

What next for tax havens? – 3 – Country by ..

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Gordon Brown has demanded that the OECD look at tax avoidance as part of the anti-tax haven campaign.

Let's be realistic. The tax avoidance issue is about transfer pricing more than anything else. It comes in many forms from the blatant abuse that is frequently seen in many developing countries — where too often I see profits transferred out of these states to tax havens as a result of abusive mineral exploitation agreements — to the abusive structures that many companies create to transfer intellectual property out of the UK for the sole reason of abusing and free-riding upon the backs of the ordinary taxpayers of the UK.

I designed a mechanism to tackle this abuse in 2003. It is called country-by-country reporting. It now has backing from many of the most important development agencies in the world — Oxfam, Christian Aid, Action Aid, CAFOD, War on Want in the UK alone, and many more around the world. The proposal is simple. It demands a profit and loss account and supporting notes, including on tax paid, for every single country in which a multinational corporation trades — including details of intra-group trading. This will provide considerable information likely to indicate those who are transfer mispricing, and as such either tax avoiding or evading as a result (and in this area it's hard to differentiate which).

None of these agencies have become interested in accounting standard reform for fun. They have been convinced that accounts can deliver enormous benefit for ordinary people ,and most especially those of developing countries who could secure \$160 billion as a result of this reform according to Christian Aid. That's enough to pay for the Millennium Development Goals.

I am aware that this reform is opposed by PricewaterhouseCoopers, Deloittes, Ernst & Young and KPMG. Between them they effectively control the International Accounting Standards Board which is going to confirm in April that they think that the only relevant users of accounting data are those who trade capital in financial markets — the very people who have brought the world's economy to its knees.

The G20 committed the world to one set of accounting standards. It did not commit itself to the standards issued by the IASB — which have quite clearly contributed to the problems to date.

I am under no illusion that we have a fight on our hands on this one. The partners in the Big 4 seem determined, by deliberately ignoring this issue, to keep the poor of the world on incomes of less than \$1 a day — to feed their own greed. I stress — in my opinion this appears to be a conscious choice on the part of those firms. This is a choice they have made knowing they could eliminate that poverty by ensuring that tax is paid in the right place at the time and in the right amount by all taxpayers — where right means that the economic substance of the transactions a person (human or legal) undertakes matches the form in which it is reported for tax. Not one partner in these firms appears to have the courage to stand up and say that the systems they promote, which ignore this principle, condemn at least 1 billion people to poverty. Not one. That's why I am sure it is a choice they have made.

And remember the Big 4 are also collectively the only organisations that are universally present in every major (and most minor) tax haven in the world, as a result of which these firms underpin the whole network of corruption that tax havens create even if they themselves never undertake a single illegal act.

Accountancy is at the forefront of the debate on beating poverty in this world now. I never thought I'd say that. But it is true. And it is a battle that is winnable simply because the gains are so readily apparent for everyone but the Big 4.

We won't win yet — but as governments become desperate for revenue the abuse these firms facilitate for their clients will become increasingly apparent — and will be beaten.

And with it the corporate use of tax havens would end almost overnight. As Barclays have proven — no one wants to be shown to be abusing these places and this reform would detail everyone who was doing so. Reputational risk would then destroy the market for good.

You can see why Oxfam, Christian Aid, Action Aid, CAFOD, War on Want and others are convinced. Now it's time for the Big 4 to join them.

But will they? Many people in those firms read this blog. Will one have the courage to respond?