KPMG

Tax & ESG

Dr. Veerinderjeet Singh
Senior Advisor on Tax Policy | KPMG in Malaysia

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International Fiscal Association
Hong Kong Branch

ESG and Taxation

Tax Transparency

- Tax Corporate Governance Framework
- E-invoicing
- BEPS 2.0
- Tax risk appetite statement

Tax Incentives

- Green Incentives (including Electric Vehicle usage)
- Special Tax Deductions

Carbon Tax

- Tax Impact
- Financial Implications
- Compliance/ Reporting

Carbon Trading

- Taxability
- Deductibility

Carbon Border Adjustment Mechanism (CBAM)

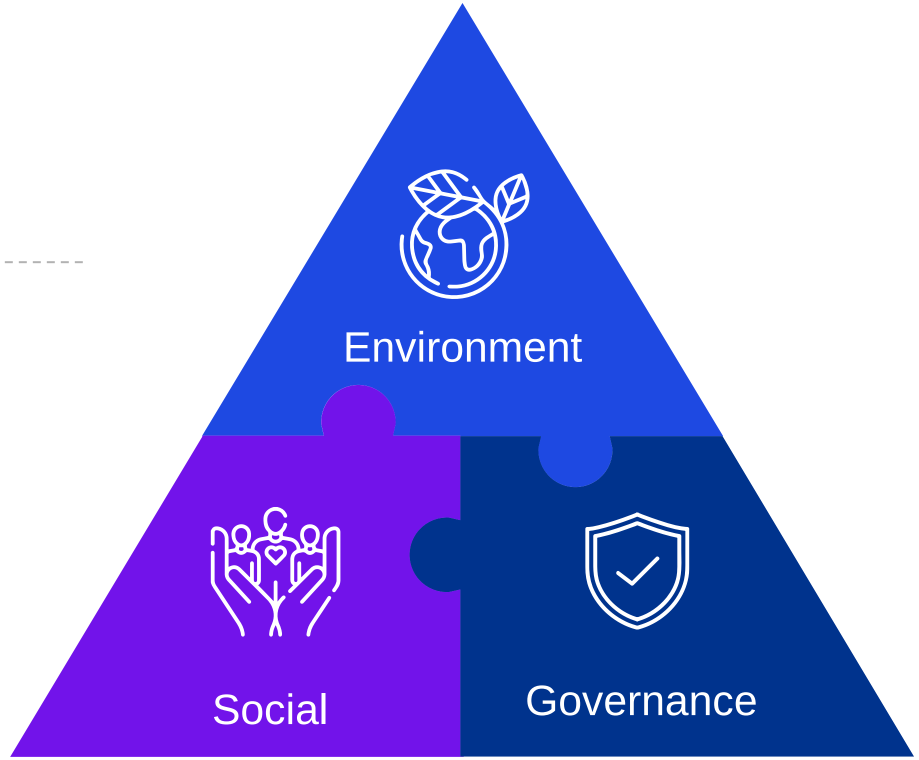
Environmental, Social and Governance (ESG)

ESG is a framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social and governance criteria

- **Climate change strategy**
- **Greenhouse gas emissions**
- **Carbon footprint reduction**
- **Biodiversity loss**

- **Responsible supply chain partnerships**
- **Fair pay and living wages**
- **Community engagement**
- **Inclusion, Diversity and Equity (IDE)**

- **Corporate Governance**
- **Compliance**
- **Ethical business practices**
- **Accounting integrity and transparency**



Environmental, Social and Governance (ESG)

FTSE Russell's ESG Scores and data model allows investors to understand a company's exposure to, and management of ESG issues in multiple dimensions.

The ESG Scores are comprised of an overall Score that breaks down into underlying Pillars and Theme Exposures and Scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company's unique circumstances.

