Putting tax paid on public record - an extract from 'Ov...

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I have been arguing for country-by-country reporting for a decade. This is what I had to say about it in my ebook 'Over here and under-taxed':

One reason why tax avoidance by multinational corporations has gone on for so long is that they have been able to conceal it. Multinationals often hide what they're doing (as Starbucks does in Switzerland and Google does in Bermuda) behind the veils of secrecy that tax havens provide, which allow them to keep the accounts of companies operating from those places secret. It is not clear whether this is a deliberate act on their part of not or whether there is an unthinking acceptance that they are entitled to the secrecy these places permit those who trade there: in either case it is time for this to change.

That secrecy is compounded by the nature of the accounts that multinational corporations produce. These are consolidated accounts: they only show the transactions between the group as a whole and third parties — suppliers, customers, employees or tax authorities. Every dollar, pound, euro or yen of intra-group trading within multinational corporations is hidden from view, which means, as previously noted, that 60 per cent of world trade remains invisible.

There is a way to penetrate the secrecy of tax havens and the obscurity of consolidated accounts. This is an accounting reporting method I created a decade ago called country-by-country reporting.[i] This would require every multinational corporation to declare every country in which it worked and the names of all its subsidiaries working in each place and to then publish a full profit and loss account, partial cash flow and limited balance sheet for each such location. There is an important caveat: these accounts would have to include not just the third-party trading taking place in a location, but the intra-group trading too, with each shown separately. That way we would see how internal group trading is used to shift profits between countries. So, if a multinational corporation had an operation in Cayman that made all its sales and purchases internally, had no staff costs but very high profits and paid no tax, it would be glaringly obvious that a tax avoidance operation was going on.

Most arrangements are not as blatant as that, but the simple fact is that at present the accounts of multinational corporations are not adequate to tell us all we need to know about the profits made and tax paid by those companies, let alone where either occurs. As Margaret Hodge said, 'country-by-country reporting … seems like a really good idea', [ii] and it is now more than that. In limited form, and for the extractive industries alone at present, it is now becoming a legal requirement in the USA[iii] with Europe to follow soon.[iv] The EU Parliament also endorsed full country-by-country reporting in, unfortunately, a non-binding resolution on mechanisms to tackle tax avoidance in April 2012.[v] In other words, the momentum for this reform is growing, and with good reason. The world's tax authorities need the data that country-by-country reporting can provide, but so too do all the users of the accounts, the regulators and perhaps most importantly company shareholders, if they are to fully understand what a company is actually doing and where.

Publishing that information would most likely have a significant consequence. If shareholders (and others) understood what companies were really doing, it is likely those companies would change their behaviour. As is very apparent from the reaction of Starbucks and Amazon (but maybe not Google) to being accused of tax avoidance, this has significant economic and social consequences for many businesses. Some companies only undertake certain activities now because it is not clear that they are doing so. If it were clear — and country-by-country reporting can makes sure it is —then they would stop.

The UK could introduce country-by-country reporting if it wished, although it would be difficult because doing so would take its accounting requirements outside the framework currently demanded by the European Union and the International Accounting Standards Board, the body that issues the EU-endorsed International Financial Reporting Standard. Progress has so far been slow to meet the EU's demand for country-by-country reporting, but in January 2013 a new review of the relevance of International Financial Reporting Standards was announced by the EU, which is showing signs of increasing concern at their indifference to socially relevant issues. The opportunity for change now exists, and it is time for the UK to pressure the EU and International Accounting Standards Board into delivering country-by-country reporting.

And since I wrote this in January the EU has announced it will be introducing country-by-country reporting for banks and the *UK has said it is now in favour. Sometimes things move rapidly.*

But this is just one of many demands in the book.

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[i] *For a short description of country-by-country reporting see http://www.taxresearch.org.uk/Documents/CBC.pdf. For a much fuller briefing see http://www.taxresearch.org.uk/Documents/CBC2012.pdf*

[ii]
http://www.internationaltaxreview.com/Article/3125309/Margaret-Hodge-backs-country-by-country-reporting-and-a-UK-FATCA-to-end-tax-avoidance.html

[iii]
http://www.publishwhatyoupay.org/about/stock-listings/cardin-lugar-amendment-dodd-frank-1504

[iv]
http://economia.icaew.com/news/september2012/country-by-country-reporting-gets-go-ahead

[v]
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0137+0+DOC+XML+V0//EN