



Corporate Accountability Standard 1

Taxation

Discussion document

July 2019

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This document has been produced and published by the Corporate Accountability Network. It has been produced to facilitate discussion on the need for a Corporate Accountability Standard on taxation. The issues discussed do not necessarily reflect the Corporate Accountability Standard that might be issued in exposure draft format in due course.

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About the Corporate Accountability Network

Accountancy is in crisis. The Corporate Accountability Network (CAN) exists to identify the causes of that crisis and offer solutions to it.

The CAN is pro-business. And it's pro-accountancy. What it does not like is the idea that accounts, accountancy and accounting exist solely to serve the interests of one group in society, who are the suppliers of capital to a company. They do not. Accountancy was created with a public purpose. It should fulfil that public purpose.

What the CAN argues is that accountancy can never do that unless it fulfils its obligation to account to all the stakeholders of a company, whether they be the suppliers of its capital; its trading partners; its employees; regulators; tax authorities or civil society – who are everyone it impacts, whether or not it has a contract with them.

We live in a mixed economy where the state and private sectors co-exist to meet our needs. That economic model has worked, and could survive long into the future, even with the challenges that issues such as climate change create. But that will only be true if business continues to enjoy the confidence of those who provide it with its licence to operate – which is society at large. It will not do that unless business accounts to everyone in society. The Corporate Accountability Network exists to show that accounting in this way is possible, necessary and achievable.

The CAN exists then to promote accounting with a public purpose. It does this by proposing alternatives to existing accounting standards. These it calls Corporate Accountability Standards (CAS).

Abbreviations used in this document

Abbreviation	Meaning
CAN	Corporate Accountability Network
CAS	Corporate Accountability Standard
RE	Reporting entity i.e. the organisation issuing the accounts to which the Corporate Accountability Standard might apply
RP	Reporting period i.e. the current period that the accounts of the reporting entity refer to

Notes on language used

The CAN is the opinion that the accounts of an RE should be understood by all its stakeholders. This means that the following terms are used in place of their International Financial Reporting Standard equivalents which are opaque as to meaning to many stakeholders:

CAN description	IFRS and other descriptions
Accounts	Financial statements
Profit and loss account	Income statement
Balance sheet	Statement of financial position

Corporate Accountability Standard 1

Taxation

Summary

This document proposes a new Corporate Accountability Standard for Taxation. In accordance with the principles of the Corporate Accountability Network this proposed standard is designed to meet the information needs of all the stakeholders of a reporting entity. The Corporate Accountability Network thinks that every reporting entity has the following stakeholders:

- Providers of capital;
- Trading partners;
- Employees;
- Regulators;
- Tax authorities;
- Civil society.

Taking the interests of all these stakeholder groups into account results in a very different reporting standard for tax when compared to those that exist now, whether from the International Financial Reporting Standards Foundation or from local standard setters, most of whom base their standards on those of the IFRS. In particular, the proposed Corporate Accountability Standard has the following new, or innovative, features:

- Significantly enhanced reporting on tax risk and the corporate governance mechanisms that would identify it is required;
- Full country-by-country reporting is required for all multinational reporting entities;
- The reporting for corporate income taxes is significantly enhanced, particularly with regard to:
 - the separation of current and deferred tax reporting;
 - enhanced tax reconciliations to disclose effective tax rates paid;
 - the accounting proof that is required that shows that corporation tax liabilities declared are actually paid;
 - disclosure of the time when deferred tax liabilities and assets might result in cash paid or received;
- Disclosure of the type suggested for corporate income tax is also proposed for sales and value-added taxes; taxes deducted from employees; and taxes that employers owe in respect of the wages and salaries that they pay as all of these are key to critical stakeholder groups of the reporting entity;
- The specific additional data that is required to understand tax paid in the extractive industries is reflected in this proposed standard, including the requirement that disclosure be made on a project basis;

- The proposed standard is extended to governments, whether they be national, state, regional or local, with a specific extension which requires that every level of government should account for the taxes that it both expects to be paid and actually receives, incorporating as a result a standard for tax gap reporting in the accounts of governments as a consequence.

The suggested standard is proposed for use by all but the very smallest of reporting entities. This is because all accounting should be undertaken in the public interest. Materiality for disclosure should, then, be appraised taking into consideration the interest of the stakeholders of a reporting entity rather than the interests of the entity doing the reporting. The impact of a reporting entity upon its stakeholders can be equivalent whatever the size of that reporting entity might be. This is most especially true for employees, but can also be true for other stakeholders. Even an apparently small RE can dominate the economic well being of some of its stakeholders. In that case disclosure by it is essential if the public interest mandate of accounting is to be fulfilled.