Source: FTSE Russell's ESG Scores

Tax and Sustainability Reporting Standards

Old reporting standards

- Global Reporting Initiative (GRI)
- Sustainable Accounting Standards Board (SASB)
- Task Force on Climate-Related Financial Disclosures (TCFD)

New reporting standards

- International standards: IFRS S1/S2
- EU: European Sustainability Reporting Standards (ESRS)
- India: Business Responsibility and Sustainability Report (BRSR)
- Japan: Sustainability Standards Board of Japan (SSBJ) Standards (draft)
- Australia: Australia Sustainability Reporting Standards (ASRS) SR1 (draft)

Tax-related disclosure in GRI 207:Tax 2019

⇒ 3 standards on management approach disclosure:
“narrative explanation of how organizations manage tax”

- Disclosure 207-1 Approach to tax
- Disclosure 207-2 Tax governance, control and risk management
- Disclosure 207-3 Stakeholder engagement and management concerns related to tax

⇒1 standard on Country-by-country reporting:
“reporting of financial, economic, and tax-related information for each jurisdiction in which the organization operates”

- Disclosure 207-4 CbCR Disclosure

ESG in EU

- The Corporate Sustainability Reporting Directive (CSRD) requires all large companies (including those that are not listed) and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment.
- The new disclosure requirements also apply to third-country companies if they have a significant presence in the EU. Qualifying EU subsidiaries and branches of non-EU companies will be responsible for publishing the sustainability report of the third-country undertaking, in accordance with standards to be adopted by 30 June 2024 by the Commission through delegated acts.
- The CSRD is part of the European Green Deal, which aims to transform the EU into a modern, resource-efficient and competitive economy. The CSRD also makes it mandatory for companies to have an audit of the sustainability information that they report.
- The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.
- The disclosures will be included in a dedicated section of the entity's management report and will include information on:
  - the entity's business model, strategy and policies in relation to sustainability;
  - any time-bound targets that the entity has set in relation to sustainability matters (e.g. greenhouse gas emission reduction targets);
  - the role of the administrative, management and supervisory bodies with regard to sustainability, as well as any incentive schemes linked to sustainability matters offered to members of those bodies;
  - any due diligence processes implemented by the entity around sustainability matters; and,
  - the main risks to the entity related to sustainability matters.
- The CSRD requires reporting both on the impact of its activities on people and the environment, and on how sustainability matters affect the entity ("double materiality" standard).

ESG development in Asian countries

Malaysia

Environment

- Bursa Malaysia’s Voluntary Carbon Market
- Tax incentives for companies undertaking Carbon Capture and Storage (CCS) in-house technology and undertaking CCS services
- Tax Deductions for ESG initiatives

Green Technology Tax Incentive

- Green Investment Tax Allowance (GITA) Assets and projects
- Green Income Tax Exemption (GITE) Leasing Services

Electric Vehicle (EVs)

- EV charging equipment manufacturers are eligible for 100% income tax exemption on statutory income or 100% investment tax allowance
- Road tax exemption of up to 100% for EV vehicles
- Individual income tax relief for the cost of purchase, installation, rent, hire purchase and subscription fees for EV charging

ESG developments in Asian countries

Thailand

- 13th National Economic and Social Development Plan – outlines 5 goals for Thailand transformation from 2023 to 2027
- Thailand Sustainability Investment (THSI) programme – nominated listed companies with high ESG performance rating can get incentives
- Reporting – The SEC encourages the disclosure of ESG performance and the promotion of green bonds
- Electric motor vehicles (EV) – corporate income tax exemption for income received under the measures supporting the use of EV cars/ motorcycles. Reduction of vehicle tax by 80% for new EV cars
- Carbon Credits – The Thailand Greenhouse Gas Management Organisation (TGO) has launched Thailand Voluntary Emission reduction Program (T-VER) where unutilized carbon credits can be sold

ESG developments in Asian countries

Singapore

- Singapore Green Plan 2030
- Enterprise Financing Scheme – Green – access to funding for SMEs to develop technologies and solutions related to waste management, resource usage or greenhouse gas (GHG) management
- Investment Allowance Scheme - Tax relief scheme for approved projects, including energy efficiency projects
- Carbon Pricing Act 2018 - Industrial facilities emitting more than 25,000 carbon dioxide equivalent are required to submit a monitoring plan, annual emissions report and make tax payments for reckonable GHG emissions
- Enterprise Sustainability Programme – SGD $180 million allocated to enable local companies to develop sustainability capabilities

