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In this article, Ces and Yam draw on the expertise of colleagues across the Asia-Pacific region to describe the role of environmental, social, and governance issues in the region's tax administrations.

This article has been prepared based on country-specific input from the lead and contributing authors. It is intended as general commentary on emerging environmental, social, and governance and transfer pricing considerations and not as a comprehensive summary of applicable laws, regulations, or reporting requirements.

While many environmental, social, and governance (ESG) frameworks and reporting standards remain technically voluntary, ESG considerations are becoming increasingly relevant to how multinational enterprises operate, report, and manage cross-border compliance. ESG-related costs raise transfer pricing questions that are familiar under the arm's-length principle, including whether the relevant group entity receives a chargeable benefit, whether any cost allocation is supported by substance and benefit, and whether the relevant arrangements are appropriately documented.

From decarbonization programs to green technology investments, ESG-driven costs often span multiple jurisdictions. But how should these costs be treated from a transfer pricing perspective? Do they benefit local subsidiaries, or should they be borne centrally? If they are to be allocated, how might local ESG considerations influence the method?

These are not just technical questions; they are strategic ones. While generally guided by OECD transfer pricing principles, the answers may vary depending on local regulations, the nature of the ESG initiative, and how value is created and shared across the group. For example, a regional sustainability program may support compliance in multiple jurisdictions, but the cost allocation must reflect actual benefit and substance.

As ESG considerations evolve, transfer pricing analyses may need to consider how ESG-related functions, costs, and risks are managed within MNE groups. This may require closer alignment between ESG initiatives, intercompany arrangements, and transfer pricing documentation.

To explore how ESG is shaping tax, compliance, and transfer pricing discussions across the Asia-Pacific (APAC) region, the authors sought input from experienced transfer pricing professionals across key APAC jurisdictions.

The three broad areas on which contributors were asked to comment are:

- whether new ESG-related compliance or reporting requirements are emerging locally and whether ESG-related costs are becoming an area of focus for tax authorities;
- what practical challenges businesses are encountering when implementing ESG initiatives from a compliance or operational perspective; and
- whether there is any local guidance, regulation, or reporting framework linking ESG initiatives with tax or compliance obligations, either currently or in the near future.

The insights that follow reflect the views and professional experience of transfer pricing professionals in 10 APAC jurisdictions: Australia, India, Japan, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand, and Vietnam. Together, they illustrate a region in transition, in which ESG expectations are developing at different speeds across markets, while the interaction between ESG and transfer pricing remains an emerging area that is still being shaped in practice.

Regional Overview

Across APAC, ESG is moving from a broad corporate responsibility theme into a more concrete tax, compliance, and governance consideration. However, the pace, maturity, and policy focus differ significantly across markets.

In some jurisdictions, ESG-related policy objectives are beginning to influence tax incentives, subsidies, or investment allowance regimes. In others, the immediate priority is mandatory sustainability reporting, climate-related disclosure, or broader corporate governance requirements. This uneven development means that MNEs operating across APAC are unlikely to face a single ESG tax or transfer pricing issue. Instead, they are likely to encounter a patchwork of local reporting expectations, tax policy measures, and practical compliance challenges.

A recurring theme from the country observations is implementation. Businesses are having to manage ESG data collection, inconsistent reporting frameworks, limited internal expertise, and the need to connect sustainability initiatives with existing finance, tax, and compliance processes. These challenges are not merely administrative. When ESG initiatives involve material costs, shared regional programs, groupwide reporting infrastructure, or sustainability-related investments, they may also affect how functions, risks, benefits, and costs are identified for transfer pricing purposes.

ESG-related initiatives may give rise to transfer pricing questions that are familiar in principle but more complex in practice. These include whether the relevant activity provides a chargeable benefit to local entities, whether costs should be borne centrally or allocated across the group, what allocation key would be supportable, and whether existing transfer pricing documentation adequately reflects new ESG-related functions, risks, and value drivers.

What This Means for MNEs

ESG is becoming increasingly relevant to tax and transfer pricing analysis, although the nature of that relevance will differ by jurisdiction, industry, and operating model.

