Funding the Future

58 NGOs say 'No more shifty business'

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Fifty eight NGOs and campaigning organisations, of which the Tax Justice Network is one, have issued a joint statement on the OECD's Base Erosion and Profit Shifting project today. The report is entitled 'No more shifty business' (for which I am entirely to blame, along with some of the drafting). As the combined NGOs are saying:

The new briefing paper, No more shifty business, calls on the OECD and G20 to work with the United Nations Tax Committee and governments in developing countries to define new rules for the taxation of multinationals

The new rules must ensure that each country is able to tax a fair share of the profits earned by multinationals operating within its territory. They should also treat multinationals as what they really are: complex structures bound together by centralized management, functional integration and economies of scale.

Finally, the briefing argues that multinationals must pay their taxes where their economic activities and investment are actually located, rather than in jurisdictions where their presence is fictitious and explained by immoral tax avoidance strategies.

As to detail, the paper is clear as to the required direction of travel necessary to achieve these aims. It says:

When it comes to the taxation of MNCs, current international tax rules treat the different branches and subsidiaries that form the multinational group as independent companies. This notion is at the heart of the OECD's Arm's Length Principle. The reality is that the current tax rules are based on a false assumption.

Not surprisingly, these rules have in fact contributed to the problem for which urgent solutions are now desperately being sought.

If MNCs were treated as just one single entity, rather than as the sum of independent companies, they would not be able to benefit from creating fictitious entities in tax havens as a strategy to avoid or evade taxes. Nor could they exploit to their advantage

— and at everyone else's expense — the many existing loopholes in bilateral tax treaties.

Treating MNCs as just one entity would not only be more realistic, but would also lead to a more transparent and easy-to-administer system.

In order for MNCs to be taxed according to their real nature, two measures should be introduced:

- MNCs should be required to submit a worldwide combined report, including consolidated accounts, to the tax authorities of each country in which they operate.

- MNCs should be required to provide a country-by- country breakdown of their employees, physical assets, sales, profits and taxes actually due and paid.

These two measures could be the basis of a tax system that would consider the total profits made by a MNC, rather than the profits made by any of its parts. It would then allocate these profits to the different countries in which the MNC conducts its real business, according to transparent criteria. Each country would be free to decide what tax rates to apply to their corresponding tax base.

These measures should be complemented by others in order to foster financial transparency, such as the public disclosure of the beneficial owner of companies, foundations and trusts, and the adoption of automatic information exchange as the new global standard.

But we stress:

We are not asking for a revolution, but for an evolution of the current international tax system. We are asking for a determined and focused gradual change. Requiring MNCs to provide a global combined report could be done within the international rules that are currently in place. In fact, the United Nations' Manual on Transfer Pricing already recommends that tax authorities require MNCs to provide worldwide consolidated accounts to facilitate the effective implementation of transfer pricing audits. Consolidated accounts are also necessary to apply the 'profit-split' method, which is already allowed within the current OECD guidelines. Under this method, the total profits of a MNC are allocated to different jurisdictions according to so-called 'allocation keys' — clear and concrete criteria defined on a case-by-case basis by the parties concerned.

The OECD, David Cameron and others have said that civil society must be involved in the G8 tax process. Well, this is what civil society wants. We look forward to the response.