If KPMG want to debate tax there are some things they n...

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I have promised not to blog this week, but what follows was written before I went into hospital for an online tax debate KPMG are sponsoring that is still hidden behind development passwords. No one said I should not publish my contribution elsewhere.

I think it churlish not to engage with parties to tax debate if they are now willing (at long last) to come to the table, but I am not open the suggestion that those who have created the problems can now suggest what the terms of that debate might be. The agenda for the direction of tax reform has been set in favour of disclosure, openness, information exchange, cooperation and harmonisation. There is no room for back tracking or changing any of these themes now. In that spirit my contribution to debate with KPMG quite deliberately poses a direct challenge to them, because nothing less will do. The list was not meant to be complete by the way: it is only an indication of the easy, low hanging fruit, KPMG must deliver to prove they are to be taken seriously in any way. There is much more reform required of them if they want to stay in the debate for the long term:

The debate on tax that civil society has been leading for a decade has widened recently. I welcome KPMG joining the debate, and not just because 35 years ago it was in one of its constituent firms that I began my accountancy career.

Let’s be realistic though: if the debate on taxation is maturing — and KPMG’s involvement suggests it is — then so too has the nature of the debate got to change. I do not regret for one minute that for more than a decade I was one of those from civil society who argued that tax havens caused harm, some big businesses and wealthy individuals were not paying their share of tax as a result of aggressive tax avoidance and that a failure of corporate transparency, in particular, was making much of this possible due to the double layer of secrecy provided by tax havens and the opacity of much corporate reporting. We were right to say all those things. And bluntly, we have won that debate. If KPMG now want to reclaim that space their objectives are deeply mistaken: there is no political way back on those issues now. All we can do is go forward.

So, how do we go forward? I suggest there are three ways to do that to which KPMG can contribute. First, as a major tax haven operator it can use its power as a lobbyist and economic activist to demand that whatever necessary economic functions are undertaken from tax havens (and I am told there are some) are all recorded on public record in fully transparent accounts so that the benefit of those actions is clearly known about and understood by all who need to know about them, including those who are impacted by them in society at large. KPMG has been, through its lobbying activities, a major player in creating many of the existing structures of the offshore world. If it is serious about change then KPMG has to be seen to be a part of that change and it should use its enormous influence in secrecy jurisdictions to ensure that change takes place.

Second, KPMG is a major influence on the International Accounting Standards Board through its alumni sitting on that Board, its secondees to it and its funding of the body. This is because, despite its status as a standard setter, the International Accounting Standards Board remains a privately owned company, based in Delaware although operating from London, that sets accounting standards largely at the behest of the accounting profession. If, then, KPMG wishes to engage in debate on transparency it has the perfect outlet for its concerns: the IFRS Foundation says it issues International Financial Reporting Standards in the public interest and yet to dated has refused to recognise the need for transparency or information for the benefit of any user of financial statements bar the suppliers of capital. This is a massive deficiency in its standard-setting process, and if KPMG wants to make an impact on the future of transparent financial reporting then the first thing it could do would be to lobby to change this situation so that the needs of all users of financial statements are taken into consideration by this Board when financial reporting standards are set.

Thirdly, KPMG can indicate the direction of travel in which it wishes to move by transforming its own accounting. There is no reason why it could not produce worldwide accounts analysed on a country-by-country basis showing precisely where its activities are based, how much of its activity takes place in each jurisdiction where it trades, including tax havens, and what type of activity is undertaken there. If there is now an acknowledged need for transparency in accounting then there is an even greater need for transparency amongst those who are tasked with regulating the accounting process and KPMG, as one of the leading members of the big four firms of accountants, has to take that responsibility seriously by showing that it is committed to reporting exactly what it does, where, with what profit arising and, where appropriate, what tax paid so that it can be held to account for its actions so that it may be considered fit to pronounce on the affairs of others. Given that in many jurisdictions it does use limited liability to protect its interests this is a wholly reasonable expectation.

If KPMG were to undertake these three actions then it can be considered a serious participant in tax debate because it will have indicated that it is taking part with the expectation of real change resulting. Without it taking on these three roles it is hard to see what KPMG is hoping to achieve from such debate bar the generation of political noise, and that is of no benefit everyone.

Please note that I am out of action for normal work purposes at present as I am recovering from an operation to have my gall bladder removed. I am blogging occasionally but comment moderation may take a while. I hope to be back to normal soon.