The result of this enhanced disclosure would be that all reporting entities, including governments, would be substantially more accountable to their stakeholders for the taxation liabilities that they owe, handle or manage in a wide range of capacities. Given the massive significance of tax in almost every society in the world, and the fact that very large numbers of companies, the world over, fail because of their inability to manage and settle their taxation liabilities this enhanced focus is essential. It is very likely that this Corporate Accountability Standard would deliver more information to the directors of most companies on the tax management of the entities for which they are responsible than many will have ever received to date.

This proposed standard would also deliver the data for more informed political debate on tax issues.

It would reassure or worry investors, and in either case should result in the better allocation of capital in financial markets.

Trading partners and employees would make better decisions on their own risks, which should enhance their well being.

Civil society would be able to hold both companies and governments to account, with both being equally desirable.

And governments will themselves have to account for their own management of taxation, about which issue there is at present considerable opacity.

Corporate Accountability Standard 1 – Taxation is intended to transform the accounting for taxation, and would do so if it was to be adopted.

Corporate Accountability Standard 1

Taxation

Discussion Document

A. Background

1. This document assumes that to meet its public interest objective a Corporate Accountability Standard (CAS) must address the information needs of the following stakeholders of a reporting entity (RE) to which the CAS shall apply:
 - 1.1. Its providers of capital;
 - 1.2. Its trading partners;
 - 1.3. Its employees;
 - 1.4. Those who regulate it;
 - 1.5. All the tax authorities that it deals with;
 - 1.6. Those civil societies impacted by it.
2. It is assumed that Corporate Accountability Standards should be prepared in the public interest and that they must, as a consequence, seek to meet the information needs of all a reporting entity's stakeholders, whether they have identified themselves as such to it or not.
3. This discussion document has the primary goal of suggesting the information needs with regard to taxation of the six stakeholder groups of any reporting entity. These information needs are listed for each such group within this document, with cross reference being made when appropriate, before a conclusion is offered and a request for comment is made.

B. Providers of capital

4. It is suggested that the primary information demands regarding background and governance data concerning taxation of those providing capital to a reporting entity are as follows:
 - 4.1. The identity of those undertakings that comprise the RE and which might potentially be liable to tax;
 - 4.2. The location of those undertakings that comprise the RE and which might potentially be liable to tax;
 - 4.3. The nature of the activities of those undertakings that comprise the RE and which might potentially be liable to tax;
 - 4.4. The principle taxes that each of the undertakings that comprise the RE and which might potentially be liable to tax might be subject to, and those for which they are actually registered to make payment;

- 4.5. The governance arrangements that the RE has in place to ensure that each of undertakings that comprise the RE and which might potentially be liable to tax do actually settle the taxation liabilities that they might owe;
 - 4.6. The attitude to risk that the RE, and to the extent that it is relevant each of the undertakings that comprise the RE, take towards taxation matters and how it is determined that this risk is appropriately appraised;
 - 4.7. The extent to which the taxation liabilities of the RE, and to the extent that it is relevant each of the undertakings that comprise the RE, are subject to challenge by the taxation authorities with which it engages; which tax is involved; and with what estimated potential liability owing, including all related interest and penalty charges; and the extent to which such liability has been provided in the accounts of the RE and, to the extent that it is relevant in each of the undertakings that comprise the RE.
5. It is suggested that the information requirements concerning corporate income taxation of those providing capital to a reporting entity are to know the following:
- 5.1. The corporate income taxes owing by the RE as a whole and in each location in which it operates on profits of the current period arising both within 12 months of the current reporting period (RP) ending and in periods ending thereafter;
 - 5.2. The corporate income taxes owing by the RE as a whole and in each location in which it operates on profits of periods prior to the current RP arising both within 12 months of the current RP ending and in periods ending thereafter;
 - 5.3. The corporate income taxes paid the RE as a whole and in each location in which it operates during a RP;
 - 5.4. Unambiguous explanation as to why taxes are not being paid at the headline corporate income tax rates of the RE as a whole in the location of its parent entity and in each location in which it operates, with at least ninety percent of all reconciling items being specifically explained, including by supporting narrative notes of sufficient detail that an informed lay person can form a view as the reasons offered and the reason for them arising and with the impact being shown separately for corporate income taxes due within 12 months of the RP and thereafter with transfers between the two being explicitly disclosed;
 - 5.5. Corporate income taxes due or recoverable within 12 months of the current RP as stated for the RE as a whole and by location, and due in periods arising thereafter;
 - 5.6. Disclosure of the future corporate income tax implications of the current and past activities of the RE as a whole and in each location in which it operates without offsetting between assets and liabilities being permitted and with best possible estimates in each case as to the time when those implications might arise, if at all and with explanation as to cause for deferral being offered in each case, with at least ninety percent of all balances by value being specifically explained, including by supporting narrative notes of sufficient detail that an informed lay person can form a view as to the reason for the deferral arising. Discounting of liabilities shall not be permitted. Liabilities not estimated to be due for at least ten years may be omitted from a provision made, but in that case the sum not provided for this reason shall be disclosed. Assets estimated to be recoverable more than five years after the end of the RP should be subject to automatic

