A country-by-country reporting agenda for Vince

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The Telegraph reported last weekend that "*Vince Cable, the new Business Secretary, has placed tackling tax avoidance by businesses at the top of his list of priorities*."

That's welcome news, albeit that as he's not a Treasury minister, it might seem a little surprising. Or is it?

Tax is not a simple issue. Some — like those who supported flat taxes not so long ago — might like to think tax is just a matter of multiplying income by a specified tax rate and then you have you answer. In the UK there is endless debate about what that tax rate is. And as Vince Cable will well know, that is within the Treasury domain. But, and this he also knows, if there is no identifiable income then there is no tax to collect, whatever the rate. And as a great many of the problems relating to the identification of income concern corporate accounting issues, and that subject is within Vince Cable's domain at the Department for Business, Innovation and Skills, he could have a big role to play.

There are a number of ways in which Vince Cable could address this issue that would have astonishing impact on UK tax revenue. Most importantly, he could support whilst in office the introduction of a new mandatory *accounting standard for country-by-country reporting. As the Telegraph reports:*

"He has long held the view that multinational companies should be forced to report profits and losses and tax bills on a country by country basis rather than simply a global basis and may support current OECD and EU reviews of international accounting standards in this area."

Country by country reporting is a radical new approach to accounting. Expressed simply, it would require that every multinational corporation be required to present not just the single set of accounts that they do at present that show a global view of the corporation's activity, but an additional profit and loss account and limited balance sheet for every single country — without exception — in which it operates. What is more, trade within the group between the different countries in which it operates would also have to be revealed under the rules of this new type of accounting.

This would have enormous impact. Firstly because more than 60% of all world trade is between related companies; that is companies under common ownership. Not one pound, euro, dollar, yen or anything else of this trade is revealed in the published glossy accounts of multinational corporations and yet it is this intra-group trade that gives rise to transfer mispricing abuse — now thought to be the biggest source of tax loss to the Exchequers of the world as a result of the activities of multinational corporations. Under country-by-country reporting all this trade would be out in the open, making it much easier to identify potential abusers. The UK's HM Revenue & Customs have admitted they would undoubtedly collect more tax as a consequence.

Second, there is no doubt that multinational corporations, and banks in particular, make massive use of tax havens — or secrecy jurisdictions as many now prefer to call them. The combination of group accounts that disclose no intra-group trade and the absolute opacity of these places means we know nothing about what multinational corporations do in these places. Country-by-country reporting would break secrecy jurisdictions open — and reveal who is using tax havens to move their profits out of the hands of major tax authorities.

The potential tax yield in developed and developing countries alike more than justifies this reform — which would cost business little since it must have, by law, all the information required to publish this information. There are other reasons for wanting the reform though.

Country-by-country reporting says where a company is. Unless you know a multinational corporations is in a place there is no chance of holding it to account as a good corporate citizen of that place. Better governance, enhanced corporate responsibility and better interaction with society must follow from country-by-country reporting in that case.

And shareholders benefit too. Almost all recent major corporate failures have involved tax haven abuse. And corporate risk from trading in high risk environments is disguised by current accounting — leaving shareholders in the dark far too often about the risk they are taking in associating with companies taking, in turn, risks shareholders would never countenance as acceptable. Disclosure of the geo-political risk within multinational corporations is vital if shareholders are to make appropriate decisions.

So Vince has a tax reform agenda he can pursue. And since this issue is on the agenda of the OECD and the International Accounting Standards Board it needs a UK champion who believes in the merits of business and in its accountability at the same time.

Is Vince the man?

Note: this blog first appeared on [*Left Futures*]