ESG developments in Asian countries

Republic of Korea

- The Korean Government established the ESG Infrastructure Expansion Plan and is working on establishing the K-ESG Guidelines, K-Taxonomy, build the ESG investment platform and provide additional training and consulting to SMEs.
- Sustainability goals – Framework Act on Sustainable Development (FASD)
- Governance Disclosure Obligation –KOSPI Listed Companies required to disclose corporate governance reports
- Korean New Deal – US$140 billion of investment to fund green transition of infrastructure, promote low-carbon and decentralized energy, and innovation in the green industry
- Emissions Trading Scheme – trading of carbon credit for companies with annual emissions of 125,000 tonnes or more and single installations that emit 25,000 tonnes or more

ESG development in Asian countries

The Philippines

- Tax incentives to enterprises promoting or providing green products and services, green jobs, green technologies and sustainable development.
- Tax incentives for imports of CBU EVs and charging stations
- Proposed Plastic Bags Tax Act – P100 fee for each kg of single-use plastic bags
- Pesticides and Chemical Fertilizers Tax Act – environmental tax on domestic manufacturers and importers of pesticides and chemical fertilizers
- SEC requires listed companies to submit a sustainability report to assess and manage non-financial performance across ESG aspects of the organisation

ESG developments in Asian countries

Republic of India

- Securities and Exchange Board of India introduced Business Responsibility and Sustainability Reporting, a framework aligned with 9 principles of the National Guideline on Responsible Business Conduct for the top 1,000 listed entities in India by market capitalization to make disclosures related to their ESG policies and practices

- Green tax on personal vehicle (more than 15 years old) and commercial vehicle (more than 8 years old) – diesel and petrol. The rates vary from one state to another

ESG development in Asian countries

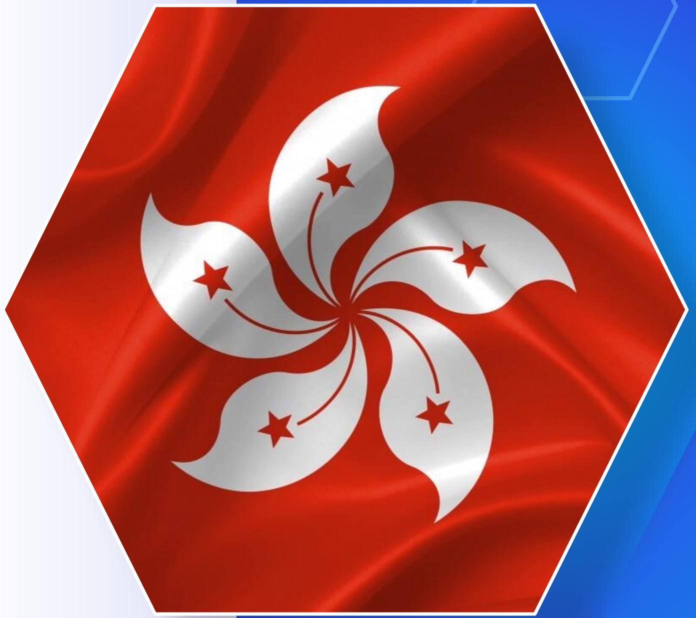
Japan

- To achieve carbon neutrality by 2050
- Mandatory ESG disclosures for public companies
- Carbon tax of JPY289/tonne
- Tokyo Stock Exchange launched carbon credit market in 2023 to trade existing carbon credits known as J-credits. An emission trading system will start in 2024
- A carbon levy will be introduced from around year 2028/29 on fossil fuel importers such as refiners, trading houses and electricity utilities. The initial tax will be set low but will gradually rise

