



# Elevate ESG with Tax



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# Today's Takeaways

1. Environmental, Social, Governance (ESG) can bring more purpose to your work
2. Tax is a 'value-add' to your company ESG strategy
3. Tax transformation is an imperative

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CFMA's Announces Its First-Ever 40 Under 40 Class



**sus·tain·a·bil·i·ty**

meeting our own needs without  
compromising the ability of future  
generations to meet their own

# What is ESG?

Sustainability ≈ Corporate Social Responsibility (CSR) ≈ **Environmental, Social, Governance (ESG)**

ESG covers hundreds of business practices and measurements

## Environment



### Natural Resources

- Energy
- Water
- Materials & waste
- Biodiversity
- Product compliance



### Climate Change

- Greenhouse gas emissions (GHG)
- Climate risk
- Net-zero/net-positive strategies

## Social



### Social

- Human rights due diligence
- Fair trade
- Collective bargaining rights
- Fair and responsible investing
- Work conditions/modern slavery
- Supply chain analysis
- Community investment



### Human capital

- Diversity, Equity, and Inclusion
- Culture & wellbeing
- Learning & development
- Salary/Wage gap
- Training & education
- Compensation structures

## Governance



### Leadership

- Board diversity
- Ethics & integrity
- Succession planning
- Executive compensation



### Governance

- Stakeholder engagement material topics
- Policies and Procedures
- Anti-fraud/anti-bribery/anti-corruption
- Board/governance practices

# Why the increased focus

## Major Trends:

- Moving from Voluntary to Mandatory
- From Communications to Data-Driven, auditable reporting
- SEC holds that ESG disclosures drive investor decisions

## Key Drivers & Stakeholders

### Regulations

Proliferation of key regulatory requirements related to non-financial disclosures in the US and globally. Climate risk, responsible supply chain, forced labor, etc.

-Corporate Sustainable Reporting Directive – Starting THIS YEAR

-CA SB 253 and SB 261 – Signed into law in 2023

### Investor Demands

Large institutional and private equity investors seeking non-financial KPIs as a part of their investment decisions.

-Net Zero Asset Managers Initiative (~\$57T in assets) – net zero by 2050

### Customers

Consumers are more interested in purchasing goods and services from companies that place focus on sustainability and environment friendly practices.

### Workforce

Increased interest in working for companies that are transparent in their ESG reporting, leading on DE&I and other key initiatives, and providing environmentally friendly products and services.

### Competitors

Peer group benchmarking and competition drives Climate Risk related reporting – potentially beyond regulatory compliance thresholds.

### Activists / NGOs / Ratings Agencies

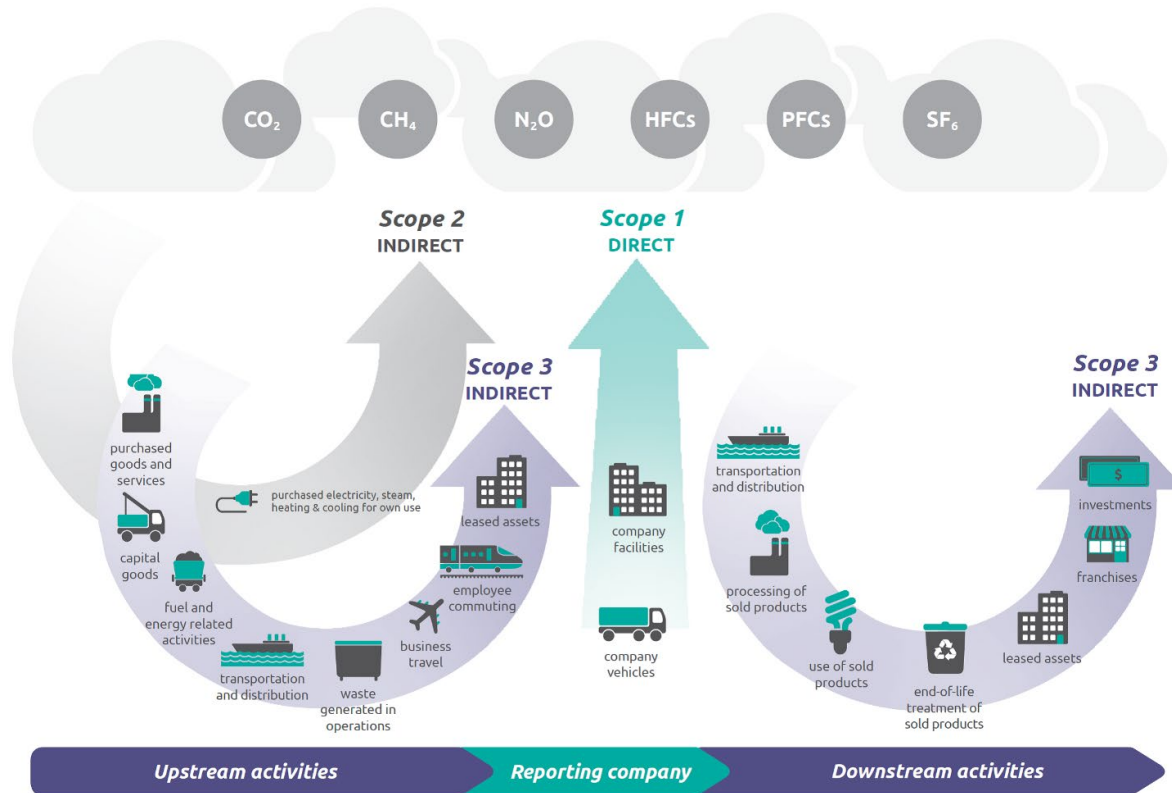
Significant attention and pressure brought by activist groups highlighting corporate action on a variety of issues including climate action. Rating agency scoring and benchmarking are evolving and gaining more attention from stakeholders.

