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Tax Transparency in the Sustainability Reporting of Swedish Listed Banks

Sandra Ivarsson, 24537 Klara Myrsell, 24538

Abstract

This study aims to examine and explain the increase in tax transparency in sustainability reports among Swedish listed banks. The documents included in the analysis are sustainability reports, tax policies, and annual reports between 2007-2020. A content analysis is made by measuring the frequency of keywords related to tax in sustainability reports and qualitatively examining tax policy statements. Regulations and standards relevant to the topic are considered as well as major events and scandals causing negative media coverage of the banks studied. Analysis is based on previous literature and stakeholder theory. Findings suggest large multi-national banks are more tax transparent than smaller banks due to public pressure stemming from scandals and events negatively covered by media as well as adhering to more international regulations and standards.

Keywords: tax transparency, tax disclosure, sustainability reporting, stakeholder theory, content analysis

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1 Introduction

1.1 Background

The leak of 11.5 million documents from the Panama-based law firm Mossack Fonseca, commonly referred to as the Panama Papers, revealed tax avoidance and tax evasion schemes involving influential people, law firms, and major banks around the world (ICIJ, 2016). Countries and governments worldwide were affected, including Sweden and the largest Nordic bank Nordea (Reuters, 2016), which led to investigations and proposed reforms to regulate the criminal activities of money laundering and tax evasion (Del Mundo, C. F. S., 2019).

The Global Financial Crisis of 2007-2008 and the European Sovereign Debt Crisis affected the banking sector in numerous ways. Many scholars have since studied the causes and consequences of these crises as well as the regulatory mechanisms established in the aftermath (Meier, Gonzalez, & Kunze, 2021). On a global level, regulatory actions have been discussed on several G20 summits (Meier et al., 2021) and between 2008 and 2018 the EU adopted more than forty pieces of legislation on the financial service sector (Emond & Kunertová, 2019).

Following the events described above, the banking and financial service sector has received a lot of media attention and societal pressure to behave more ethically and transparently. Public focus on corporate decisions, including corporate tax planning, has increased in recent years due to political, economic, and technological factors. Coordinated actions by policymakers has been designed and implemented with the purpose of reducing tax benefits from international tax planning (Wilde & Wilson, 2018). These actions consist to a large extent of enacting and updating different regulations to include tax aspects such as GRI 207: Tax 2019, OECD's BEPS-project, and Schedule 19 of Finance Act.

Often when talking of tax transparency, it refers to tax transparency on a global level with the aim of ending bank secrecy. The OECD defines tax transparency as "putting an end to bank secrecy and tax evasion through global tax co-operation" (OECD, n.d.). Corporate transparency and disclosure can be categorized into two levels, disclosure to the relevant tax authorities, and disclosure to the general public. The OECD definition applies mainly to the disclosure of information to government bodies. In this thesis however, the matter of interest is not of the transparency towards tax authorities, the interest is rather the transparency between the bank and the public through publicly available material. Thus, the definition made by KPMG in their report "Tax Transparency i Sverige 2018-2019" is more suitable and will therefore be used. KPMG (2019) defines tax transparency as the reporting of tax as a sustainability issue and transparency regarding policies and tax management.

1.2 Motivation

The topic of tax transparency is of interest due to its recent inclusion in sustainability reporting as well as the association with tax evasion and tax fraud which has been a topic of discussion in both media and political debates during the past decade. A study from the University of Pennsylvania suggests that a lower rate of corporate transparency is associated with aggressive tax planning and that companies face a trade-off between tax benefits and financial transparency when choosing how aggressive they should be in their tax planning (Balakrishnan, Blouin, & Guay, 2019). The banking industry has been in the spotlight of regulations and public scrutiny from multiple scandals both on a global and national level. In Sweden, tax transparency among listed companies has increased in recent years, notably among the major banks (KPMG, 2019).

Previous literature regarding tax transparency exists but the research is limited and not specific towards industries. Tax transparency as a research topic has gained more attention in recent years whereas Corporate Social Responsibility (CSR) has been researched since before the financial crisis. KPMG published a report on the overall state of tax transparency in Swedish companies and briefly mentioned tax transparency in Swedish banks. To the best of our knowledge however, there are no studies focusing specifically on tax transparency in the banking industry on the Swedish market. This study intends to examine this gap of Swedish banks' tax transparency in previous literature.

1.3 Purpose and Research Question

The objective of the study is to examine underlying factors resulting in banks putting a focus on tax reporting from a sustainability perspective. More specifically the question that will be investigated is: *What factors have contributed to the increased level of tax transparency in the sustainability reporting of Swedish listed banks?*

1.4 Structure

The remainder of this paper is organized as follows. Chapter 2 provides the background of the analysis with previous research, theory, and existing regulations. Chapter 3 develops the research design and data collection. Chapter 4 describes the empirics and content of the sustainability reports and tax policies analysed. Chapter 5 contains the analysis of the empirics and chapter 6 concludes with a discussion and summary.

2 Previous research and theory

Most of the research in the field of tax transparency has been carried out after the financial crisis in 2008 (Barreix, Roca, & Velayos, 2016). The financial crisis created a mistrust in the financial sector and opened the debate of financial reporting in both politics and media, resulting in many global institutions establishing guidelines and frameworks to decrease tax fraud and tax avoidance (Wójcik, 2015). These guidelines, frameworks, and legislations created to reduce aggressive tax behaviour suggest an increased interest in the tax management of corporations and could play an important role in the inclusion of tax transparency in sustainability reports.

Sustainability reporting has been mandatory in Sweden for reporting periods since January 2017 for corporations fulfilling certain size-based criteria (Growth Analysis, 2018). In April 2017, following OECD's BEPS project and EU directives, Sweden incorporated Country-by-Country Reporting (CbCR) (Regeringen, 2016). However, the regulations set a relatively loose framework on what sustainability issues the companies should include in the sustainability report. Reporting on tax as a sustainability issue is thus a voluntary addition.

Despite the requirements of CbCR in the banking industry introduced in 2014 by the European Union, banks have not changed behaviour regarding tax avoidance (Joshi, Outslay, Persson, Shevlin, & Venkat, 2020) which could mean that tax transparency is affected by other factors which would be interesting to explore. These other factors include, but are not limited to, improvement in financial profitability and corporate image. Studies have shown that there is a correlation between CSR reporting and financial profitability (Cherian et al., 2019) as well as a correlation between CSR and a positive corporate image (Kim, Yin, & Lee, 2020). Additionally, the disclosure of tax is positively correlated with firms exhibiting lower Effective Tax Rate (ETR) and suffering negative media coverage on corporate tax issues (Hardeck & Kirn, 2016).

Transparency in tax reporting have several positive consequences. Contrary to Hardeck and Kirn (2016), there is evidence that tax transparency is positively correlated with less tax avoidance when tax avoidance is measured by effective tax rate (Stiglingh, Smit, & Smit, 2020). Another positive consequence of reporting with transparency, is that a greater level of transparency on tax rates is positively correlated with higher profits for the companies (Boylan, 2013).