From a transfer pricing perspective, ESG does not necessarily require a new method. Rather, it requires a more disciplined application of existing arm's-length principles to a new category of business activity. MNE groups will need to consider who performs and controls ESG-related functions, who funds the relevant initiatives, who assumes the associated risks, who benefits from the activity, and whether any intercompany recharge is commercially supportable.

This is particularly important when ESG initiatives are managed centrally but implemented locally, or if regional sustainability programs generate costs that are allocated across multiple jurisdictions. In these cases, benefit testing, cost allocation, pricing support, and contemporaneous documentation will be critical in demonstrating that the transfer pricing outcome is aligned with the substance of the arrangement.

The broader message from the APAC country input is that ESG and transfer pricing can no longer be viewed entirely separately. As sustainability reporting, climate-related disclosure, and ESG-linked policy measures continue to develop, tax and transfer pricing teams will need to work more closely with sustainability, finance, legal, and operational stakeholders. For MNEs, the practical challenge is not only to comply with emerging ESG expectations, but to ensure that the tax and transfer pricing treatment of ESG-related activities is coherent, documented, and defensible.

Country-Specific Insights Across APAC

Australia

Regulatory Landscape

From January 1, 2025, mandatory climate-related financial disclosures have been required in Australia, being phased in over three years based on entity size. Most mid-market entities will be required to prepare an annual sustainability report. The report must comply with the new standard AASB S2 climate-related disclosures and will provide information about climate-related risks and opportunities that could reasonably be expected to affect an entity's cashflows, access to finance, or cost of capital over the short, medium, and long term.

From a tax perspective, Australia has enacted its public country-by-country reporting legislation effective for income years commencing on or after July 1, 2024. The reporting requirement strengthens corporate governance by improving financing accountability and reducing tax avoidance risks. Public CbC reporting also increases transparency over the tax profile and jurisdictional footprint of in-scope MNE groups.

Other ESG factors are also beginning to influence transfer pricing strategies. Companies are increasingly expected to demonstrate how sustainability initiatives and responsible business practices impact their value chains and intercompany transactions. This includes considerations around carbon pricing, green technology development, and ethical sourcing.

Practical Challenges

For annual sustainability reporting, finance teams will be expected to understand and apply the new reporting standards. The key challenge is integrating climate-related information into financial reporting processes and coordinating across sustainability and finance teams.

In relation to public CbC reporting, many Australian MNEs are subsidiaries of parent companies in jurisdictions such as the United States, Japan, and China, which do not mandate similar reporting obligations. This creates complexities with meeting the Australian reporting requirements, particularly if there is reluctance to share sensitive data.

Tax and Transfer Pricing Linkages

The new public CbC reporting requirements continue the broader trend in Australia in which we have seen the Australian Taxation Office shift to placing greater onus on businesses in managing their tax governance. If taxpayers have a strong tax governance framework, this signals to the ATO that sound internal processes are in place. As a result, this assists the ATO in gaining greater assurance that taxpayers are paying the right amount of tax. For transfer pricing, this translates into having robust policies, documentation, and implementation guides.

India

Regulatory Landscape

India has significantly strengthened ESG reporting obligations. The Securities and Exchange Board of India's Business Responsibility and Sustainability Reporting (BRSR) framework is mandatory for the top 1,000 listed companies, and the BRSR Core (with assurance requirements) applies to the top 150 companies from fiscal 2024-2025. These align with global standards like the

Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures.

While there is no explicit tax regulation linking ESG costs, ESG-related expenditures (such as sustainability programs, renewable energy investments, and corporate social responsibility (CSR) activities) are increasingly relevant under existing frameworks like the Companies Act, 2013 CSR mandate. From a GRI standpoint, CSR-related expenditures are generally characterized as nonoperational in nature, because they are not considered to be directly contributing to the core value-creating activities of the enterprise. However, tax authorities may look at scrutinizing ESG-driven cost allocations in transfer pricing, especially if they affect cross-border arrangements.

Practical Challenges

Companies face challenges in collecting and standardizing ESG data across supply chains to meet BRSR requirements (data and reporting complexity). There is limited availability of ESG professionals and lack of board-level awareness, particularly in mid-sized businesses. Multiple frameworks — BRSR, GRI, the Sustainability Accounting Standards Board, and the Task Force on Climate-Related Financial Disclosures — create compliance confusion and increase costs through regulatory overlap. Inaccurate or exaggerated disclosures can lead to reputational and legal risks, like the risk of greenwashing. Many mid-size and unlisted companies, which form part of the value chain reporting, struggle with data collection because of a lack of data management systems and often a lack of reporting capabilities.