- review as to recoverability and a note explaining the basis for their inclusion in the accounts as an asset shall be provided. No asset recoverable more than ten years after the end of the RP shall be included in the accounts. A note of the sum excluded shall be provided.
- 5.7. Objective disclosure of the risks inherent within the reporting made that might not be subject to any current tax authority challenge, focusing upon:
 - 5.7.1.the use of tax havens;
 - 5.7.2.the use of tax avoidance arrangements;
 - 5.7.3.the use of exceptional taxation arrangements such as tax holidays, freeports and exemptions from normal tax rates,
 - 5.7.4.the use of forward pricing agreements;
 - 5.7.5.intra-group trading relationships;
 - 5.8. A reconciliation of current taxes due and taxes paid in the period taking into consideration the stated opening and closing liabilities due or sums recoverable for corporate income taxes of the RP for the RE as a whole and for each location in which it operates and specifically disclosing:
 - 5.8.1.The opening corporate income tax liability owing or recoverable;
 - 5.8.2.The total corporate income tax liability arising during the period as noted previously;
 - 5.8.3.The total corporate income tax paid during the period as previously noted;
 - 5.8.4.The closing corporate income tax liability owing or recoverable as noted previously;
 - 5.8.5.Those other sums that complete the reconciliation including foreign exchange gains and losses; corporate income tax liabilities arising or recoverable not recorded in the profit and loss account of the RE and such other items as are necessary, with supporting narrative notes of sufficient detail if that is appropriate so that an informed lay person can form a view as to the reason for the reconciling item arising.
6. It is suggested that the information demands concerning other taxes owed of those providing capital to a reporting entity are:
 - 6.1. Those matters noted with regard to sales taxation noted as the primary concern of trading partners in this document;
 - 6.2. Those matters noted with regard to employment related taxation noted as the primary concern of employees in this document;
 - 6.3. Those matters noted with regard to specialist taxation liabilities noted as the primary concern of regulators and civil society in this document.

C. Trading partners

7. Trading partners of an RE and its constituent members are primarily concerned with the ability of the entity with which they have specifically contracted to make settlement of the obligations into which they have entered. This concern would superficially appear unrelated to the tax affairs of the RE, but this is not necessarily the case when it is possible that trading relationships can transmit taxation liabilities between partners to contractual arrangements e.g. depending

upon the nature of sub-contracting relationships; the location of transactions and the consequent need to appraise risk with regard to withholding taxes; and the need to avoid trade with fraudulent parties resulting in the transmission of Value Added Tax and other taxation liabilities to apparently innocent parties.

8. It is suggested that the primary information requirements concerning taxation of those trading with a reporting entity or its constituent members are as follows:
 - 8.1. That background and governance data previously noted as being required by the suppliers of capital to an RE, with particular focus upon those taxes for which each constituent member of the RE is registered with the aim of ensuring that the entity within the RE with which a trading partner contracts is registered to settle the taxation liabilities that might arise as a result;
 - 8.2. The share capital and realised reserves of the RE as a whole and in each location in which it operates as indication of the ability of the party with whom the trading partners has contracted to settle its taxation liabilities owing;
 - 8.3. The turnover of the RE as a whole and in each location in which it operates split between intra-group trading and that with third parties, as indication of the scale of the activity of that party with whom the trading partners has contracted and its consequent likely ability to settle its taxation liabilities owing;
 - 8.4. The other income arising not recorded as the turnover of the RE as a whole and in each location in which it operates, split between intra-group trading and that with third parties, as indication of the scale of the activity of that party with whom the trading partners has contracted and its consequent likely ability to settle its taxation liabilities owing;
 - 8.5. The profit before tax of the RE as a whole and in each location in which it operates as indication of the scale of the activity of that party with whom the trading partners has contracted and its consequent likely ability to settle its taxation liabilities owing;
 - 8.6. The taxes due on sales made by the RE ('sales taxes') as a whole and in each location in which it operates during the current period arising both within 12 months of the current reporting period (RP) ending and in periods ending thereafter;
 - 8.7. The taxes owing on sales made by the RE as a whole and in each location in which it operates as a result of sales in past RPs arising both within 12 months of the current RP ending and in periods ending thereafter;
 - 8.8. The sales taxes paid by the RE as a whole and in each location in which it operates during a RP;
 - 8.9. Unambiguous explanation as to why sales taxes are not being paid at the headline tax rates of the RE as a whole in the location of its parent entity and in each location in which it operates, with at least ninety percent of all reconciling items being specifically explained, including by supporting narrative notes of sufficient detail that an informed lay person can form a view as the reasons offered and the reason for them arising and with the impact being shown separately for corporate income taxes due within 12 months of the RP and thereafter with transfers between the two being explicitly disclosed;
 - 8.10. Sales taxes due or recoverable within 12 months of the current RP as stated by the RE as a whole and in each location in which it operates, and in periods arising thereafter;