2.1 Stakeholder theory

The stakeholder theory considers different stakeholders with regards to organizational management, emphasizing ethical and moral aspects such as CSR (Freeman, 1984). Stakeholder influence differs depending on the individual organization and the stakeholder's given priority by executives and management (Mitchell, Agle, & Wood, 1997). Depending on the interest of the stakeholder and the priority given to them, managerial decisions will be influenced by these interests. For example, since consumers have shown negative attitudes towards firms exhibiting aggressive tax behaviour (Antonetti & Anesa, 2017), the firms' interest would therefore lie in not using aggressive tax planning methods to avoid consumer backlash.

Jones (1995) argues that ethical principles are beneficial to the firm due to the competitiveness of the market and the different stakeholder relationships existing in these competitive markets. The competitiveness of the market makes companies efficient which is beneficial to many stakeholders. While CSR activities can be considered inefficient, these activities will also lead to a competitive advantage since ethical behaviour results in positive aspects such as trustworthiness (Jones, 1995).

Corporate tax avoidant behaviour has been researched from multiple angles. It can be argued that shareholders would be interested in tax avoidant behaviour to increase cash-flows and after-tax income, resulting in incentive compensation to encourage tax aggressiveness among management (Rego & Wilson, 2012). However, if fiscal authorities detect discrepancies or criminal behaviour due to tax avoidance, the firm may suffer from penalties and reputational damage (Hanlon & Slemrod, 2009). Public scrutiny towards firms involved with tax avoidant behaviour is also shown to have a positive influence on corporate tax behaviour (Dyreng, Hoopes, & Wilde, 2016).

Expectations and pressure from stakeholders have increased as access to information becomes more available in the era of digitalization (Barnett et al, 2020). Stakeholders such as the everyday consumers can easily contact companies and express opinions and complaints through digital means. The ease of information gathering increases stakeholder pressure and companies are more aware of stakeholder's interests. There is an expectation that this increase of stakeholder influence should affect managerial decisions. However, contrary to many previously mentioned sources, Barnett et al. (2020) suggest firm behaviour has not seen a drastic change in response to increased stakeholder demands in the era of digitalization. Additionally, Hardeck and Kirn (2016) suggest that stakeholder pressure alone is insufficient for comprehensive voluntary tax disclosure and that regulations and standards are needed to spread this phenomenon.

2.2 Guidelines, Standards, and Regulations

2.2.1 Swedish Annual Accounts Act (Årsredovisningslagen, ÅRL)

The Swedish Annual Accounts Act (SFS 1995:1554 Årsredovisningslag) regulates how a company should create and publish annual reports, company group reports and quarterly reports. Chapter 6 paragraphs 10-14 in the Act regulates when a company should publish a sustainability report and what it should contain. It states that a company should publish a sustainability report if they fulfil more than one of the three requirements: having an average of more than 250 employees during each of the past two years, a balance sheet total of above 175 MSEK for each of the past two financial years, and a net turnover of more than 350 MSEK for each of the past two years. Chapter 6, paragraph 12 of the Annual Accounts Act regulates the content and since tax is not explicitly listed as a topic to include in the sustainability report, it is not part of the mandatory reporting.

2.2.2 GRI Standards – GRI 207: Tax 2019

The Global Reporting Initiative (GRI) developed GRI 207: Tax 2019 after an increase of public interest in corporate tax behaviour with the intention of increasing tax transparency. The standard is a topic-specific standard in the economic category, and it will be effective for financial reports published on 1 January 2021 or later, but earlier implementation was encouraged by the GRI (GRI, 2019).

An organization should apply GRI 207: Tax 2019 in relation to the universal standard GRI 103: Management Approach (2016) when tax is identified as a material topic. By applying GRI 103 and GRI 207 together, a total of seven disclosures is required (see Table 2.1), six of which are related to management approach, and one topic-specific disclosure.

	Category	Required disclosure
103-1	Management Approach	Explanation of the material topic and its Boundary
103-2	Management Approach	The management approach and its components
103-3	Management Approach	Evaluation of the management approach
207-1	Management Approach	Approach to tax
207-2	Management Approach	Tax governance, control, and risk management
207-3	Management Approach	Stakeholder engagement of concerns related to tax
207-4	Topic-specific	Country-by-country Reporting

Table 2.1 Required Disclosures under GRI 207: Tax 2019 and GRI 103: Management Approach

Disclosure 207-4, Country-by-Country Reporting (CbCR), requires the reporting organization to report on all tax jurisdictions where the entities included in the financial statements are resident for tax purposes. For each tax jurisdiction, the reporting organization should then include information on ten issues, including, but not limited to, what the entity is called and its primary activities, revenues from third party and from intra-group transactions with other tax jurisdictions, financial result before tax, and corporate income tax.

2.2.3 Base Erosion and Profit Shifting (BEPS)

OECD presented the project Base Erosion and Profit Shifting (BEPS) in 2013 after the G20 had given them the task of creating a plan to prevent different types of tax avoidance. The initial report states that mainstream media, civil society, and NGOs have increased the attention on the loss of substantial corporate tax revenue due to profits being shifted to locations where they are subjected to more favourable tax treatment (OECD, 2013). Sweden is a member of the Inclusive Framework and has thereby committed to the BEPS Package.

The BEPS Package consists of fifteen action points that is divided into three focus areas: coherence, substance, and transparency. The action points in the focus areas of coherence and substance refer to items such as harmful tax practices, and transfer pricing. The focus area of transparency mainly focuses on CbCR and mandatory disclosures (OECD, 2020). However, BEPS does not require the companies to be transparent on the same level towards the public as they should be to the authorities. The financial data on tax included in the annual reports are mainly decided by the corporations themselves (KPMG, 2019).

2.2.4 Swedish Corporate Governance Code

The Swedish Corporate Governance Code should be applied by all companies whose shares are traded on a regulated market in Sweden since 2008. The code specifies a set of norms for good corporate governance and aims to increase and maintain the confidence in the companies from the shareholders. The code is not mandatory as companies can deviate from its rules given that they report all deviations, explain what they are doing instead, and why they have chosen to do so (Swedish Corporate Governance Board, 2019).

Managing and disclosing taxation specifically is not mentioned in the code but one of the main guiding principles deals with the topic of transparency. Specifically, "…a Code that aims to […] create as much transparency as possible towards shareholders, the capital markets and society in general" (Swedish Corporate Governance Board, 2019, p. 3).

3 Method

3.1 Purpose, Research Approach and Design

This study aims to explain the recent increased levels of tax transparency in the sustainability reporting among listed Swedish banks and the factors influencing this change. The study will be conducted by qualitatively analysing published sustainability reports, and tax policies with the help of previous literature and stakeholder theory.