Tax and Transfer Pricing Linkages

CSR spending under the Companies Act (2 percent of average net profits) often overlaps with ESG initiatives. From a transfer pricing standpoint, CSR expenditures are considered nonoperational in nature. BRSR and BRSR Core mandate ESG disclosures, indirectly influencing governance and compliance frameworks.

India has introduced the Carbon Credit Trading Scheme under the Energy Conservation Act, 2001, creating a carbon market (not a tax). Green subsidies and tax incentives exist for renewable energy and green hydrogen projects, as announced in recent Union budgets. The Reserve Bank of India's draft frameworks on climate-related financial risk disclosures and green deposits indicate future integration of ESG with financial compliance.

Japan

Regulatory Landscape

ESG initiatives must be disclosed in the annual reports of prime listed Japanese companies. Disclosure includes sustainability-related risks and opportunities, processes in place to identify, evaluate, and manage these risks, sustainability-related training of human resources, and related metrics, targets, and results, as well as disclosure of the percentage of female managers, male workers taking paternity leave, and the gender pay gap.

Also, the Sustainability Standards Board of Japan recently finalized its standards aligned to International Sustainability Standards Board standards. Sustainability is not a particular focus area for the Japan tax authorities, and there are no recent noteworthy developments related to ESG-related tax compliance items of focus. The main ESG-related costs relate to the work required for the above disclosures.

Practical Challenges

Key ESG-related challenges faced by Japanese companies relate to the frequently changing legal requirements for ESG-related disclosures, with which prime listed companies, in particular, are required to comply. The Japanese government provides some preferential tax treatment that facilitates investment in more environmentally friendly practices and is increasingly requiring compliance with these practices.

Tax and Transfer Pricing Linkages

While ESG reporting and green transformation are relatively advanced among Japanese MNEs, their operational connection to transfer pricing and tax compliance is often overlooked because there is little clear transfer pricing legislation that accounts for ESG issues. Further, ESG has not yet become as significant a focus area for Japanese tax authorities as it has for some overseas tax authorities. However, as global supply chains continue to evolve in response to sustainability mandates, the gap between ESG goals and traditional tax rules is starting to create new financial and audit risks.

There are four key areas in which ESG and transfer pricing may indirectly intersect and create potential areas of tension. These are:

- **Supply Chain Restructuring and Green Transformation Costs**: When a Japanese parent company funds the green transformation of an overseas manufacturing site, tax authorities, including Japan's National Tax Agency, may closely scrutinize the funding arrangement. If the parent company absorbs substantial costs without appropriate compensation or commercial justification, there is a risk that the costs could be treated as a nondeductible corporate donation (*kifukin*).
- **Centralized ESG Service Fees**: Head offices may incur significant expenses managing global sustainability compliance, carbon tracking, and related reporting obligations. Attempting to allocate these costs to foreign subsidiaries through intragroup service fees can carry audit risks, because local tax authorities may challenge whether these services provide direct and identifiable commercial benefits to the relevant local entities.
- **The Benchmarking Comparability Crisis**: Traditional transfer pricing benchmarking generally evaluates comparable companies based on financial metrics. However, sustainable entities may incur higher upfront compliance costs or command "green premiums." Because tax databases are generally not designed to adjust for ESG-related factors, identifying reliable comparable companies for local file purposes is becoming challenging.
- **Green Intercompany Financing**: As companies increasingly use green bonds to raise capital at preferential rates, the on lending of these funds to group subsidiaries may complicate intercompany loan benchmarking. Tax teams will need to consider whether the "green discount" should be passed down to the borrower or whether the loan should be priced strictly based on the standalone credit rating of the subsidiary.

The Japanese regulatory framework is still developing, and ESG and transfer pricing tend to operate in separate corporate silos. However, as global tax authorities begin aligning profits with value creation, including green value creation, bridging the gap between sustainability initiatives and tax documentation is likely to become increasingly important in mitigating future audit risks.

Malaysia

Regulatory Landscape

Malaysia has progressively introduced frameworks and policies to guide businesses on ESG compliance, led by various institutions.