- 8.11. A reconciliation of sales taxes due and sales taxes paid in the period taking into consideration the stated opening and closing liabilities due or sums recoverable for sales taxes of the RP for the RE as a whole and for each location in which it operates and specifically disclosing:
- 8.11.1. The opening sales tax liability owing or recoverable;
 - 8.11.2. The total sales liability arising during the period as noted previously;
 - 8.11.3. The total sales tax paid during the period as previously noted;
 - 8.11.4. The closing sales tax liability owing or recoverable as noted previously;
 - 8.11.5. Those other sums that complete the reconciliation including foreign exchange gains and losses; sales tax liabilities arising or recoverable not recorded in the profit and loss account of the RE and such other items as are necessary, with supporting narrative notes of sufficient detail if that is appropriate so that an informed lay person can form a view as to the reason for the reconciling item arising.

D. Employees

9. The employees of an RE and its constituent members are primarily concerned with the ability of the entity with which they have specifically contracted to make settlement of the obligations into which they have entered. This concern would superficially appear unrelated to the tax affairs of the RE, but this is not necessarily the case. In particular, the employees of an RE and its constituent members will want to appraise whether it is likely that the tax liabilities due by their employer, whether in respect of tax, social security contributions or other liabilities due to a government deducted from their pay, as well as other sums owing by their employer arising a consequence of payments made to them as an employee, have actually been settled. This cannot be done on an individual basis, but can be estimated in aggregate if sufficient data is available to permit such an estimate to be prepared
10. It is suggested that the primary information requirements concerning taxation of those employed by a reporting entity or its constituent members are as follows:
- 10.1. That background and governance data previously noted as being required by the suppliers of capital to an RE, with particular focus upon those taxes for which each constituent member of the RE is registered with the aim of ensuring that the entity within the RE with which an employee contracts is registered to settle the taxation liabilities that might arise as a result;
 - 10.2. The share capital and realised reserves of the RE as a whole and in each location in which it operates as indication of the ability of the party with whom the employee has contracted to settle its taxation liabilities owing;
 - 10.3. The turnover of the RE as a whole and in each location in which it operates split between intra-group trading and that with third parties, as indication of the scale of the activity of that party with whom the employee has contracted and its consequent likely ability to settle its taxation liabilities owing;
 - 10.4. The other income arising not recorded as the turnover of the RE as a whole and in each location in which it operates split between intra-group trading and that with third

parties, as indication of the scale of the activity of that party with whom the employee has contracted and its consequent likely ability to settle its taxation liabilities owing;

- 10.5. The profit before tax of the RE as a whole and in each location in which it operates as indication of the scale of the activity of that party with whom the employee has contracted and its consequent likely ability to settle its taxation liabilities owing;
- 10.6. The average number of full time equivalent employees of the RE as a whole and in each location in which it operates during the RP, indicating the method of calculation used;
- 10.7. The total remuneration due to employees in respect of wages and salaries during the RP by the RE as a whole and in each location in which it operates;
- 10.8. The total value of benefits in kind due to employees during a RP by the RE as a whole and in each location in which it operates, whether due as an alternative to cash wages or additionally to them, including pension contributions due;
- 10.9. The total liability to taxation deducted from employees pay during a RP by the RE as a whole and in each location in which it operates split between personal income taxes, social security charges and other sums equivalent to tax due to governments;
- 10.10. The total liability to taxation due by the RE as a whole and in each location in which it operates on its own account as a result of employing persons during a RP, split between social security charges, payroll taxes and other sums equivalent to tax due to governments;
- 10.11. The total sums paid by the RE as a whole and in each location in which it operates in respect of sums deducted from employees in respect of their taxation liabilities owing during a RP;
- 10.12. The total sums paid by the RE as a whole and in each location in which it operates in respect of taxation liabilities due as an employer during a RP;
- 10.13. Total taxes due or recoverable with regard to employment as referred to in the two preceding paragraphs within 12 months of the current RP as stated by the RE as a whole and in each location in which it operates, and in periods arising thereafter;
- 10.14. A reconciliation of total taxes due in respect of employment during an RP and the total of such taxes paid in the period taking into consideration the stated opening and closing liabilities due or sums recoverable for the RP for the RE as a whole and for each location in which it operates and specifically disclosing:
 - 10.14.1. The opening liability for taxes due in respect of employment owing or recoverable;
 - 10.14.2. The total liability for taxes due in respect of employment arising during the period, split as noted previously;
 - 10.14.3. The total taxes paid in respect of employment during the period, split as previously noted;
 - 10.14.4. The closing liability owing or recoverable for taxes due in respect of employment as noted previously;
 - 10.14.5. Those other sums that complete the reconciliation including foreign exchange gains and losses; liabilities for taxes due in respect of employment arising or recoverable not recorded in the profit and loss account of the RE and such other items as are necessary, with supporting narrative notes of sufficient detail if that is appropriate so that an informed lay person can form a view as to the reason for the reconciling item arising.

