

## Country by country reporting on Comment is Free

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I have the following article on the Guardian's [Comment is Free](#) site today:

*As the Guardian's [tax gap series](#) has progressed, it has become increasingly clear that one of the problems faced by anyone trying to analyse tax payments by major corporations is the absence of any realistic data about the tax that they pay, or where they pay it, in their corporate accounts.*

I realised this many years ago. I have been a practising accountant for almost three decades. The first time I met John Christensen, with whom I went on to help form the [Tax Justice Network](#), he asked me how the problem of [transfer pricing abuse](#) could be tackled.

My response was simple. I said that if we made major corporations account on a country-by-country basis, without exception, for their sales (both to third parties and to other companies in their group), their costs split in the same way, their payments for their workforce, their profits, their taxes (both provided and paid) and for the value of their physical assets, then we would know just exactly which corporations were working where, how much they made in each location that they operated in, and who was likely to be avoiding tax. A summary of the proposal [is here](#).

The logic is simple. Suppose a major corporation discloses that it has subsidiaries in the [Cayman Islands](#). Under country-by-country reporting, it would have to report the names of all those subsidiaries and their total sales in aggregate, both to third parties and within the group of companies of which they are a member. Their purchases will be reported on the same basis. Evidence suggests that the vast majority of transactions that are routed through the Cayman Islands are intra-group transactions undertaken for the benefit of saving tax. And as we all know, the vast majority of corporations located in the Cayman Islands have no employees there. It is also highly likely that a profit will be recorded, but no tax will be paid. In that case, publication of country-by-country accounting data will provide all the red flags that tax inspectors all over the world and civil society will require to suggest that tax abuse is going on.

More than that, though, this data will also tell investors that the company in which they are placing their faith is undertaking corporate tax shenanigans. There is a risk in that activity. In particular, if the structure that is in use is subject to challenge, it is highly likely that future tax charges will be higher than those currently declared. That means that the company in which they are invested might be overvalued. This is vital information for any investor. In this context, we should be under no illusion that tax abuse is for the benefit of shareholders: it is not. That is just a temporary illusion promoted by transient directors in pursuit of share-based incentive payments.

So, the question is, can country-by-country reporting be delivered? The answer is a straightforward yes. After five years of NGO campaigning, the European parliament has now demanded that the International Accounting Standards Board, which is responsible for accounting standards almost worldwide, introduce country-by-country reporting for the extractive industries. The IASB is now considering its response, but in the course of hearings that have taken place in connection with its considerations, and at which I have been present, major corporations have agreed that the delivery of reports on this basis is entirely technically feasible, although it will increase audit costs because those major firms of auditors which review the accounts of these companies will actually have to visit all the countries in which they operate. Since this will significantly reduce shareholder risk, that must also be of benefit.

Asking whether this form of accounting can be delivered is, however, not the same as asking whether it *will* be delivered. Major corporations are resisting providing this information because it will show the abuse that they undertake. That means that the time has now come for civil society, tax authorities the world over, and all users of accounts, including investment fund managers, to demand that they can have the information on where our major corporations work, where they make a profit, and where they hide their tax liabilities. If we are to appraise risk, this information is essential. We are seeing the consequence of major corporations failing to disclose the risk they hide on their balance sheets right now. This must not happen again. This form of accounting could, to some quite considerable degree, prevent that recurrence.

And if, at the same time, it stopped the enormous transfer pricing abuse that is happening out of the developed world, it would also deliver more funds for development than the entire aid programme of all the nations of the world combined at this point of time.

Accountancy has never had so much to offer the world. Will it rise to the challenge?