

MSCI ESG Ratings Methodology: Tax Transparency Key Issue

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July 2023

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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 our 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 Section 2, Data, ratings and scores, of "ESG Ratings Methodology."

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	33 ESG Key Issues
Environmental	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
Social	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
		Health & Safety
	Human Capital	Human Capital Development
		Labor Management
		Supply Chain Labor Standards
		Chemical Safety
	Product Liability	Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment

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

Tax Transparency Key Issue Score

The Key Issue Score is based on the following Key Metric using the methodology described in Section 3.5.4, Calculating Governance Scores, 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: Variable, based on controversy type and assessment.

Range: 0 to -2.0

Refer to the Tax Controversy Deduction Key, below.

Tax Controversy Deduction Key

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

Estimated Tax Gap

The estimated tax gap is calculated as the difference between:

- Estimated effective tax rate; and
- Estimated statutory tax rate.

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