

# How more transparency in accounting could help deal wit...

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I've been called by a several reporters this week wanting to talk to me about UK Uncut. I'm not sure why, because I've never met those who run UK Uncut, have no involvement in it, and do not know its plans. I therefore suggested they call UK Uncut.

I did however take the opportunity to talk about what I think the issues are concerning tax and accountability - which is something I have been addressing for a long time. As I explained, when it is almost impossible to tell for the vast majority of large companies (who are of greatest public concern) where they make their money, where they declare their profits and where they pay their tax a fundamental issue of accountability is missing from corporate reporting. This has, of course, been the basis for my work on [country-by-country reporting](#). It's my genuine belief that if there was greater accountability on tax paid by major corporations then many of the issues being raised would, at the very least, be subject to better informed debate, and in some cases may be resolved.

So it was pleasing to note [this blog post on Liberal Conspiracy](#), written by Lydia Prieg, a researcher in the Finance & Business team at the [new economics foundation](#) (nef).

*This week, the European Commission's call for evidence on country-by-country financial reporting drew to a close.*

*It is asking whether multinationals should be required to disclose, on a country-by-country basis, information such as: sales, costs, profits, number of employees and taxes paid (and more).*

*If these new standards are adopted, this would be an important step towards combating international accounting fraud, tax evasion and tax avoidance.*

*Christian Aid has estimated that approximately \$160 billion of potential tax revenue in developing countries is lost each year as a result of "transfer pricing" abuse. For example, a company could have a marketing team based in the UK, intellectual property rights or trademarks based in Switzerland, and production facilities based in China.*

*Multinationals can manipulate transfer prices by mispricing the products traded between subsidiaries, which thus facilitates the flow of capital between countries. For example, a company may overstate the price of a product being sold from a subsidiary in a high-tax country to a subsidiary in a low-tax country.*

*This is particularly prevalent when dealing with hard-to-value intangible assets, such as trademarks, which can be assigned any geographical location. “Management fees” to individuals and entities domiciled in tax havens are also commonly deployed, and the rates at which different subsidiaries lend to each other also often differ.*

*It is also fundamentally unjust that small and medium sized businesses, which are too small to have overseas subsidiaries, pay their full tax bill, whilst large corporations dodge their social obligations.*

*There are other benefits too:*

- As many multinational companies operate across the globe under differently named subsidiaries, it is currently often difficult for investors to determine all the locations in which a company operates. This means that many investors are unaware of the geopolitical risks to their investments.*
- Country-by-country reporting would also help ethical investors make informed decisions when deciding which companies they wish to invest in.*
- These new rules would help increase transparency in developing countries, where corruption is rife. For example, citizens would be able to see how much their governments make exporting natural resources to the West. This would shine a light on the large sums of money that go directly into officials' pockets.*

*In 2009, even Forbes admitted that “intra-company pricing crosses the line from tax avoidance into outright tax evasion”.*

*Let us hope that the consultation heralds a new era of transparent accountancy. Let us also hope that the major accountancy firms support this move and live up to what used to be the watchwords of the profession: “true and fair”*