tax justice network

Why is Country-by-Country financial reporting by Multinational Companies so important?

What we want

The Tax Justice Network[i] (TJN) is leading the campaign for Country-by-Country (**CbC**) reporting by multinational corporations (MNCs).

The reporting TJN is calling for would require every MNC to declare:

1. In which countries it operates;
2. What it is called in that location;
3. What its financial performance is in every country in which it operates, including:
    - It sales, both third party and with other group companies;
    - Purchases, split in the same way;
    - Labour costs and employee numbers;
    - Financing costs split between those paid to third parties and to other group members;
    - Its pre-tax profit;
4. How much it pays in tax and other ways to the government of the country in which it is operating as a consequence.

Our proposal requires this information for all territories - without exception - in which a multinational corporation operates. Anything less will not do or transactions might be lost to view. This does not require each country to agree as the requirement would be imposed by an International Financial Reporting Standard.

Why we want it

We support country-by-country reporting for the following reasons:

1. **Transparency matters.** In many countries a corporation does not have to put its accounts on pubic record. That means that what an MNC does in that country is not a matter of public record. That matters. What MNCs do has enormous implication for the wellbeing of the world. **CbC** overcomes this problem. It puts all MNC activity 'on the record'. Many investors appreciate this.

2. **Corporate social responsibility (CSR) matters.** CSR is about the relationship between a company and its host community. But this does require that the host community knows the company is there. **CbC** reporting provides that information.

3. **Accountability matters.** A company cannot be accountable unless it can be identified. This means that the names an MNC uses locally must be on public record. Too often they are not. **CbC** reporting names local subsidiaries.

4. **Trade matters.** 60% of world trade is intra-group trade. In other words it takes place across national boundaries but between companies under common ownership or control. Existing MNC accounts completely eliminate all of this trade from public

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view. **CbC** shows it all. This is vital if trade relationships are to be understood, and made fair.

5. **People matter.** MNC accounts include statements on the number of employees a company has and their aggregate remuneration. **CbC** would require this statement for every country in which an MNC operates. This would provide invaluable information on labour conditions.

6. **Tax matters.** MNCs have more opportunity than any other group to plan their tax affairs. They can seek to shift their profits from state to state to find the lowest overall bill. **CbC** discloses the profits that companies record in each country in which they operate and the taxes that they pay on them. This means they can be held accountable for what they do and don't pay. It's estimated that if this problem were tackled enough tax could be collected to pay for the Millennium Development Goals.

7. **Corruption matters.** The Extractive Industries are dominated by MNCs. The Extractive Industries Transparency Initiative seeks to hold those companies to account for the tax payments they make, and the governments that receive those payments to account for what they do with them. Many MNCs resist disclosure of information on what they pay because of competitive pressure, contractual obligations and local political opposition. **CbC** would overcome these objections, significantly enhancing transparency in this sector, and help cut corruption.

8. **Development matters.** Developing countries lack revenue to finance public goods and services. Aid helps alleviate this problem but creates a dependency, harms the democratic accountability of developing country governments because they aren't accountable to their electorates for what they spend and aid can itself directly contribute to corruption. Local declaration of economic activity by MNCs with the resulting accountability for taxes paid could break this cycle and help create fully independent, accountable governments capable of raising their own taxation revenues.

9. **Governance matters.** Many of the major corporate scandals of recent times have involved extensive use of offshore subsidiary companies. These are becomingly increasingly common throughout the MNC world, but it is recognised that the problem of managing them creates severe governance issues for MNCs. This results in increased risk for shareholders and others who need to understand the risk inherent in an MNC's activity.

10. **Where you are matters.** Some countries are politically unstable. If a company trades there shareholders should know. Some are politically unacceptable. If an MNC trades there civil society wants to know. Some countries are subject to sanction. Trading there is illegal. Where you are matters. **CbC** holds a company to account for where it is.

If you want to know more.

The best next step is to read http://www.taxresearch.org.uk/Documents/IAS14Final.pdf. Alternatively please search IFRS 8 on www.taxresearch.org.uk/blog for the latest updates.

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i http://www.taxjustice.net/cms/front_content.php?idcat=2