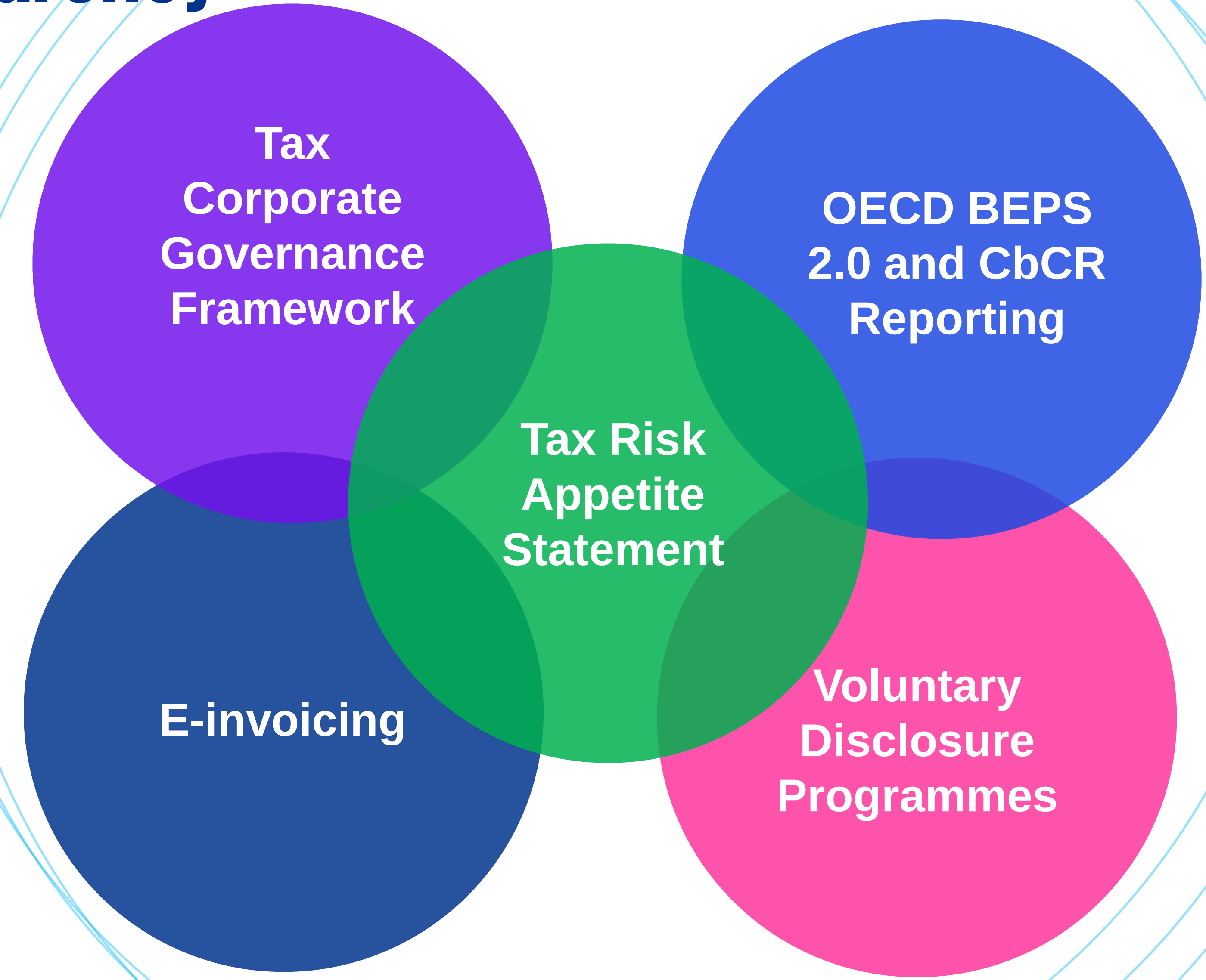
ESG developments in Asian countries

Hong Kong

- To achieve carbon neutrality by 2050 – Climate Action Plan 2050
- Based on the 2022 Green Bond Report, the HK government is committed to spend about HK$240 billion in the next 15–20 years to take various measures on climate change mitigation and adaptation
- HK Stock Exchange requires listed companies to disclose ESG reports and corporate governance reports
- HK Stock Exchange launched Core Climate, a voluntary carbon market for trading of voluntary carbon credits and instruments