On September 24, 2024, the Advisory Committee on Sustainability Reporting released the National Sustainability Reporting Framework addressing the use of International Sustainability Standards Board standards as the baseline for sustainability reporting by Malaysian companies. On December 23, 2024, Bursa Malaysia amended the main market listing rules and ACE market listing rules to require a sustainability statement in accordance with international financial reporting standards S1 and IFRS S2 to be included in annual reports, following a phased-in approach.

Starting with annual reporting periods beginning on or after January 1, 2025, main market issuers must include climate-related disclosures, three years of performance data, targets, and a statement of internal review or external assurance in their annual sustainability statement.

Bank Negara Malaysia introduced the climate change and principle-based taxonomy in April 2021 to provide a common framework for financial institutions in classifying economic activities based on their impact on climate change and the environment. The Ministry of International Trade and Industry introduced the national industry environmental, social, and governance framework to promote sustainable development among manufacturing companies.

The ESG tax deduction rules (Income Tax (Deduction for Expenditure in Relation to Environmental Preservation, Social and Governance) Rules 2025 (P.U. (A) 193)) were gazetted on June 23, 2025. The rules are effective from assessment year 2024 to that of 2027. A tax deduction of up to MYR 50,000 (about $12,000) per assessment year is allowed on expenditure incurred in relation to ESG.

Practical Challenges

While ESG adoption is gaining traction, many companies, especially small and medium-size enterprises, continue to face structural and operational hurdles including: cost of compliance for SMEs; lack of standardization across industries; limited expertise in ESG measurement and reporting; and pressure from global supply chains to demonstrate ESG alignment.

How a company responds to these challenges can materially influence how it is perceived by investors, regulators, and supply chain partners. These challenges may require closer coordination among sustainability, finance, tax, and operational teams, particularly when ESG-related expenditure is material or if sustainability data is used in tax, transfer pricing, or financial reporting processes.

Tax and Transfer Pricing Linkages

The key provisions of the ESG tax deduction rules cover three categories of taxpayers. First, financial institutions supervised by the Central Bank or companies listed on Bursa Malaysia may claim deductions for expenditure incurred for ESG reporting. These include validation, verification, and certification of ESG practices; calculation and tracking of greenhouse gas emissions and ESG exposure; subscription of technology or software systems for data collection, tracking, risk management, scenario analysis, and greenhouse gas emissions calculation; capacity building including training, education and skills development for employees; and services of a consultant expert or subject matter expert to perform specified activities.

Second, a company or Labuan company may deduct expenditure incurred for preparing the reporting as required under the tax corporate governance framework guidelines issued by the Inland Revenue Board of Malaysia and appointing an independent reviewer to perform review assessment of compliance with the guidelines, subject to obtaining the said certificate of compliance; or preparing the contemporaneous transfer pricing documentation.

Third, micro enterprises or SMEs may claim deductions for consultation fees for the development of customized software for the implementation of e-invoice (excluding expenses incurred at the planning stage or preliminary procedures, and any consultation fee relating to the issuance of e-invoice through the MyInvois portal). The Inland Revenue Board of Malaysia released its latest guideline on the tax corporate governance framework on March 13, 2025.

New Zealand

Regulatory Landscape

New Zealand has taken significant steps in the ESG space. The New Zealand Emissions Trading Scheme is well established, and large financial institutions and listed companies now must make climate-related disclosures. However, when it comes to tax, there is still a gap: Inland Revenue has not released any ESG-specific guidance.

Practical Challenges

More businesses are investing in sustainability and starting to ask how ESG-related costs should be treated for tax purposes. Without clear rules, it is hard to plan with confidence. Another challenge is that New Zealand's ESG rules do not always line up with international frameworks. That can mean higher compliance costs, especially for exporters. Managing ESG risks across supply chains is also becoming more complex and expensive.

Tax and Transfer Pricing Linkages

Looking ahead, the focus seems to be shifting toward modern slavery legislation and a climate adaptation framework. Both are on the radar, but there is no confirmed timeline yet.

The Philippines

Regulatory Landscape

In the Philippines, ESG reporting has recently undergone significant development following the issuance of SEC Memorandum Circular No. 16, series of 2025, which adopts the Philippine Financial Reporting Standards (PFRS) on Sustainability Disclosures aligned with the International Sustainability Standards Board and IFRS Sustainability Disclosure Standards. These standards, covering PFRS S1 and PFRS S2, establish a globally aligned framework for sustainability- and climate-related disclosures.