An inductive approach is used as the study is based on examining observations with the support of literature to find an explanation to the increase in tax transparency. With the support of existing literature and stakeholder theory, the study will offer explanations to the cases studied without proposing a complete and generalized theory.

The study does not intend to investigate the truthfulness of the analysed banks' sustainability statements but will instead analyse the emphasis of tax and tax management in the sustainability reports and other available material on the bank's sustainability attitudes.

After collecting initial data, correlation tests in Excel were conducted between word count of "tax" per sustainability page and several variables: namely effective tax rate, percentage of women on the board of directors, percentage of employee representatives on the board of directors, percentage of labour union representatives on the board of directors, and proportion of tax advisory spending in relation to operating income. The tests showed no correlation, which is why a decision was made to take another approach to the research question by conducting a content analysis and examining the role of stakeholders.

To show the increasing interest in tax, a content analysis will be made. A content analysis can be designed in various ways with differing levels of complexity. The number of research articles using content analysis have in the past fifty years increased tremendously and the way to conduct one is therefore not fully standardised. Neuendorf (2017) demonstrates that even findings from limited content analyses can be used to make broader claims. The content analysis conducted in this study will examine how frequent the word "tax" or the Swedish word "skatt" is featured in the published sustainability report for each of the subjects between the years 2007 and 2020. Sustainability reports are used in the content analysis as the matter of interest is tax as a sustainability issue and not tax as a financial cost for the company which is a recurrent theme in the annual report. Additionally, to prevent frequency to be skewed due to more comprehensive sustainability reports, the number of times "tax" is mentioned will also be presented in relation to the number of pages in the sustainability report. This will show how much focus is placed on tax in the sustainability reporting as an indication of tax transparency.

The range of 2007 to 2020 was chosen to see if new regulations, guidelines, and legislations influence tax transparency since the financial crisis took place in 2008 and legislations passed in its aftermath should show an effect in the years after the financial crisis. It could be argued that the consequences of the financial crisis would have subsided by 2020, which is the most recent year available in reports. However, many other events such as accounting scandals and money laundering incidents have been a topic of discussion in the media and involved many Swedish banks which based on previous literature could affect tax transparency. For the given reasons, every year up to the most recent available report is included.

In recent years, an increasing number of banks have published a separate tax policy which is frequently mentioned and referenced in their sustainability reports, and these are included in our analysis as well to give a more holistic view of the bank's tax transparency. The overall impression of the tax policies will be considered in the analysis. Additionally, the tax policy contents are categorized and compared between the major banks which allow for topic-specific comparison.

3.2 Data collection

The data consists of annual reports, sustainability reports, and tax policies publicly available for download on the companies' websites. Publicly available materials are used in the study as the topic of interest regards transparency in the reporting available to the public. The reports indicate the level of transparency giving a good opportunity to identify trends and development.

Chosen subjects included in the analysis are banks listed on OMX Stockholm according to the Industry Classification Benchmark (ICB) for banks, 3010, which creates a limitation of eight banks. Of these banks the selection is further limited by eliminating any actor that is not active in the Swedish market, resulting in 7 banks. When choosing between the group and the parent company's separate reporting, reports on group are always preferred for the purpose of the study. Sustainability reports and annual reports from 2007 to 2020 have been included in the study, resulting in a total of 95 annual reports and 67 sustainability reports with an additional 4 tax policies. While the starting year is 2007, many banks do not have available sustainability reports or tax policies until many years later and the reports and policies used in the study are summarized in Table 3.1. Due to availability, only the most recent tax policy is analysed in the study.

	SEB			Swedbank			Nordea			Handelsbanken			Avanza		Collector		TF Bank	
	AR	SR	TP	AR	SR	TP	AR	SR	TP	AR	SR	TP	AR	SR	AR	SR	AR	SR
2007	x	x		x	x		x			x			x		x			
2008	x	x		x	x	x	x	x		x			x		x			
2009	x	x		x	x	x	x	x		x			x		x			
2010	x	x		x	x	x	x	x		x	x		x		x		x	
2011	x	x		x	x	x	x	x		x	x		x		x		x	
2012	x	x		x	x	x	x	x		x	x		x		x		x	
2013	x	x		x	x	x	x	x		x	x		x	x	x		x	
2014	x	x		x	x	x	x	x		x	x		x	x	x		x	
2015	x	x		x	x	x	x	x		x	x		x	x	x		x	
2016	x	x		x	x	x	x	x		x	x	x	x	x	x		x	
2017	x	x	x	x	x	x	x	x		x	x	x	x	x	x	x	x	
2018	x	x	x	x	x	x	x	x		x	x	x	x	x	x	x	x	x
2019	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
2020	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Table 3.1 Annual Reports, Sustainability Reports, and Tax Policies available for the study

Table 3.1 shows the annual reports (AR), sustainability reports (SR), and tax policies (TP) for each bank and year. Banks who do not have a publicly available tax policy do not have the column TP.

The banks have been categorized in to two groups: major banks and smaller banks. This distinction is made in accordance with Finansinspektionen (FI), the Swedish authority supervising the financial markets, in the report “Supervision of the banks” (2017). FI states that the major banks accounted for 77.3 % of the Swedish banking systems total assets and are subject to more intense supervision than the smaller banks. In addition to this, the major banks distinguish themselves in certain aspects, such as having a publicly available tax policy, and to a higher extent also expanding the sustainability report by applying the GRI Standards on a voluntary basis, which is why different levels of tax transparency between these two groups of banks are expected.

Major Banks	**Smaller Banks**
SEB	Avanza
Swedbank	Collector
Nordea	TF Bank
Handelsbanken	

Table 3.2 Categorization of the studied banks

Data collection was done manually to avoid the inclusion of inaccurate information. When gathering data for the content analysis, the words included are “tax” and related words such as “taxes” and “taxation”. However, certain terms related to tax were excluded, e.g., “pre-tax income” and “profit after tax” as well as words containing the letter combination “tax” but are unrelated to the topic such as “taxonomy” and “taxi”. The same principles were applied when collecting the data in Swedish.

When compiling the data on Effective Tax Rates (ETR), the most recent data was used. When a report included the ETR from a previous year which differed from the ETR given in the previous year’s report, the most recent report was deemed more informative and used for our comparisons. When ETR was not given, a calculation using the formula $\frac{Tax}{Pre-tax\ income}$ was made to calculate the ETR. In cases of missing reports to study or if profit was negative, an ETR of 0 was used.

3.3 Validity and reliability

External validity, or generalizability, is determined by how much the theories can account for the phenomena in other settings than the one studied (Farquhar, 2012). Due to the relatively small sample in comparison to the global corporate world, the degree of generalizability of the study diminishes.

Since certain parts of the analysis is based on the authors’ judgement of the content in each of the analysed reports, the result may differ if the study is replicated by other authors using the same data. To increase the reliability of the study, both authors will actively participate in the analysis of the data. The content analysis can be replicated with the same results and can therefore be considered reliable.