E. Regulators

11. There will be many occasions when the regulators of REs will have specific concerns with regard to taxation issues. If, however, the specific information noted in the preceding sections relating to the providers of capital to a company, the trading partners of a company and the employees of a company, as well as those additional items that are noted as being required by those in civil society are supplied by a RE as a whole and for each location in which it operates most of such needs will be met.
12. That being said, many trade sectors are subject to specific taxation liabilities that are applicable only to a limited number of REs that operate within that sector. Information on these taxes will frequently provide information to regulators that might not otherwise be available to them. Taxes owing in respect of the following activities should be disclosed by all REs liable to make them as a whole and for each location in which they might fall due, each to be separately identified in disclosure made, with the list being indicative, meaning that if another tax applies it should be disclosed even if not noted here:
 - 12.1. Banking;
 - 12.2. Insurance;
 - 12.3. Other financial services;
 - 12.4. Financial transaction taxes;
 - 12.5. Customs duties;
 - 12.6. Excise duties;
 - 12.7. Airline taxes and related charges;
 - 12.8. Environmental taxes and related charges;
 - 12.9. Land related taxes and related charges;
 - 12.10. Taxes intended to promote behavioural change.

F. Tax authorities

13. There will be many occasions when the taxation authorities of REs will have specific information needs. If, however, the information noted elsewhere in this document is supplied by the RE as a whole and for each location in which it operates such needs as can reasonably be met from within the accounts of an RE should have been met and it is unlikely that further disclosure to meet the needs of taxation authorities should, therefore, be required for this reason.

G. Civil society

14. Civil society is a generic term to represent the interests of all those who interact with a RE in what is likely to be a non-contractual manner. Civil society might include:
 - 14.1. Politicians;
 - 14.2. Concerned individuals;
 - 14.3. The communities, whether local, regional or national, that host the activities of the RE;

- 14.4. Non-governmental organisations (NGOs) and civil society organisations (CSOs) that have concerns about the activities of the RE;
 - 14.5. Those who wish to understand the workings of the taxation system;
 - 14.6. Academic and other researchers;
 - 14.7. Journalists;
15. The concerns of civil society are inevitably broad and sometimes as a consequence hard to predict. However, many will coincide with those of employees and trading partners of REs, in particular, and if the disclosures suggested to meet the needs of those groups and other stakeholder in this document were to be made then many of the information needs of civil society with regard to taxation would have been met. That said, there are exceptions to this general approach. It has long been recognised that the extractive industries have created particular problems for many of those locations that host their activities and this gives rise to a need for the particular and additional disclosure of data noted below. That same concern for data concerning the extractive industries highlights another important, and common concern, of NGOs and CSOs in particular, but which is also of particular interest to politicians, researchers, journalists and concerned individuals, and that is how governments, whether national, state, regional or local, account for the taxes that they are meant to receive, and how they acknowledge those that are unpaid. This issue is also addressed by this CAS as a consequence.
16. **The Extractive Industries.** The prevalence of corruption in many parts of the extractive industries has meant that the tax payments that it makes have been the subject of special interest from NGOs and CSOs, and of legislation in many countries including the European Union. Much of the information noted as being required by other stakeholder groups within this document helps meet the needs of those with special concern about the extractive industries, barring two issues. One is with the regard to those taxes and other levies specifically due as a result of extraction agreements that this industry agrees, often on ad hoc and individual bases with each government that they engage with. The other is the need for information to ensure that the disclosures made with regard to those taxes is provided when required (which will happen whenever different bases for taxation are used within one location) on a project basis. This section deals with these two issues.
17. It is suggested that the primary information requirements concerning the taxation affairs of a reporting entity that is engaged in the extractive industries are as follows:
- 17.1. That background and governance data previously noted as being required by the suppliers of capital to an RE, with particular focus upon those taxes for which each constituent member of the RE is registered with the aim of ensuring that the each entity within the RE is registered to settle the taxation liabilities that might be due by it;
 - 17.2. Additional background information on:
 - 17.2.1. The location of the RE's extractive industry activities both by jurisdiction and, if there are multiple activities within a location, by project unless all such projects within a location are subject to the same contractual and taxation terms, when a note to that effect will suffice and location based data will be sufficient;