Tax Transparency



ESG

- In France, the autorité des marchés financiers (AMF) requires institutional investors and asset managers to publish an annual report explaining how they incorporate ESG criteria into their investment policies.
- The UK requires certain businesses to publish a ‘tax strategy,’ including how the business manages its UK tax risks, its attitude to tax planning and level of risk the business is prepared to accept.
- The OECD’s BEPS addresses many aspects of aggressive tax planning, including treaty shopping, hybrid structures, earnings stripping, transparency and substance.
- In the EU, the mandatory disclosure rules require that intermediaries and relevant taxpayers disclose potentially aggressive tax planning arrangements to tax authorities.
- As a starting point, the benefits of creating a tax risk appetite statement are:
  - ✓ increasing transparency and accountability of the investor’s current and future risk profile
  - ✓ improving decision-making on risk mitigation and performance management
  - ✓ strengthening risk awareness as part of an enterprise-wide risk governance framework. In terms of evaluating investments, investors will need to assess the impact on tax risk of investing in entities since the entity’s tax situation can impact the investor’s tax position.
- Investors could be criticized for investments in entities that do not follow ESG principles as they apply to tax.
- ESG principles should be embedded in the entity’s corporate culture, requiring further consideration of the approach and timeframe for implementation, training and continuous improvement.

Carbon Tax – what is the Asian trajectory?

- Levied on facilities that directly emit ≥ 25,000 tonne carbon dioxide emission (tCO_2e) of greenhouse gas (GHG) emissions annually
- Covers seven GHGs, namely carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride emissions
- Covers 80% of total GHG emissions from about 50 facilities in the manufacturing, power, waste, and water sectors

2019 - 2023	**2024 - 2025**	**2026 - 2027**	**2030**
SGD 5/tCO_2e	SGD 25/tCO_2e	SGD 45/tCO_2e	SGD 50 - 80/tCO_2e

- JPY 289 (USD 1.90)/tCO_2e (fixed rate since 2012)

- Planning to introduce carbon tax on energy, transport and industrial sectors to achieve carbon neutrality by 2050 and net zero greenhouse gas emissions by 2065

- Postponed introduction of carbon tax to 2025

- No news on implementation date of carbon tax – possibly similar to Singapore – RM X/tCO_2e
- To achieve carbon neutrality by 2050

Carbon Exchange and Emission Trading Scheme

Bursa Carbon Exchange (BCX) – Bursa Malaysia's voluntary carbon market exchange

What is it?

- Spots exchange that facilitates the trading of high-quality carbon credits at transparent prices via standardized carbon contracts
- Adopt Verified Carbon Standard (Verra)

Tax Considerations

- Is the income subject to tax?
- Is the purchase of carbon credits tax deductible?
- Are there any indirect tax implications?

Benefits:

- Purchase the credits to offset their carbon footprint
- Sell carbon credits to help finance and drive development of domestic GHG emission reduction
- Being seen as more "green" provided purchases are used strategically – to avoid "greenwashing"