4 Empirical Findings

4.1 Content analysis

The content analysis consists of a frequency analysis of the sustainability reports and an analysis grading the emphasis put on different topics within each bank's tax policy. The reports and policies used can be seen in Table 3.1 and the number of banks that have these mentioned reports and documents is compiled in Figure 4.1.

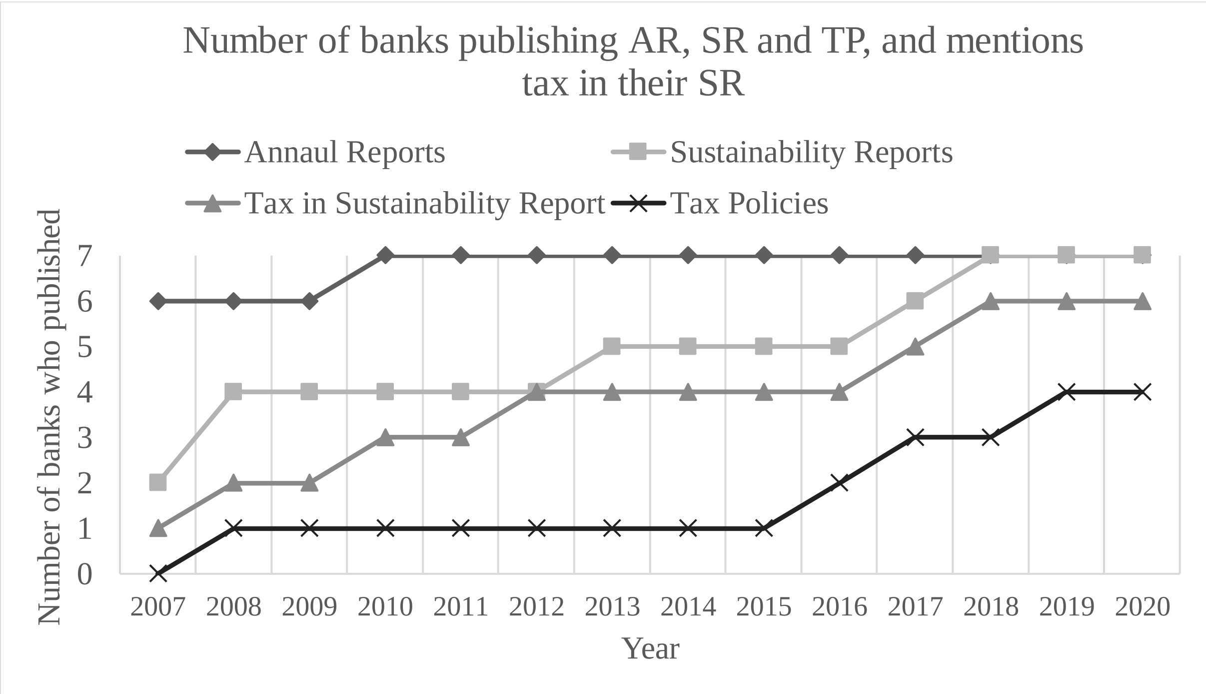

Figure 4.1 Number of Banks Publishing AR, SR, and TP, and mentions tax in their SR

Figure 4.1 illustrates the number of banks of the ones studied that have published an annual report, sustainability report, and tax policy, and mentions tax in their sustainability report for each year. There has been an increase in all series from 2007 to 2020, suggesting an increase in both sustainability disclosure and tax transparency. The banks who have not published a sustainability report until 2017 and 2018 are Collector and TF Bank respectively, also the two smallest banks in this study. The four banks that have published a tax policy by 2020 are the major banks. The one bank that does not mention tax in their sustainability report by 2020 is Avanza.

4.1.1 Sustainability Reports

Prior to 2010 there were few or no mentions of tax in sustainability reports. Mentions of tax started in 2010-2012 for all major banks in their respective sustainability reporting. However, it was not until 2014-2015 when the major banks introduced more elaborate sections regarding tax in their sustainability reports. The smaller banks have very few mentions of their attitude to tax in their sustainability reporting with no mentions prior to 2017.

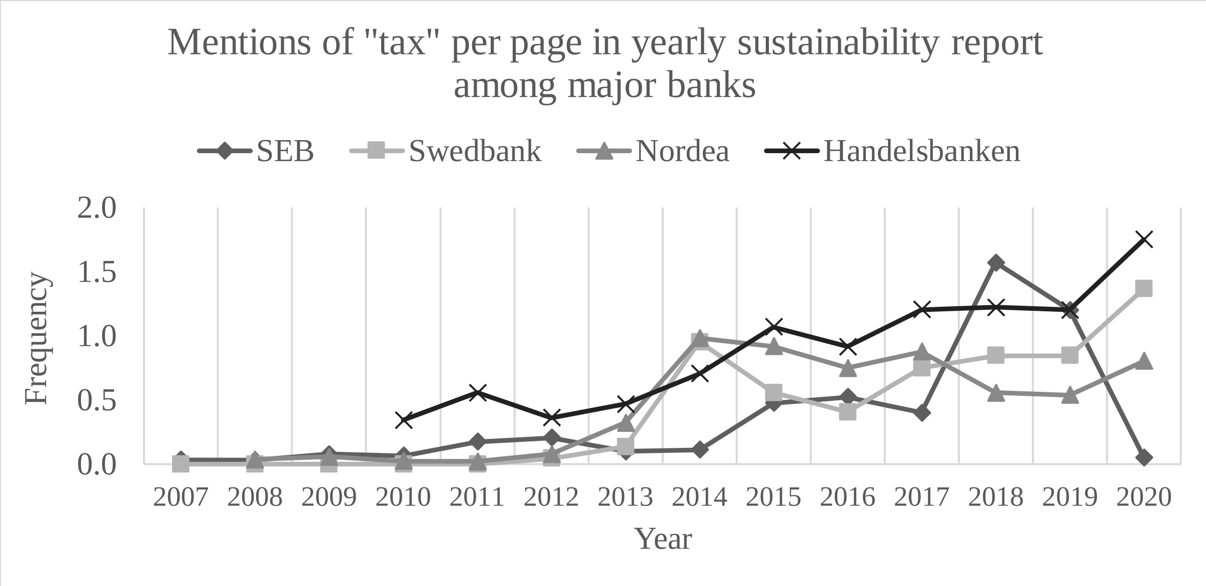

Figure 4.2 Mentions of "tax" per page in yearly sustainability report among major banks

Figure 4.2 illustrates an increasing trend of tax transparency in sustainability reports among all major banks from 2007 to 2020. Specifically, tax is mentioned more frequently per page of published sustainability report. SEB has a decrease between 2019 and 2020 which can be explained as them moving their section "SEB's approach to tax" from the sustainability report to their annual report as well as referring to their separate tax policy instead of including more elaborated sections of text in their sustainability report.

