Funding the Future

If we had country-by-country reporting we'd know where ...

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The New York Times is following the worldwide trend of exposing companies who are very clearly structuring their affairs to make sure they do not pay the tax that any reasonable person would expect them to owe based on where they're based, where they make their product and where they sell it.

As they point out today:

Even among tech companies, Apple's [tax] rates are low. And while the company has remade industries, ignited economic growth and delighted customers, it has also devised corporate strategies that take advantage of gaps in the tax code, according to former executives who helped create those strategies.

Apple, for instance, was among the first tech companies to designate overseas salespeople in high-tax countries in a manner that allowed them to sell on behalf of low-tax subsidiaries on other continents, sidestepping income taxes, according to former executives. Apple was a pioneer of an accounting technique known as the "Double Irish With a Dutch Sandwich," which reduces taxes by routing profits through Irish subsidiaries and the Netherlands and then to the Caribbean. Today, that tactic is used by hundreds of other corporations – some of which directly imitated Apple's methods, say accountants at those companies.

Without such tactics, Apple's federal tax bill in the United States most likely would have been $2.4 billion higher last year, according to a recent study by a former Treasury Department economist, Martin A. Sullivan. As it stands, the company paid cash taxes of $3.3 billion around the world on its reported profits of $34.2 billion last year, a tax rate of 9.8 percent.

Now Apple will say - and I'm sure they're right - that all of that is legal.

And I will say - and I'm sure I'm right - that it's also profoundly unethical. They may disagree, but I'm equally confident most of the world would not side with them.

Tax is the fee companies pay for their licence to operate - even John Cridland, director of the CBI said so recently, I'm pleased to note (people used to criticise me for doing so, which makes his use of my language all the more pleasurable). As he said only a week or so ago:

Companies completely accept that paying taxes is part of doing business. It gives them their broader license to operate, and enables them to play a full role in society — and be recognised for doing so.

Well, clearly Apple and a host of other companies do not agree with him. They instead hide behind the consolidated form of multinational corporations financial statements to make sure we have no clue what they really do and where. As the New York Times also says:

Apple does not disclose what portion of those payments was in the United States.

I could add, or anywhere else come to that. And this is the problem. Consolidated accounts - which remove from view all the transactions that take place within a multinational corporations (which are estimated to make up 60% of world trade) mean we have no idea of the real geography of sales, costs, labour spending, profits, finance costs, profits, tax paid and much else within multinational corporations. All we do know is that tax is not paid - which is a mighty convenient outcome for for those companies.

The answer is, of course, country-by-country reporting, the form of accounting I created nearly a decade ago now. There are full details here. With country-by-country reporting we'd know:

* Where Apple made its sales;

* Where it incurred its costs:

* Where it employed its people:

* Where it recorded its profit;

* Where it did, and as importantly, did not pay its taxes;

* And, most importantly, how it used intra-group transactions to shift all this around.

And if in doubt - we'd also expose tricks like using Ireland and Nevada as sales bases as sales would have to be disclosed on both a source and destination basis i.e. not just that they're made from Ireland but where they go to.

Apple is just one of the countries in the world abusing the world's tax systems. It does so with the proactive help of almost all the major accounting professional bodies - who oppose country-by-country reporting - and the decided support of the Big 4 accountants

- who are vehemently opposed to increasing accounting disclosure (an odd paradox you'd have thought). They're also aided right now by the OECD - who can't see how having this information could possible help tax collection - which is baffling, to say the least.

But country-by-country reporting is making progress despite that opposition of the vested interests that favours tax avoidance that shifts tax onto ordinary people - as must be happening here. The European Parliament and Council of Europe have both called for full country-by-country reporting in the last two weeks. The battle for it is far from over - but the moral case for it is being won, day in and day out and those who oppose it are daily being seen as those who oppose fair taxation and who oppose transparency and accountability.

Their day is not over.

But it will be.