- 17.2.2. A description of the main contractual terms of the project with which the RE or a constituent member is engaged sufficient to understand:
 - 17.2.2.1. The parties;
 - 17.2.2.2. Taxes owing under the arrangement that are specific to the extractive industries and not, therefore, disclosed under any other provision of this CAS (the 'EI taxes');
 - 17.2.2.3. The basis of calculation for those EI tax liabilities;
 - 17.2.2.4. Any arrangements relating to the EI taxes owing and their basis of calculation which conflict with the law otherwise prevailing in the jurisdiction in which the project is located;
 - 17.2.2.5. Any alternative arrangements for revenue sharing, joint ventures or other contractual settlements that might be considered to apply in lieu of any taxes due;
 - 17.2.2.6. The basis used for estimating the worth of these alternative arrangements;
- 17.3. The EI taxes due on the activities of the RE as a whole and in each location in which it operates, stated by project, during the current period arising both within 12 months of the current reporting period (RP) ending and in periods ending thereafter;
- 17.4. The EI taxes due on the activities of the RE as a whole and in each location in which it operates, stated by project, as a result activity in past periods arising both within 12 months of the current RP ending and in periods ending thereafter;
- 17.5. The sums due under alternative arrangements for revenue sharing, joint ventures or other contractual settlements that might be considered to apply in lieu of tax for the RE as a whole and in each location in which it operates, stated by project;
- 17.6. The EI taxes paid by the RE as a whole and in each location in which it operates during a RP, stated by project;
- 17.7. Other payments made under under alternative arrangements for revenue sharing, joint venture profit sharing or other contractual arrangement during a RP for the RE as a whole and in each location in which it works, stated by project;
- 17.8. That data which must be disclosed to verify the credibility of the stated taxes owing, whether that be production or sales data or information on another tax base contractually specified as the basis for calculating sums due, including periodic and signature fees;
- 17.9. EI taxes due or recoverable within 12 months of the current RP as stated by the RE as a whole and in each location in which it operates, and in periods arising thereafter, with analysis provided on a project basis;
- 17.10. Sums owing at the close of the RP under alternative arrangements for revenue sharing, joint ventures or other contractual settlements that might be considered to apply in lieu of tax for the RE as a whole and in each location in which it operates stated by project;
- 17.11. A reconciliation of EI taxes due and EI taxes paid in the period on a project basis taking into consideration the stated opening and closing liabilities due or sums recoverable for EI taxes for the RE as a whole and for each location in which it operates and specifically disclosing on a project basis:
 - 17.11.1. The opening EI tax liability owing or recoverable;

- 17.11.2. The opening liability due under alternative arrangements for revenue sharing, joint ventures or other contractual settlements that might be considered to apply in lieu of tax;
- 17.11.3. The total EI liability arising during the period as noted previously;
- 17.11.4. The total liability arising under alternative arrangements in lieu of tax as previously noted;
- 17.11.5. The total EI tax paid during the period as previously noted;
- 17.11.6. The total EI liability settled by alternative arrangements during the period as previously noted;
- 17.11.7. The closing EI tax liability owing or recoverable as noted previously;
- 17.11.8. The closing liability due under alternative arrangements for revenue sharing, joint ventures or other contractual settlements that might be considered to apply in lieu of tax;
- 17.11.9. Those other sums that complete the reconciliation including foreign exchange gains and losses; sales tax liabilities arising or recoverable not recorded in the profit and loss account of the RE and such other items as are necessary, with supporting narrative notes of sufficient detail if that is appropriate so that an informed lay person can form a view as to the reason for the reconciling item arising.

18. **National governments.** National governments are REs for CAS purposes and subject to the same concern from stakeholder groups as are all other REs, excepting that they have no shareholders. They should in that case, to the full extent that it is appropriate, apply the disclosure requirements of this CAS to meet the information needs of all their stakeholders. National governments do, however, have an additional role with regard to tax reporting, since they are responsible for the collection of many of the taxes owing within most jurisdictions. As such they have a duty to report on how they have managed this responsibility for the benefit of all their stakeholders.

- 18.1. It is suggested that the primary information demands concerning taxation peculiar to national governments are as follows:
- 18.2. Disclosure, based on macroeconomic data, of the estimated total tax liability ('ETTL') owing to the government in respect of each major tax (defined as one that should or does actually contribute at least two percent of total ETTL or actual sums paid in the RP);
- 18.3. A statement of the sum actually anticipated to be due for collection in respect of each major tax for the RP split between those sums collected in the period and those that it is anticipated will be collected in future periods;
- 18.4. A statement of sums collected during the RP in respect of each major tax owing in respect of periods prior to the RP, and a statement of the sums remaining outstanding and still considered capable of collection in periods arising after the RP but which are due in respect of periods prior to the RP;
- 18.5. A statement of debts written off with regard to each major tax during the RP split between:
 - 18.5.1. Sums owing brought forward recognised as being irrecoverable during the period;