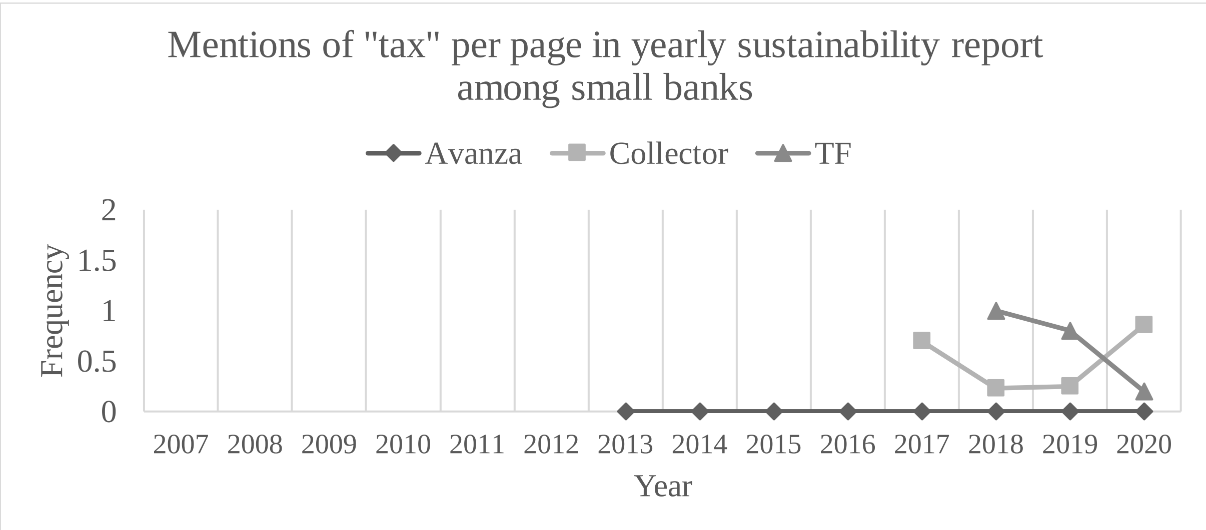

Figure 4.3 Mentions of "tax" per page in yearly sustainability report among smaller banks

Figure 4.3 illustrates how the smaller banks show differing trends within the group but does not show an increase similar to the major banks. Avanza is consistently not mentioning tax at any point in their sustainability reports. Collector and TF Bank started publishing sustainability reports in 2017 and 2018 respectively and have since the beginning of their reporting mentioned tax in their sustainability reports. Since the start of their reporting, Collector has not followed any certain trend, and TF Bank has showed a decrease in mentions of tax per page in sustainability report.

4.1.2 Tax Policies

Out of the seven banks in the study, four of them have published a tax policy available for download online. Those four banks are the major banks and none of the smaller banks have a published tax policy. The major banks presented their tax policies in similar ways with a clear structure with headings and sub-headings as well as references to other policies published by the bank, e.g., Code of Conduct and Sustainability policies, and international regulations.

Bank	**Introductory Statement in Tax Policy**
SEB	"Banks play an important role in society, by providing credit and managing financial assets in ways that promote economic growth and prosperity."
Swedbank	"Swedbank believes that a fair and transparent tax system constitutes a vital element of a well-functioning society.
Nordea	"Nordea recognises the important role that taxes have for public finances and society's ability to fulfil its goals..."
Handelsbanken	"For Handelsbanken, managing taxes is one of the most important sustainability topics."

Table 4.1 Introductory statements from each major bank's tax policy

Table 4.1 presents introductory statements from each major bank's tax policy. The statements show similarities by connecting tax management to sustainability as well as emphasizing the bank's role in society. The tax policies are then structured to elaborate on these topics and many more using headings, paragraphs, and bulleted lists. The most notable topics are included in Table 4.2.

The content in the tax policy statements is categorized as seen in Table 4.2 in twelve categories. The categories are chosen from the headings and sub-headings in the tax policies to give a fairer comparison between the banks. The tax policies contain similar content but with varying amounts of elaboration which is graded on a scale from 1 to 5 with 5 being the highest score with most details and motivation behind the policy statement.

Topic	SEB	Swedbank	Handelsbanken	Nordea
Purpose statement and scope	3	2	3	5
Aggressive tax planning	5	5	5	5
Pay taxes and other fees	4	4	4	5
Regulatory compliance	5	3	5	3
Relationship with tax authorities	5	3	3	3
Sustainability	5	4	3	5
Work towards a fair tax system	3	4	3	5
Risk	4	3	-	2
Transfer pricing	5	1	1	-
Transparency	5	2	4	5
Expectations on business partners	-	5	4	5
Ethics	1	-	1	3

Table 4.2 Grading of policy statements categorized into topics for each major bank

The grading scale is between 1 to 5 and scores of 4 and 5 are highlighted in the table as they are considered high scores for ease of viewing. No mention of the topic receives no grade which is signified with a "-". A grade of 1 indicates that there is a mention of the topic but no further elaboration. A grade of 2 indicates that there is a brief elaboration. A grade of 3 indicates that there is a moderate elaboration. A grade of 4 indicates that there is an above average elaboration. Finally, a grade of 5 indicates that the topic is very elaborated.

4.2 Stakeholder Theory

4.2.1 Effective tax rate

Previous literature has studied the association between effective tax rate (ETR) and topics such as shareholder value and CSR disclosure. Among our banks, ETR remains stable from 2007 to 2020. Minor change is observed during the studied period, short of 2009’s outliers. At the individual bank level, there is also no notable trend.

