The ACCA – supporting illicit financial flows

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There is no doubt that the biggest component in the world's illicit financial flows is transfer mispricing by the world's multinational corporations seeking to extract profits from countries where they do not wish to pay taxes that are legally due in those places.

No one does, of course, know the precise amount of the abuse. Global Financial Integrity have suggested that illicit financial flows out of developing countries might be US$1 trillion a year and that 65% of this might be trade mispricing.

But the ACCA (Association of Chartered Certified Accountants) in its new report makes no mention of this abuse. It says on transfer pricing (edited selections):

Transfer pricing, the way in which multinationals charge other companies within the group, is one of the most contentious issues in international tax — and one in which the attitude of the national tax authority can be of major significance.

The development of the OECD Model Tax Convention and the rules it encapsulates are recognised as the benchmark for policing transfer pricing within global trade by most of the world economy. ACCA supports the OECD's so-called â€šÃ„Ã²arm's length' principle to test related-company pricing, but would urge the OECD to produce assurance measures which require less onerous and time-consuming documentation. Most multinationals feel obliged to hold extensive records and surveys, well beyond what is necessary in case of a challenge by their revenue authority.

ACCA, as a global body, has noted that some developing nations may impose prices upon imported goods, usually from affiliates, which are above the import cost, even where the actual cost can be demonstrated from bank transfer records. This is clearly likely to lead to double taxation as well as higher indirect taxation levels being applied to the goods. There is a real problem here in terms of implementation which occurs in some jurisdictions.

Overall, ACCA considers that there are more effective ways of creating a level playing field for global trade in the Internet era, and would suggest that the OECD considers options for lighter-touch transfer pricing rules.

Note that here the developing countries of the world are the villains of the piece when the evidence is unambiguous: they are the losers.

And note the remedy is not real reform of the sort unitary taxation could deliver, or better risk assessment of the sort country-by-country reporting could deliver, both of which would enforce the principles of transfer pricing at lower overall cost to those companies seeking to comply with the law (who, you would think, the ACCA should be supporting). No, it’s a demand for lighter regulation to help the abusers that the ACCA wants.

Yet another example of an accounting body acting profoundly unethically, ignoring the facts, advising against the public interest and seeking to harm developing countries in the process. It’s quite a shopping list of accusations — every one of them justified.