Funding the Future

Taxing banks : country-by-country reporting has a great...

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We all know we need more tax revenue from banks. Obama has suggested an insurance levy: I doubt it will work. I support an financial transaction tax. But given my focus on country-by-country reporting over the next ocuple of days I thought I'd mention why this is a solution for banks as well.

Country-by-country reporting differs from existing standards on segment reporting by multinational corporation (US Standard SFAS 131 and IASB standard IFRS 8) in that it would require disclosure of the following information, without exception and without exemption on the grounds of claimed immateriality by each Multinational Corporation (MNC) in its annual financial statements:

1. The name of each country in which it operates;

2. The names of all its companies trading in each country in which it operates;

3. What its financial performance is in every country in which it operates, without exception, including:

¬? It revenues, both third party and with other group companies;

¬? Its cost of sales, split between third parties and intra-group transactions;

¬? Labour costs and employee numbers;

¬? Financing costs split between those paid to third parties and to other group members;

¬? Its pre-tax profit;

4. The tax charge included in its accounts for the country in question split as noted in more detail below;

5. Details of the cost and net book value of its physical fixed assets located in each *country;*

6. Details of its gross and net assets in total for each country in which operates.

Tax information would need to be analysed by country in more depth requiring disclosure of the following for each country in which the corporation operates:

1. The tax charge for the year split between current and deferred tax;

2. The actual tax payments made to the government of the country in the period;

3. The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period;

4. Deferred taxation liabilities for the country at the start and close of each accounting period.

Revenue information will also require additional analysis. If sales too any state are more than 10% different from the figure from any state then data should be declared on both bases so that there is clear understanding of both the source and destination of the sales a multinational group makes.

This disclosure has a wide range of benefits. In the context of bank taxation it will:

1. Assist identification of those entities that make up a banking group;

2. Assist identification of the income streams, costs, assets, liabilities, profits and tax liabilities of banking groups and apparent discrepancies between them;

3. Allow the relative performance of banks to be better assessed;

4. Allow the relative performance of banks in different jurisdictions to be assessed;

5. Enable investors and other providers of capital to banks to appraise:

a. the use that is made of that capital and their prospect of its recovery if the bank were to fail;

b. the corporate governance risk inherent in the bank’s group structure;

c. the geo-political risk of the bank in which they have invested;

d. the sustainability of the tax charge of the bank by taking into consideration the proportion located in tax havens and therefore likely to be subject to challenge from other revenue authorities;

e. the likely proportion of profit relocated through intra-group activity.

6. Enable tax authorities to appraise whether a bank is likely to be considered tax compliant. In this context tax compliance is seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

These benefits would also, without doubt, assist banking regulators in their work but in the context of the need for tax revenue the importance of country-by-country reporting is that is supplies data to all tax authorities with which banks will engage simultaneously and consistently so that each has an opportunity to appraise whether the overall profit declared within its is likely to represent a reasonable proportion of the overall profit of the group in proportion to trading activity undertaken in that jurisdiction. As a consequence it can determine whether that declared profit is the fair starting point for determining the profits to be assessed to tax. Unless this can be done as cost effectively and as quickly as country-by-country reporting will allow banks will always seek to circumvent requirements for all and accurate geographical disclosure of their performance to the likely detriment of tax authorities in all jurisdictions bar tax havens. This measure is, therefore, an essential first step to securing additional revenues from banks.

Which is another reason why we need it, now.