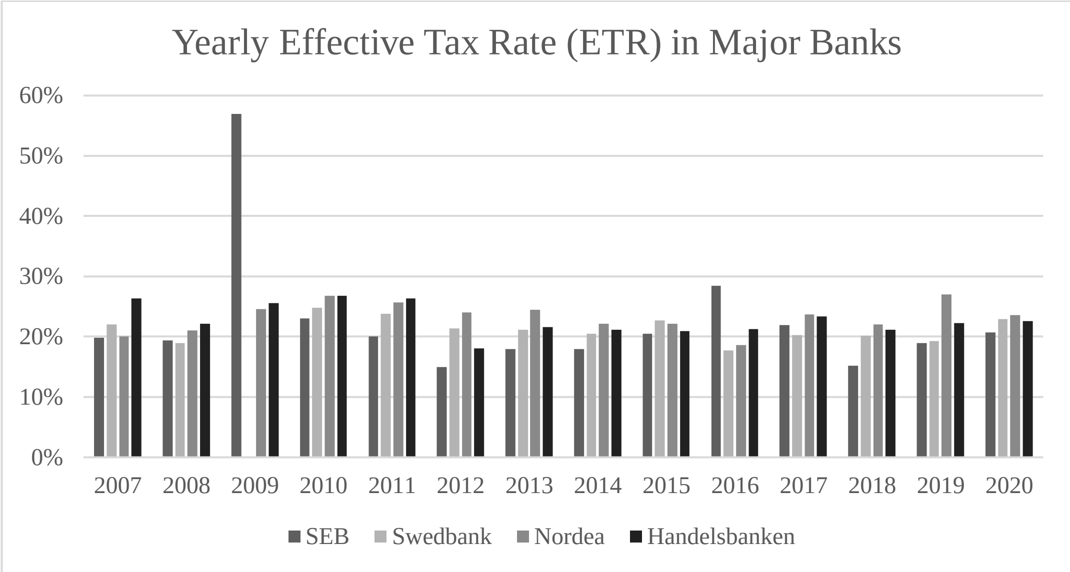

Figure 4.4 Yearly Effective Tax Rate (ETR) in Major Banks

Figure 4.4 demonstrates the ETR for major banks during the studied years, 2007-2020. Within the major banks, no bank has consistently much higher or much lower ETR than their peers. However, some extreme tax rates are present in the data for 2009 following the financial crisis. SEB presents a 57 % ETR in 2009 and explains this irregularity as a combination of non-tax deductibility of goodwill impairments and credit losses in the Baltic region causing a relatively lower profit and increasing the ETR. The same year, Swedbank had similar experiences with credit impairments in the Baltic region causing them to present a negative result at year-end and then also a negative ETR.

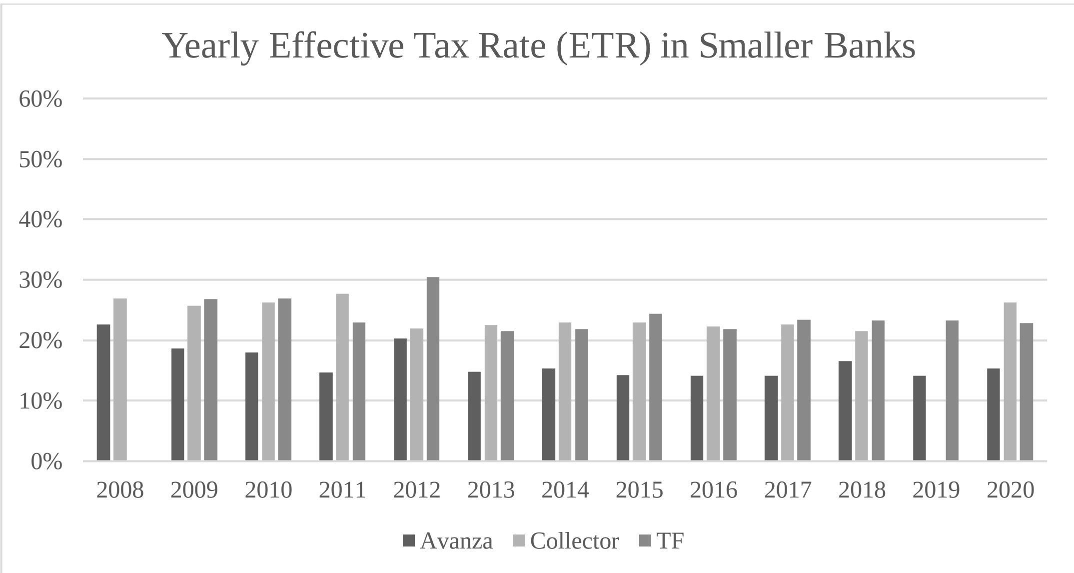

Figure 4.5 Yearly Effective Tax Rate (ETR) in Smaller Banks

Figure 4.5 illustrates ETR in smaller banks across the time period. Avanza consistently shows a lower ETR in comparison with both major and smaller banks at approximately 15 %. Collector and TF consistently presents an ETR between 20 % and 30 % with a slight decrease towards 20 % since 2013. Collector presented a negative year-end result in 2019 resulting in an ETR of 0 %.

4.2.2 Guidelines, Standards, and Regulations

The guidelines and regulations applied by the banks in their reporting varies depending on the size of the bank, which country the company is registered in, and voluntary initiatives adhered to by the bank. Depending on the regulations followed, the level of disclosure in the banks is expected to be affected.

	Guidelines and Regulations				
	Swedish Corporate Governance Code	Finnish Corporate Governance Code	GRI Standards: Core Option	GRI 207	ÅRL
SEB	x		x	x	x
Swedbank	x		x	x	x
Nordea		x	x	x	
Handelsbanken	x		x		x
Avanza	x		x		x
Collector	x				x
TF Bank	x				x

Table 4.3 Guidelines, standards and regulations applied by studied banks in 2020

Table 4.3 illustrates what relevant guidelines, standards, and regulations each of the studied banks apply in their reporting for the fiscal year 2020. Nordea is the only bank not acting by the Swedish Corporate Governance Code. However, they do apply the Finnish Corporate Governance Code instead. The Finnish Corporate Governance Code (2020) includes transparency as a key feature much like the Swedish code includes it as a guiding principle.

All the included banks apply the Swedish Annual Accounts Act for their sustainability reports except for Nordea. As seen with the Corporate Governance Code, Nordea's primary regulator is the Finnish government rather than the Swedish one. The Annual Accounts Act is mandatory and cannot be opted out of.

As of 2020, only two of the banks do not also apply to the GRI Standards: Core Option, and those two are Collector and TF Bank. The GRI Standards are voluntary. Out of the banks that do apply the GRI Standards, three out of five have started using GRI 207: Tax 2019 in their reporting. GRI 207 is, as mentioned in section 2.3.1, effective for financial reports published on 1 January 2021 or later.

4.2.3 Major Events and Scandals

Major events causing negative media coverage and public scrutiny such as the global financial crisis and the Panama Papers are mentioned in the major bank's annual and sustainability reports. Nordea launched and recently published the results of an internal investigation into Nordea's activities related to the Panama Papers scandal (Nordea, 2020). All major banks have been fined for failing to properly fight against money laundering, Nordea and Handelsbanken in 2015 (Gustafsson, 2015) and SEB and Swedbank as recently as 2020 (AFP/The Local, 2020a; AFP/The Local, 2020b). The smaller banks have not been involved in any major scandal causing negative media attention or public scrutiny.

5 Analysis

5.1 Sustainability Reports

The empirics show a clear distinction between the major and smaller banks regarding tax transparency in their sustainability reports. Figure 4.1 illustrates an increase in sustainability disclosure and tax transparency across the studied banks. Figure 4.2 shows that the major banks have all seen an increase in mentions of tax over the past decade while Figure 4.3 shows that the smaller banks have a minor increase in 2017 and the trend is not consistent within the group. The difference between the groups of banks could be due to major banks being involved in more larger scandals and events, being put under more scrutiny by Finansinspektionen (2017), and following international regulations to a larger extent.

