The CBI want change to the tax system but not whilst th...

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The OECD will be publishing its report to the G20 finance ministers ion how to tackle tax avoidance this week. There will be more of that anon, but this morning the FT has noted the CBI's peremptory response. As they note:

In a report to be published this week, the CBI, Britain's main business group, will urge ministers to stand firm against reforms that could dilute the UK's tax competitiveness, including significant change to the taxation of foreign profits.

"Maintaining and improving UK tax competitiveness should be a core objective when the UK seeks to shape international tax rules," the report will say.

As is also noted:

Some leading academics and campaigners have called on governments not to waste an unrivalled opportunity for a radical rethink of the corporate tax system. But the CBI will dismiss as unworkable the main alternatives, including a turnover tax, a destination-based corporation tax and 'formulary apportionment', a system of dividing up taxable profits between countries using a formula.

Now I would agree that the first of these is bizarre, and wholly inappropriate The second represents Prof Mike Devereux's latest thinking, and is VAT by any other name - with all the same impact of charging more on the poorest and letting capital off tax as far as I can see, and the last is of course the work of civil society, me included, except not quite.

As civil society wrote in 'No More Shifty Business' (which I have to say is, I still think, one of my better titles because that was one of my contributions to this work):

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.

It's hard to see how the CBI could object to that - unless of course self interest drives them to support the existing arrangement that suits them rather well. Nor is it easy to see how the CBI could really object to the direction of travel civil society has proposed:

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.*

This is especially true when 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.

And yet the CBI fears that the two year time scale of the OECD programme could (according to the FT):

lead to significant changes "without a full understanding of international business models". The UK "should resist any changes that have not been fully thought through" it will say.

So, their argument is that they want change but just not right now whilst they can still extract unfair benefit from the existing tax system at cost to all the rest in society. I think we get the message.