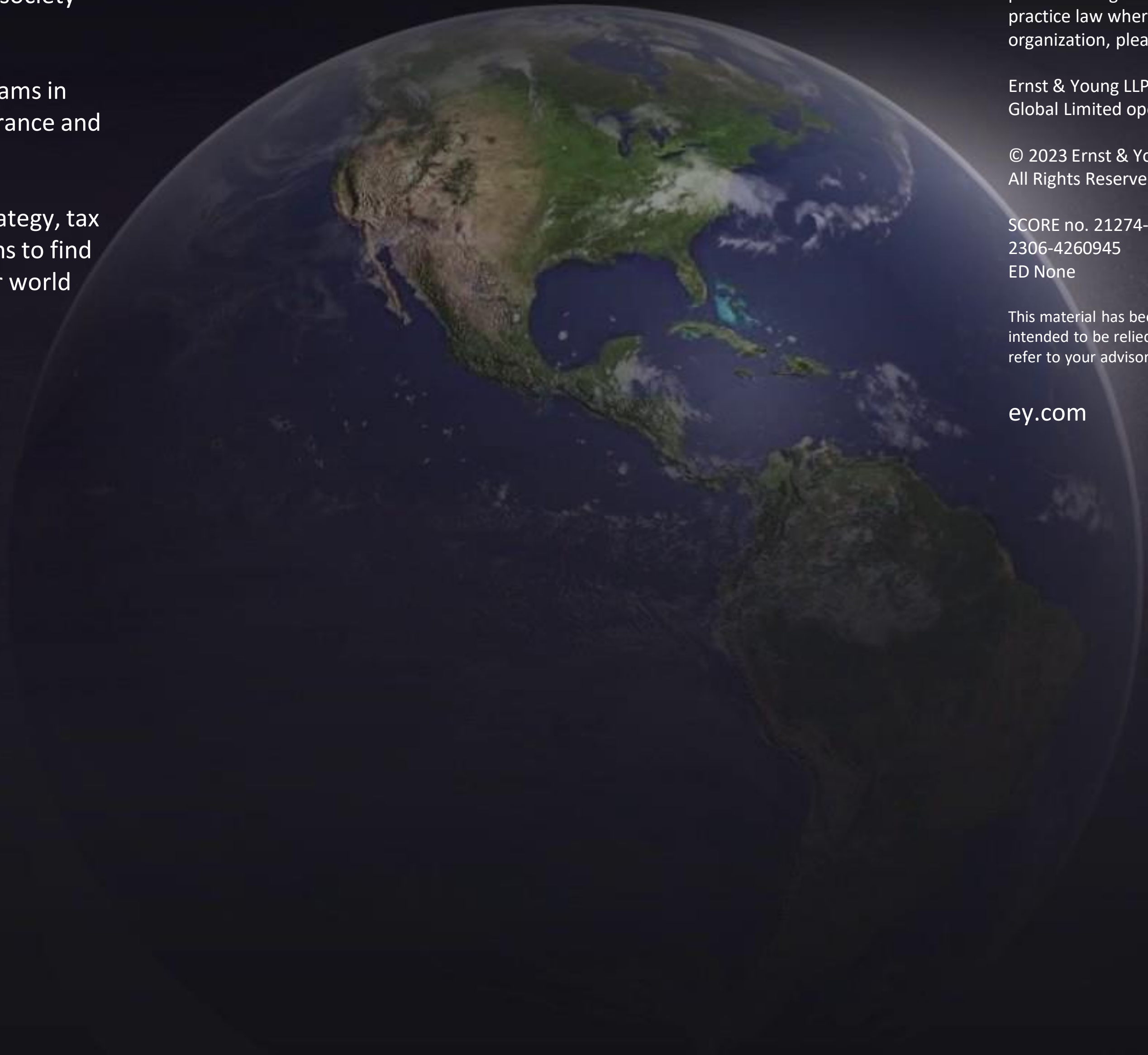

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