# ESG Frameworks & Standards

The number of frameworks, voluntary standard setters and measurement criteria in the ESG ecosystem is dizzying. Market participants and regulators recognize there is a dire need for convergence.



# Greenhouse Gas (GHG) emissions overview



Source: GHG Protocol Corporate Value Chain Accounting & Reporting Standard

## Three types of GHG emissions (i.e., Boundaries)

### Scope 1

Direct GHG emissions that occur from sources that are controlled or owned by an organization. Examples of Scope 1 emissions include those generated by boilers, furnaces in owned buildings, and company-owned vehicles.

### Scope 2

Indirect GHG emissions associated with the purchase of electricity, steam, heating or cooling. These are emissions that **do not** physically occur at the branches or facilities where consumed, but instead occur at the facilities where they are generated (i.e., at the power plants).

### Scope 3

Indirect emissions that are generated throughout the company's **value chain**. **Scope 3 emissions are the most difficult to account for.**



# Where is tax in all this..?

## Major Trends:

- Moving from voluntary to mandatory
- From private to public reporting

### Regulators/Policy

- Inflation Reduction Act (\$380B in tax incentives)
- Global environmental taxes
  - US Prove It Act (proposed)
  - EU Carbon border adjustment mechanism (CBAM)
- Transparency
  - EU/AUS – Country-by-country reporting directive
  - FASB – Public tax disclosures

### Reporting Standards

- Global Reporting Initiative 207
  - Approach, Governance, Stakeholders, Transparency
- World Economic Forum
  - Adoption of GRI Standards
- B-Team Principles (qualitative)

### Investors

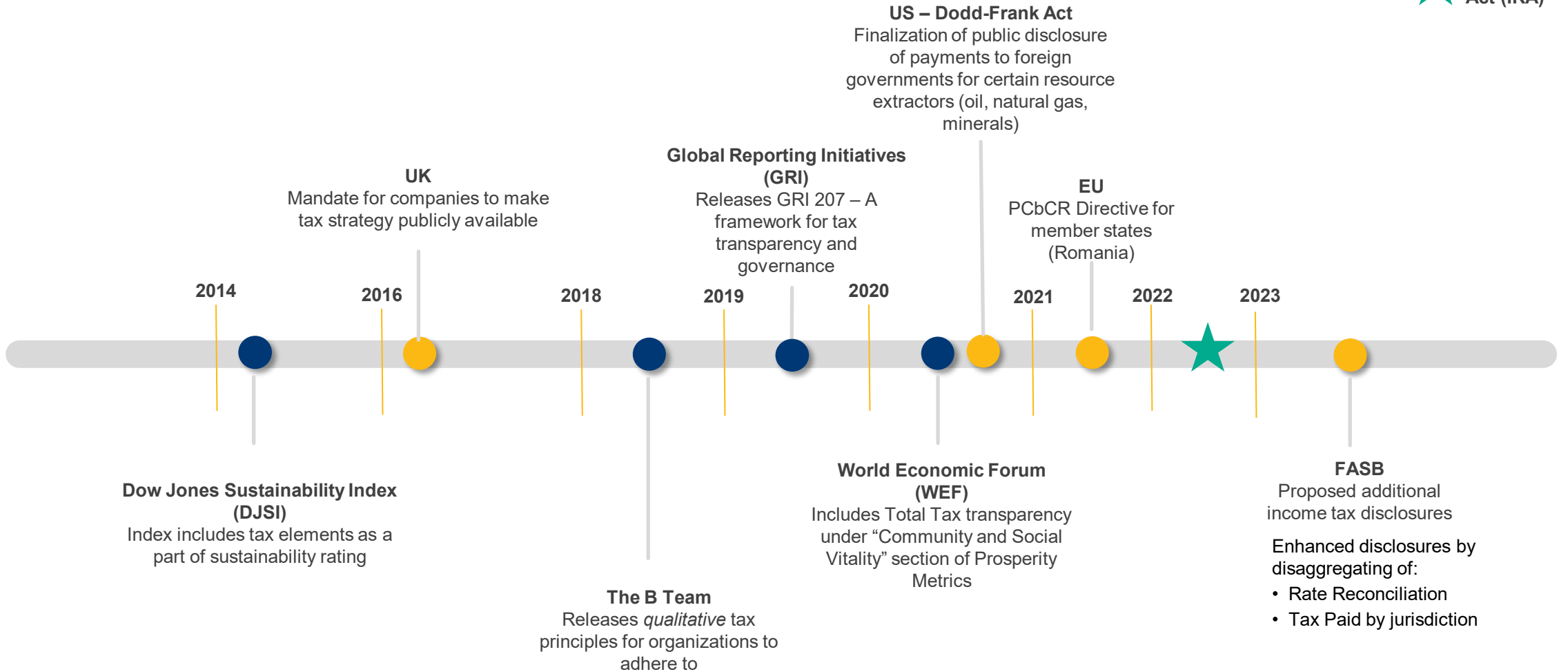
- ESG Rating Agencies
- (S&P, Moody's, DJSI, ISS, Sustainalytics, etc.)
- Governance and Transparency as part of company ESG score