A conclusion to be drawn is that major banks are more tax transparent than smaller banks. The major banks have also received attention from mass media for involvement in scandals such as money laundering in the Baltics and the Panama Papers. All four major banks have been fined for failing to properly combat money laundering which has incurred reputational risks and damage (AFP/The Local, 2020; AFP/The Local, 2020; Gustafsson, 2015). In line with Cherian et al. (2019) and Kim et al. (2020), the empirics suggest that the major banks made their decisions to increase tax transparency with the hopes of improving corporate image and reduce reputational damage as previously mentioned studies show how CSR improves social value. Cherian et al. (2019) also suggest CSR disclosure improves financial performance which is in line with our empirics as the major banks would carry an interest in improving financials especially after events resulting in having to pay tens of millions of SEK in fines for poorly combatting money laundering.

Contrary to the eventful major banks, the smaller banks have not been involved in notable events or scandals and received little to no media attention or public scrutiny. There has been no reputational damage due to such causes, and thus, no reason to improve the transparency in their reporting in line with the above-mentioned ideas based on the articles by Kim et al. and Cherian et al. Society and media might have a smaller interest in the reporting of the smaller banks and thus have less expectations on their sustainability reporting. Without the added pressure of society and media, smaller banks lack incentive to willingly report on tax compared to the major banks.

Avanza is considered the least tax transparent bank with no mentions of tax in their sustainability reports and the lowest ETR consistently at around 14 % - 16 % since 2013. A study on the relationship between tax transparency and ETR suggests that firms that are more transparent in their reporting have a higher ETR (Stiglingh, Smit, & Smit, 2020). Avanza's low tax transparency and corresponding low ETR supports this study. On the contrary, Hardeck and Kirn (2016) state that firms with lower ETR are more inclined to disclose tax, which is not in line with Avanza's data. However, the other banks included in the study do not show any correlation between ETR and tax transparency. The case of Avanza could be explained through Avanza's differing stakeholder circumstances compared to the major banks. Avanza has not been involved in any major scandals and thus not received any negative media coverage or public scrutiny. Stakeholder theory states that management decisions are influenced by the relationships to varying stakeholders and with Avanza being less affected by a negative critique from the public, the bank is less inclined to disclose tax despite what previous studies have said regarding ETR.

5.2 Tax Policies

The policy statements made in the major banks' tax policies are of similar nature, which is presented in Table 4.1, all with large sections on the topic of tax evasion and aggressive tax planning, presented in Table 4.2. After much public scrutiny over involvement in financial crime during the 2010s, it is expected that the banks put a large focus on the presented topics to indicate a change of conduct in business operations to improve corporate image and customer relations.

The emphasis on avoiding and combatting tax evasion and aggressive tax behaviour could stem from many recent scandals such as the Panama Papers and money laundering in the Baltics. All the major Swedish banks have been fined during the past decade on charges related to money laundering and Nordea was one of the banks most heavily involved in the Panama Papers scandal. The large fines and public backlash against major banks could serve as an explanation why the major banks have seen an increase in tax transparency in recent years, more so than the smaller banks. Antonetti and Anesa (2017) suggest that consumers show negative attitudes toward firms exhibiting aggressive tax behaviour which supports the idea that the bank's will want to avoid associating themselves with such behaviour and emphasize those aspects in their tax policy. Hardeck and Kirn (2016) also suggested that negative media coverage on tax matters is a determinant of tax disclosure, suggesting that the banks who have suffered negative media coverage are more inclined to be tax transparent which supports the study's findings.

5.3 Stakeholder theory

There is an expectation of increased stakeholder influence from 2007 to 2020 due to digitalization and having easy access to all banks' reports and policies. They are all available to download online and the information within is easy to find and organize using hyperlinks and keyboard shortcuts. According to previous research, increased stakeholder influence in the era of digitalization should not affect firm behaviour (Barnett et al., 2020). However, the increasing trend of tax transparency in sustainability reporting contradicts this research. This contradiction could be explained by Dyreng et al. (2016). Dyreng et al. finds that public pressure influences corporate tax behaviour in large publicly traded firms. Public scrutiny affects the costs of tax avoidance and increase the tax expense for firms involved in questionable financial activities. Our findings support the results of Dyreng et al. (2016) since we see a notable increase in tax transparency among the major banks, all of which have been involved in major scandals.

The topic of sustainability and aggressive tax planning is often referred to in the tax policies. Freeman (1984) emphasizes the role of CSR as an ethical and moral aspect in the relationship with stakeholders. Sustainability is considered a part of CSR and has a large focus in the banks' tax policies. The ethical aspects affecting management decisions are influenced by many stakeholders including consumers and regulatory institutions as consumers show negative attitudes towards aggressive tax behaviour (Antonetti & Anesa, 2017) and regulatory institutions want to encourage sustainable behaviour. To appeal to and satisfy these stakeholders, the banks have reason to focus on sustainability in their tax policies and increase tax transparency in their sustainability reports. Additionally, stakeholders such as regulatory bodies and shareholders have an interest in avoiding money laundering and other aggressive tax planning behaviours both as it affects tax collection and since large fines affect shareholder value. According to stakeholder theory, the interests of these stakeholder could influence decision making in the bank to include statements on sustainability and aggressive tax behaviour in their tax policies.

5.4 Guidelines, Standards, and Regulations

Several regulatory and governing institutions have published new recommendations and regulations for the banking industry in the past decade. These new regulations stem from the financial crisis and the numerous accounting scandals which have plagued the banking industry the past two decades. Authorities worldwide have put a larger emphasis on regulating multinational enterprises to reduce tax evasion and aggressive tax planning as can be seen through these new regulations. As stakeholders, these authorities require more tax transparency than ever before which can result in the major banks putting a larger emphasis on their tax management in their sustainability reports to satisfy these influential stakeholder demands.

During the studied time period, regulators and standard setters have updated the laws and introduced new standards, placing an emphasis on the importance of both sustainability reporting and tax as part of that reporting. Since 2012, all banks who published a sustainability report besides one (Avanza) have included tax as an issue. As mentioned earlier, the Annual Accounts Act do not require banks to include tax as a sustainability issue. In addition, GRI is a voluntary framework where not all parts need to be included and Avanza is the only one of the studied banks that apply GRI and chooses not to disclose tax in accordance with the GRI Standards, which is in line with previous analysis regarding Avanza being the least tax transparent bank. Since Avanza does not apply the standards similar to the other banks, this allows for the effectiveness of the standards and regulations to be questioned.

While many regulations do not directly affect transparency in reporting towards the public, the intentions of the regulations are to reduce tax evasion and increase transparency. Two of the major banks (Handelsbanken and Swedbank) have included in their tax policy statements that they strive to not only obey the letter of the law but also the intention of the legislator. The legislators' intentions are therefore followed and represented in the bank's tax reporting in sustainability reviews as a result of adhering to the interest of the legislator.