- 18.5.2. Estimated sums owing arising during the RP written off as irrecoverable, with a note as to the main reason for the loss arising;
- 18.5.3. Actual sums owing arising during the RP written off as irrecoverable, with a note as to the main reasons for the loss arising;
- 18.5.4. Any provisions made against sums outstanding at the period end split between those relating to prior periods and the RP;
- 18.6. An explanation of the residual difference between the E TTL for each major tax for the RP, the tax expected to be recovered in respect of the RP and the bad debt arising in respect of the RP split between those parts of the difference that arise due to:
 - 18.6.1. Taxpayer errors;
 - 18.6.2. Tax authority errors;
 - 18.6.3. Criminal attacks on the tax system;
 - 18.6.4. Tax evasion;
 - 18.6.5. Tax avoidance;
 - 18.6.6. Unresolved disputes as to interpretation of tax law that the tax authority is not pursuing.
- 18.7. Commentary on the actions to be taken to address issues arising from these reconciliations.

19. Regional and local government Like national governments, regional, state and local governments are REs with responsibility to report to their stakeholders. The provisions of this CAS would, then, apply to them. This is also true of their responsibility to account for the taxation revenues that they collect. In that case the disclosures that this CAS proposes for national government apply equally to local government save that the range of reporting will be more limited because the range of taxes for which state, regional and local governments tend to be smaller than those levied by national governments. Specific requirements of these governments would be:

- 19.1. The method of calculating the E TTL for taxes levied by state, regional and local governments may differ from the macroeconomic base suggested by default for national governments because the required macroeconomic data may not be available. In that case alternative bases for estimating the E TTL for the taxes that these REs charge should be noted and explained in a form likely to be comprehensible to stakeholders of the RE;
- 19.2. If it is appropriate or possible the best estimates of the tax bases used for estimating state, regional or local taxes shall be published to support appraisal of E TTL estimates., including if appropriate, but not limited to:
 - 19.2.1. Local population;
 - 19.2.2. The number of local businesses by type, and type of entity;
 - 19.2.3. The number of properties within the locality, split by band;
 - 19.2.4. The value of other property that might be subject to taxation within the locality;
 - 19.2.5. The number of people employed and their estimated remuneration split into appropriate income bands;
 - 19.2.6. Estimated profits arising within the locality and their distribution, if appropriate;
 - 19.2.7. Total sales to end consumers arising within the locality.

H. Entities to which this Corporate Accountability Standard shall apply

20. It is anticipated that this CAS would apply to all REs excepting those with unlimited liability and less than 50 employees and those with limited liability and less than 25 employees.
21. The disclosure required by other entities will otherwise not vary depending on their size, excepting that which will not apply because the scale of their activity is limited.
22. The reasons for requiring consistent disclosure irrespective of the size of entity (very small REs apart) are as follows:
 - 22.1. The impact of a RE upon its stakeholders can be equivalent whatever the size of the RE. This is most especially true for employees, but can also be true for all other stakeholders. Materiality with regard to employees, customers and suppliers cannot, for example, be appraised on the basis of the size of the RE but should instead be based upon the potential position of the employee or trading partner. Even an apparently small RE can dominate the economic well being of some of its stakeholders. In that case disclosure by it is essential if the public interest mandate of accounting is to be fulfilled;
 - 22.2. The management of taxation liabilities is central to the creation of an effective system of corporate governance and control within any RE. Despite this many within the senior management of an RE will be no more aware of the issues referred to in this CAS than will any other stakeholder groups. As such it is vital that they, along with other stakeholder groups, have this information prepared for presentation to them at least once in each RP so that they are aware of their own obligations and whether or not they have fulfilled them, and this CAS ensures that is the case;
 - 22.3. The disclosures required by this CAS relate to information that should be readily available within the reporting systems of any RE, excepting that by location which is at present solely required of very large REs, and then only for reporting to taxation authorities alone. The cost of preparing the data suggested for disclosure in this CAS should, then, in most cases be minimal. This will also be true of most REs where multiple location reporting might be required because few will operate in many such locations, and the benefits of having reporting confirming that taxation liabilities are being settled by location will more than compensate the RE for the cost involved.

I. Additional notes

23. A number of issues needed to be noted that are not referred to elsewhere in this document:
 - 23.1. It is assumed that the information that it is suggested be disclosed by this CAS only be made available in electronic format;
 - 23.2. Comparative data for the previous RP should be provided for all suggested disclosures;
 - 23.3. Where disclosure is required on a segmental basis e.g. by location or project, it would be required that this segmental data be reconciled with that for the RE as a whole, with explanations as to reconciling items being provided, if appropriate, so that any stakeholder might understand why such differences might arise.

