



MSCI ESG Ratings Methodology: Tax Transparency Key Issue

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Introduction

This document provides essential information on the components of the Tax Transparency Key Issue to enable users of ESG Ratings to understand how MSCI Sustainability & Climate’s (MSCI S&C’s)¹ outputs are determined.. Tax Transparency is a Key Issue in the Governance Pillar of the MSCI ESG Ratings model. Companies are evaluated on their estimated corporate tax gap (see below), revenue-reporting transparency and their involvement in tax-related controversies.

A company’s estimated tax gap will only affect its 0-10 Corporate Behavior Theme Score and its 0-10 Governance Pillar Score when it is involved in an ongoing tax-related controversy. Because the estimated tax gap is an approximation and does not consider the unique circumstances of a company’s tax structure, ongoing tax controversies are used to improve the level of conviction in an estimated negative tax gap.

For additional details on the MSCI ESG Ratings Model, refer to the Data, ratings and scores section of “ESG Ratings Methodology.”

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	33 ESG Key Issues
Environment	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
Opportunities in Renewable Energy		
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Insuring Health & Demographic Risk
		Privacy & Data Security
		Product Safety & Quality

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3 Pillars	10 Themes	33 ESG Key Issues
Governance	Stakeholder Opposition	Responsible Investment
		Community Relations
		Controversial Sourcing
	Social Opportunities	Access to Communications
		Access to Finance
		Access to Health Care
		Opportunities in Nutrition & Health
	Corporate Governance	Board
		Pay
		Ownership & Control
Accounting		
Business Ethics		
Corporate Behavior	Tax Transparency	

Tax Transparency Key Issue Score

The overall Key Issue Score is based on the following Key Metric using the methodology described in the Calculating Governance Scores section of “ESG Ratings Methodology.”

The Key Metric evaluates a specific aspect of a company’s governance risk profile.

Key Metrics

Category: Controversies

Tax Controversies Key Metric

Definition

Indicates the company’s involvement in ongoing tax-related controversies.

Typical Scoring Contribution: The scoring contribution is variable, based on the type and assessment of ongoing controversies.

Scoring range: 0 to -2.0.

For details about the deduction, refer to the Tax Controversy Deduction Key, below.

Tax Controversy Deduction Key

Exhibit 2: Tax Controversy Deduction Key

Involvement in tax controversies	Estimated tax gap	Tax gap assessment	Deduction	Tax Transparency score
Yes	5% or below	Low	-0.8	6
	5-10%	Medium	-1.4	3
	Above 10%	High	-2.0	0
No	5% or below	Low	0.0	10
	5-10%	Medium	0.0	10
	Above 10%	High	0.0	10

Estimated tax gap

The estimated tax gap is calculated as the difference between:

- Estimated effective tax rate: reflecting MSCI S&C’s estimation of the rate of taxes a company actually pays based on the five-year annual average effective tax rate.
- Estimated statutory tax rate: reflecting MSCI S&C’s estimation of the total rate of taxes a company would need to pay based on the countries/regions from which it derives its revenues.

Data sources

The following sources are used to determine the Tax transparency Key Issue score:

MSCI S&C, company disclosures.

Contact us

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