Singapore

- **Climate Impact X (CIX)**

Japan

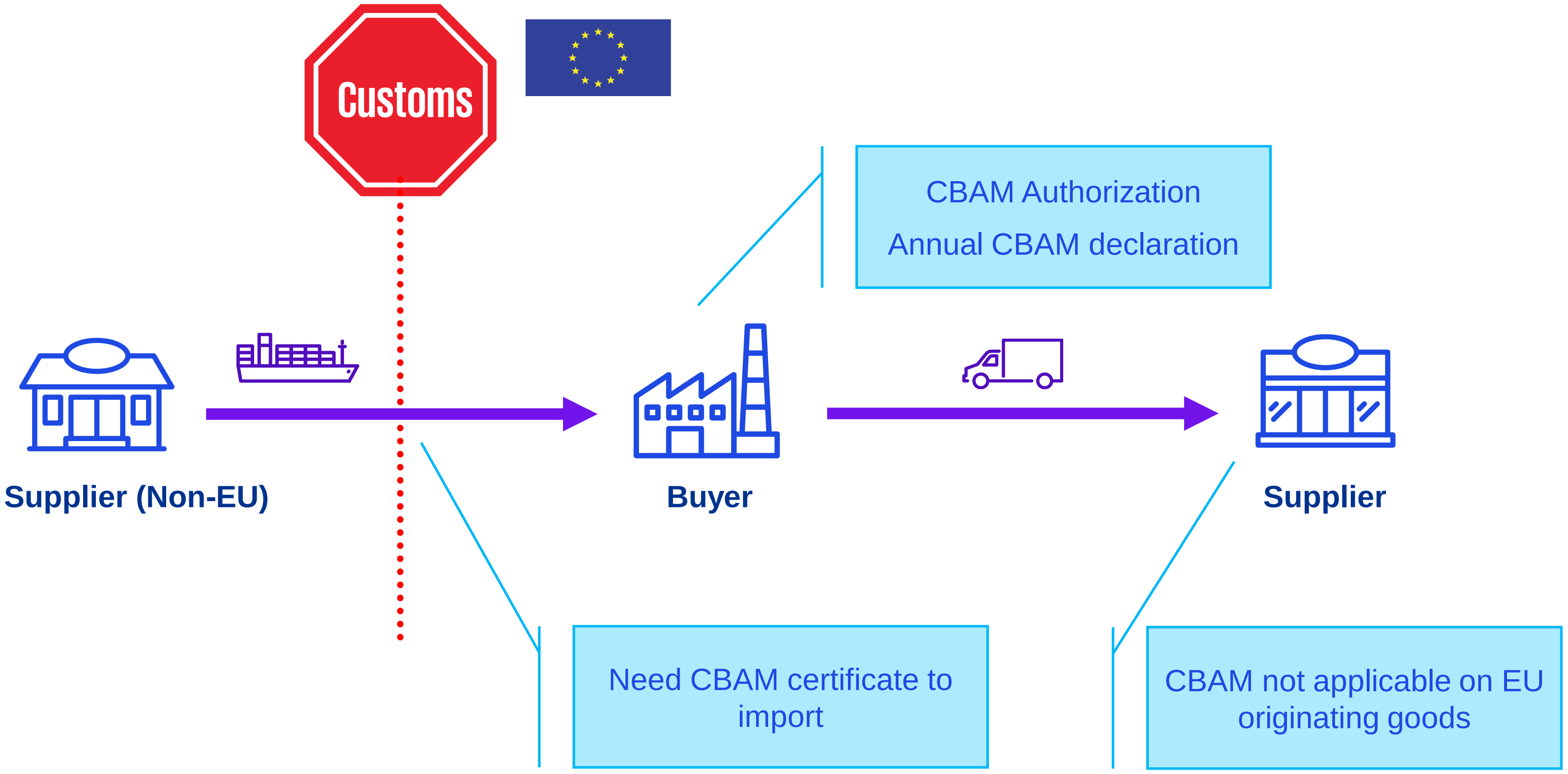
- **Tokyo Emissions Trading Scheme**
- **Saitama Prefecture Emissions Trading Scheme**

Korea

- **Emissions Trading Scheme**
- **Socially responsible investment bodies**

Carbon Border Adjustment Mechanism (CBAM)

CBAM is a policy tool that imposes a carbon tariff or price on carbon-intensive products imported into the EU



Goods impacted:

- Cement
- Iron and steel
- Aluminum
- Fertilizers
- Electricity
- Hydrogen

Considerations

- How to calculate the embodied carbon?
- What is the additional carbon tariff or price?
- Reporting/ compliance obligations?

Key Takeaways

- A company’s ESG policy is becoming increasingly important from investors’ perspective
- Non-compliance with ESG can result in monetary and non-monetary implications
- Various tax incentives / tax deductions are available from an ESG perspective
- E --- carbon tax/environmental taxes including incentives to encourage usage of green/energy efficient products including electric vehicles
- S --- tax morality/tax transparency has come to the fore and greater disclosures are being required
- G --- tax governance frameworks increasingly prevalent including e-invoicing. This also includes management having to align tax strategy and ESG

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