Implementation will be carried out on a phased basis, with mandatory application beginning from fiscal 2026. During the transition period, covered entities are expected to continue complying with the sustainability reporting requirements under SEC Memorandum Circular No. 4, series of 2019, while progressively aligning their reporting processes with the new standards.

On the fiscal side, the Bureau of Internal Revenue and the Department of Finance are increasingly leveraging tax policy to promote sustainable practices. While ESG is not yet embedded directly into tax compliance frameworks, several laws and incentives support green investments. The CREATE MORE Act offers tax breaks for sectors such as renewable energy, electric vehicles, and waste management. The Green Jobs Act incentivizes companies that generate employment in sustainable industries, and sin taxes continue to be used to discourage harmful consumption while funding health and social programs.

While there is no single law that directly links ESG initiatives with tax compliance, the convergence of sustainability and fiscal policy is evident. Existing regulations such as SEC Memorandum Circular No. 4, series of 2019, the Electric Vehicle Industry Act, and proposed measures like the Plastic Bags Tax Act and Pesticides Tax Act reflect a broader shift toward integrating ESG considerations into the national policy landscape. Draft guidelines like the Green Equity Framework further illustrate the government's intent to align investment incentives with ESG performance metrics.

Singapore

Regulatory Landscape

From fiscal 2025 all Singapore Exchange-listed issuers are required to provide climate-related disclosures aligned with the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards, including the climate-related requirements under IFRS S2. This encompasses governance, strategy, risk management, and climate-related metrics and targets, including scope 1 and 2 greenhouse-gas emissions, with scope 3 to be phased in for larger issuers. The extension of mandatory climate reporting to large nonlisted companies (initially targeted for fiscal 2027 for those with a revenue of SGD 1 billion (about $774 million) or more) has been deferred to fiscal 2030.

In parallel, the Ministry of Finance has announced a progressive increase in Singapore's carbon tax under the Carbon Pricing Act, rising to SGD 25 per ton in 2024 and scheduled to increase to SGD 45 per ton from 2026 to 2027, with a further signal of SGD 50 to SGD 80 per ton by 2030. Liable facilities may use eligible international carbon credits for up to 5 percent of taxable emissions.

While these developments highlight the growing convergence of sustainability and financial reporting, it is worth noting that Singapore does not provide a dedicated tax regime for ESG-related expenditures. Instead, the standard corporate income tax principles continue to apply. For instance, assessing whether costs are wholly and exclusively incurred for the purposes of the business, and distinguishing between revenue and capital in nature. That said, the policy toolkit supports decarbonization through investment allowance schemes for emissions reduction, particularly for projects requiring substantial capital expenditures to reduce emissions. The Inland Revenue Authority of Singapore also released guidance on the goods and services tax treatment of carbon instruments, such as input tax claims when carbon credits are held for resale.

Practical Challenges

Singapore's transition to International Sustainability Standards Board-aligned climate reporting is exposing practical realities for businesses. Many businesses are finding it challenging to build audit-ready data pipelines, while aligning spreadsheets and enterprise research planning systems with assurance requirements, and securing consistent activity data from suppliers.

These operational challenges have accounting and tax implications, ranging from the classification of capital expenditure versus operating expenditure and capital allowances to transfer pricing considerations when ESG programs or carbon costs are shared across affiliates. Clear benefit tests, allocation keys, and documentation will be essential.

With assurance phasing in and timelines staggered for different cohorts, the near-term priorities are to strengthen data controls and evidence trails, and to phase in transition projects realistically, while maintaining consistency in tax, transfer pricing, and sustainability disclosures.

Tax and Transfer Pricing Linkages

The sustainability reporting roadmap is progressively bringing ESG data into the financial-reporting and assurance perimeter (listed issuers from fiscal 2025, large nonlisted companies from fiscal 2030). On the tax side, rising carbon taxes, investment allowances for transition-related capital expenditure, and the Inland Revenue Authority's GST guidance on carbon instruments are clear signals of convergence. As ESG compliance moves from aspiration to obligation, businesses may need to consider not only the operational and reporting implications, but also the tax treatment of their sustainability initiatives. This intersection of tax and ESG is likely to become increasingly relevant to governance, documentation, and risk management.