Referring back to 4.1 Content Analysis, Figure 4.1 shows that the regulations imposed regarding sustainability reporting have had a positive effect on the banks' reporting. In 2007, only two of the studied banks published a sustainability report and now all of them do. Similarly, banks include tax as a sustainability issue to much larger extent as of 2020 than in 2007.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
17%	33%	33%	43%	43%	57%	57%	57%	57%	57%	71%	86%	86%	86%

Table 5.1 Percentage of studied banks including tax as a sustainability issue, 2007-2020

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
50%	50%	50%	60%	60%	80%	80%	80%	80%	80%	83%	86%	86%	86%

Table 5.2 Percentage of published sustainability reports including tax as an issue, 2007-2020

As can be seen in Table 5.1, with six annual reports available and two sustainability reports in 2007, 17 % (1 out of 6) of the banks included tax as a sustainability issue. In 2020 however, with seven annual- and sustainability reports available, the percentage of the banks including tax as a sustainability issue has increased to 86 % (6 out of 7). Moving on to Table 5.2, the collected data shows that tax have been included as an issue in 50 % or more of published sustainability reports during the entirety of the studied period. The increase from 50 % to 86 %

between 2007 and 2020 respectively shows a collectively higher level of tax transparency in the studied banks during the time period.

The regulations also affect the frequency of “tax” mentions in the sustainability reports. Especially interesting is comparing the development between sustainability reports published in 2019 and 2020 respectively for the banks applying the GRI Standards. If a connection then is made to Figure 4.2 and Figure 4.3 that present how frequent tax is mentioned, and the corresponding discussion regarding the figures, the major banks increase their frequency in 2020 after a few years of stable levels. This increase is aligned with GRI 207: Tax 2019 being made effective. SEB contradicts the trend shown by the other major banks that also applies GRI 207 by instead rapidly decreasing the level of frequency in 2020. This is explained by them referring to other sections of the reporting outside of the sustainability report where the information is available instead.

6 Concluding Discussion

6.1 Conclusion of Analysis

The purpose of this study has been to find an explanation to the increased inclusion of tax approach and tax management in sustainability reporting among Swedish listed banks. Our empirical findings support previous literature and stakeholder theory as well as give new insights on the differences within the banking industry.

Previous literature suggests many positive consequences of CSR disclosure and transparency. Stakeholder theory also suggest benefits from ethical behaviours and CSR activities. There are different expectations among the studied banks due to potentially differing stakeholder influences and need for positive transparency consequences, resulting in categorizing the studied banks into “major” and “smaller” banks.

The sustainability reports and tax policies show a notable increase in tax transparency among Swedish listed banks between 2007 and 2020. This increase is mostly seen in the major banks while the smaller banks show little to no increase. In addition to tax transparency in sustainability reports, only the major banks have a separate tax policy available to the public. This also suggests that major banks are more tax transparent than smaller banks. Historically, major banks show a strong increase in tax transparency while smaller banks show only a minor increase in recent years if any.

Tax policy statements are similar with emphasis on topics surrounding aggressive tax planning, regulatory compliance, and relationship with tax authorities. The emphasis on these specific topics along with the history of involvement in financial crime among the major banks supports both previous literature and stakeholder theory as public scrutiny make firms more inclined to disclose tax related matters (Hardeck & Kirn, 2016).

The difference, both between and within the groups of banks, can be explained through higher expectations from an increasing number of stakeholders such as authorities and the public, as well as new regulations and previous involvement in financial criminal activity.

Stakeholder influences differ between major and smaller banks which could explain the contrasting trends between the groups. Smaller banks have fewer stakeholders as media and the general public do not pay as much attention to the activities of smaller banks in comparison to major banks that previously have been involved in larger events related to financial crime. Larger institutions such as governing bodies and international organizations have more oversight of major banks due to the history of financial institutions and higher expectations thereof. Along with stakeholder theory, with differing stakeholder pressure there should be differing managerial decisions resulting in higher amounts of disclosure in major banks compared to smaller banks as well as an increasing trend of tax transparency over the studied time period.

Major banks receive media attention and more oversight from Finansinspektionen and other governing institutions. All the major banks have a history of being fined for money laundering activities or lack of action against money laundering. Other major scandals such as Panama Papers have put the major banks in front of an increased number of stakeholders which put higher demands on their reporting, including tax transparency. Regulations to reduce financial crime also affect the major banks as they are large multinational entities affected by many local, national, and international legislations and recommendations.

The number of regulations, guidelines, and standards have increased as an effect of the financial crisis and many scandals during the 21st century which have affected both financial- and non-financial reporting. Many regulations recently made effective targets the transparency towards tax authorities, and not transparency towards other stakeholders which is the main focus of this study. Nonetheless, the intention to increase transparency as a mean to reduce aggressive tax behaviour is made apparent. There are also standards that do target tax transparency in reporting such as GRI 207: Tax 2019 which have already shown some effect on the level of transparency but is yet to reach their full effect due to its recent implementation. Along with increased regulations and standards, the banks' statements to adhere to the intention of the legislator result in banks increasingly disclosing tax related matters in their sustainability reporting.

6.2 Limitations and Future Research

A few limitations of the study include its scope and sample size. Due to the study's definition of a bank, this results in a limited sample size of 7 banks. The definition excludes firms which are classified under the ICB code 3020 "Financial Services" which contains firms active in the banking sector as banks but are not classified under the ICB code 3010 "Banks". Banks listed on other stock exchanges than OMX Stockholm but are active in the Swedish market are also excluded from the study. Future research could include these market actors to increase better reflect the Swedish banking industry more comprehensively.

The previous literature used to analyse the empirics is not targeted towards the banking sector specifically. While most studies cover large publicly listed companies, they usually cover the wider market rather than specific sectors such as banking or financial services. Due to the nature of different industries, there might be inconsistencies between previous literature due to the differences in the banking industry and the wider market. This might also explain the inconsistencies encountered while conducting this study, especially on the effect of ETR on tax disclosure.

Another limitation stem from the analysis only using sustainability reports and tax policies, not annual reports. As can be seen in the case of SEB in 2020, the sections on tax that used to be in the sustainability report can be moved and integrated into the annual report which is not included in this study and thus skew the results. In case of further integration of sustainability topics into the annual reports, future studies should extend the content analysis to include annual reports.

For further research, a lot can be done as the topic of tax transparency is still developing, both as an academic research topic but also in the public eye with new regulations and standards developing and made effective. It would therefore be interesting to see what effect the different regulations have on a larger scale than what is studied here. Some possible questions to answer would then be: Are some regulations more effective in any particular industry? What disclosures on tax do different stakeholders value the most? Another angle for further research would be comparing the statements made in tax policies to what the company does in practice and look at the level of truthfulness in the reporting of tax as a sustainability issue.

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