### Company

- Board pressure to manage tax risk
- Societal pressure to be “good corporate citizen”

# Global Tax Transparency Trends

- Mandated by policy/regulation
- Voluntary standard/framework/rating
- ★ Inflation Reduction Act (IRA)



# Tax adds value...

## Sustainability Funding

As your organization looks for ways to offset emissions, reduce energy consumption, innovate clean ways to produce and manufacture products, and/or switch to renewable energy sources.

### Opportunities

- Environmental Incentives and Credits
  - Help company meet sustainability goals
  - Discounted spending on sustainable investments
- Reduction of taxes related to carbon pricing
- Tax-efficient financing for sustainable projects
  - Tax equity financing
  - Green bonds
- Community investment
  - Charitable contributions
  - Opportunity Zones

### Challenges

- DATA
- Documentation
- Tax Policy complexity
- Being brought into the conversation too late

Environmental Tax Credits

Fleet Decarbonization Analysis

Energy Efficient Building/Home Incentives

Carbon Offset Credits

Production & Investment Tax Credits

Superfund Excise Tax/Credits

# Tax adds value...

## Operational Models

As you consider the impact of where and how your organization operates. From new locations in your operation, to assessments on existing models considering global sustainable tax policy.

### Opportunities

- Consider a different set of stakeholders when contributing to tax base
  - Communities
  - Government
- Account for impact on environment and communities
  - Job creation (“S” components of IRA)
  - Bio-diversity/ecosystem impact
- Maximize tax incentives to create more sustainable value
- Understanding the impact of various environmental taxes on transfer pricing models and value chain analyses.

### Challenges

- DATA
- Complexity of new tax policy
- Consideration of community/environmental impact
- Being brought into the conversation too late

Federal Grants & Incentives Analysis

State Grants & Incentives Analysis

Supply Chain Transformation Analysis

Transfer Pricing Modeling

Green Tax Impact Assessment

# Tax adds value...

## Tax Governance & Transparency

As you consider your organization's narrative around the payment and reporting of taxes here and abroad.

### Opportunities

- Clear enterprise alignment around tax strategy and risk
- Better understanding of tax processes
  - **Optimization**
  - **Turnover proofing**
  - Technology enablement
- Identification of internal controls (and gaps)
  - **Reduction of risk**
- Risk mitigation and conflict resolution
  - Collaborative relationships with taxing authorities
- Ability to tell "Tax Story"

### Challenges

- DATA
- Deep knowledge of current process
- Limited time/people/budget
- Reputational risk
- Business model risk

Tax Strategy

Tax Risk Policy

Tax Transparency  
Reporting

Tax Process  
Internal Controls

# ESG Team: Who's missing?

Exhibit 1: ESG Team Members



**TAX**



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# Questions?





# Additional Resources

## Thomson Reuters

[ESG Issues on the horizon for corporate tax departments in 2023](#)

Victor Sturgis & Devin Hall

[Inflation Reduction Act Progress Report Pt. 2: Industry Impact](#)

## Crain's New York Business Journal

[Energy incentive changes under the Inflation Reduction Act](#)

Devin Hall & Ed Meyette

## AICPA Tax Adviser

[ESG and taxation: A necessary part of a company's strategic objectives](#)

Victor Sturgis & Mike Gumbleton

## Forbes

[What Are Energy Efficiency Tax Credits, And How Can They Benefit Taxpayers?](#)

Devin Hall  
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## Other Crowe Resources

- [Embracing ESG: 4 Ways Tax Departments Can Add Value](#)

Victor Sturgis

- [ESG: The "G" of taxation](#)

Victor Sturgis & Mike Gumbleton

- [How ESG and Tax Connect](#)

Victor Sturgis & Mike Gumbleton

- [IRA energy and climate tax credits](#)

Devin Hall, Ed Meyette & Dave Strong

- [Crowe Tax New Highlights](#)  
for more **Tax ESG** content

- [Crowe ESG Newsletter](#)  
for more **ESG** content

# Contact information



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