Taiwan

Regulatory Landscape

Taiwan is significantly increasing the requirements for ESG compliance for listed companies. However, there are no specific tax incentives for ESG compliance.

Practical Challenges

ESG compliance requirements are new to many listed companies and service providers. Many companies have underestimated the time and resources required for effective data gathering and data analysis.

Tax and Transfer Pricing Linkages

Mandatory ESG initiative disclosures apply to Taiwan listed companies. The Financial Supervisory Commission mandates ESG reporting.

Thailand

Regulatory Landscape

Thailand is significantly increasing the requirements for ESG compliance framework, with sustainability reporting increasingly moving from a voluntary initiative to a legal obligation. This is evident in the listed company sector, in which the Securities and Exchange Commission has been aligning sustainability disclosure requirements with broader regional and international developments. This reflects a wider regulatory shift toward more formalized ESG reporting and compliance obligations.

Practical Challenges

The Thai market faces practical challenges in implementing ESG, including the lack of a standardized reporting framework, leading to inconsistent disclosure, difficulties in data collection, and limited visibility and resources to ensure ESG compliance.

Tax and Transfer Pricing Linkages

ESG initiatives come with mandatory disclosure requirements, especially for listed companies. The Securities and Exchange Commission mandates ESG reporting. There are new tax deductions for investments in Thai ESG funds, and the government has also considered measures aimed at encouraging emissions reduction, although the timing and final form of these measures remain subject to regulatory development.

In addition, ESG initiatives could lead to transfer pricing issues because costs and responsibilities related to sustainability and compliance need to be shared between related companies. These include costs for environmental protection, social impact, and corporate governance, which must be recognized at arm's length to minimize surcharges, penalties and tax adjustments by tax authorities. Taxpayers must update their transfer pricing documentation to reflect these ESG-related functions and ensure compliance with the arm's-length principle.

Vietnam

Regulatory Landscape

Vietnam is undergoing a significant regulatory shift as sustainability and climate-related objectives become increasingly embedded in national development strategies. Key policy frameworks, including the National Green Growth Strategy and the Climate Change Strategy to 2050, are reinforcing the government's commitment to emission reduction, energy transition, and resource efficiency. In this context, ESG-related compliance requirements are gradually expanding.

Public and listed companies are now required to issue annual reports that include comprehensive ESG disclosures covering environmental impacts, resource and energy management, social practices, and governance frameworks, while several other domestic regulations encourage broader ESG disclosures among nonlisted enterprises. These developments signal growing regulatory expectations, even though ESG performance has not yet been formally tied to tax administration.

Practical Challenges

Businesses face substantial challenges in implementing ESG initiatives. Based on local professional observations, businesses continue to face challenges relating to unclear regulatory guidance, limited internal resources, and insufficient sustainability reporting infrastructure. Data gaps, inconsistent measurement methods, and the significant upfront investment required for ESG programs further complicate compliance efforts, particularly for SMEs that lack dedicated expertise and financial resources. While foreign-invested enterprises tend to progress more rapidly, supported by mature global frameworks and investor-driven requirements, many domestic companies are still in the early stages of ESG adoption despite a growing recognition of its long-term importance.

Tax and Transfer Pricing Linkages

Although Vietnam does not yet operate a dedicated tax regime linked to ESG performance, emerging climate policies and obligations such as greenhouse gas reduction requirements for high-emission facilities, are beginning to influence the broader compliance environment.

At the same time, global market forces are accelerating expectations. International financial institutions are strengthening net-zero lending and investment standards, while multinational supply chains increasingly require ESG disclosures from Vietnamese suppliers. These expectations may also influence local ESG performance and encourage enhanced ESG compliance, particularly when Vietnamese businesses seek to maintain market competitiveness in ESG-conscious markets.

These trends point to a clear trajectory toward deeper integration among ESG reporting, regulatory oversight, and future tax or compliance frameworks. Over time, this may pave the way for more structured incentives, penalties, or mandatory reporting obligations tied directly to sustainability goals, as Vietnam continues to align with global regulatory developments and strengthen the local application of ESG requirements. ■