J. Conclusions

24. The Corporate Accountability Standard on taxation proposed in this document is intended to restore public interest accounting for tax, which the CAN suggests has ceased to exist under IFRS accounting, and the local derivatives of it. As a result the proposed CAS is specifically designed to meet the information needs of all the stakeholders of a reporting entity, which will usually be a limited liability entity but which could also be a charity, or a national, regional or local government. The stakeholder groups of a reporting entity are:
- 24.1. Its providers of capital;
 - 24.2. Its trading partners;
 - 24.3. Its employees;
 - 24.4. Those who regulate it;
 - 24.5. All the tax authorities that it deals with;
 - 24.6. Those civil societies impacted by it.
25. Each stakeholder group is treated as being of equal concern within a CAS. The result is a standard for disclosure that is significantly different to compulsory disclosure standards for taxation currently in operation. This is unsurprising when current disclosure is only designed for use by the suppliers of capital to a company, and then only for a very limited purpose.
26. It is suggested that the resulting proposed standard is of significantly greater use than those standards currently in operation. This is because:
- 26.1. It covers a broad range of tax disclosure. Existing standards focus solely on corporate income taxes. The proposed CAS requires significant additional disclosure on a much broader range of taxes including personal income taxes, social security, value added and other sales taxes and those taxes specific to the extractive industries. This brings the standard into line with some proposals from the Global Reporting Initiative and makes it consistent, if in significantly more detailed form, with much of the voluntary reporting of many multinational companies under the PricewaterhouseCoopers Total Tax Contribution initiative that has been in operation for many years;
 - 26.2. The CAS suggests country-by-country reporting of all taxation liabilities for which it proposes disclosure be made, so meeting the needs of many in civil society and the demands of many regulators, including the European Commission and European Parliament;
 - 26.3. The CAS improves the quality of deferred taxation disclosure, requiring that disclosure on the anticipated time of realisation of assets and settlement of liabilities be made, assisting the appraisal of cash flow consequences. Many investors have been deeply frustrated by failure of existing standards to require this information;
 - 26.4. The CAS suggests that the accounting requirements of the stakeholders of the extractive industries be made mandatory, meeting demands from many organisations that have been made for two decades;
 - 26.5. The CAS proposes that the data it suggests be disclosed be reconciled so that the link between declared liabilities and payments made can clearly be seen. This makes explicit the

essential control environment that should exist around the accounting for taxation. It will also reveal the stress that often arises in this area and which frequently foretells forthcoming corporate failure. This is, then, necessary as a basic test of data quality that has been absent from almost all accounting disclosure for tax to date. This disclosure might well also provide better information on tax and its control to many of those directors of the reporting entities who are required to approve the disclosure of this information than they have ever enjoyed to date, whilst making it clear to them the responsibilities that they have to ensure that the taxation affairs of their companies are properly controlled;

26.6. This data disclosure then informs the suggested enhanced disclosure that the CAS proposes with regard to the tax governance arrangements of the tax affairs of the reporting entity;

26.7. The CAS specifically extends its suggestions to governments, whether national, state, regional or local. As well as requiring disclosure in their accounts in the form required for any other reporting entity, the CAS also proposes that any government should account for the taxation revenues it should, and does actually receive. The two are, of course not the same, the difference being described as the tax gap, which this CAS suggests should be published for each major tax that a government manages, with explanation as to non-collection being required;

26.8. The CAS provides data to reassure the trading partners and employees of reporting entities that the organisation that they are dealing with is settling the taxation liabilities arising from their dealings with it so that recourse for such tax should not fall upon them;

26.9. The specific information requirements of the regulators of companies, many of whom will not be taxation authorities but who will have interest in its tax affairs, are addressed.

27. The result of this enhanced disclosure would be that all reporting entities, including governments, would be substantially more accountable to their stakeholders for the taxation liabilities that they owe, handle or manage in a wide range of capacities. Given the massive significance of tax in almost every society in the world, and the fact that very large numbers of companies, the world over, fail because of their inability to manage and settle their taxation liabilities this enhanced focus is essential. It will deliver more informed political debate on this issue. It will reassure or worry investors, and in either case should result in the better allocation of capital in financial markets. Trading partners and employees will make better decisions on their own risks. Civil society will be able to hold both companies and governments to account, with both being equally desirable. And governments will themselves have to account for their own management of taxation, about which issue there is at present considerable opacity. Corporate Accountability Standard 1 – Taxation is intended to transform the accounting for taxation, and would do so if it was to be adopted.

K. Request for comments

28. Comments on this proposed standard are welcome. Updated versions of this discussion document will be issued in due course to reflect comments received. Contact details are provided on page 1 of this document.

Corporate Accountability Standard 1

Taxation

