

## The opponents of country-by-country reporting are in a ...

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Robert Maas is a tax adviser who, for as long as I can recall, has been on what I might call the right wing of tax commentary. He has an article in the Institute of Chartered Accountants in England and Wales magazine *Economia* this month responding to one from Action Aid calling for reform of the international tax system. [In it he says:](#)

*ActionAid's next proposal is to require multinationals to publish reports of their turnover, profits, taxes paid and other data on a country-by-country basis.*

*Actually the Finance Act 2015 does just that. It requires such information to be published to all of the tax authorities involved. But that is not what ActionAid wants. It wants public publication. Personally, I think this is a dangerous idea because the information is bound to be misleading.*

*In the international arena the profit from a sale is often generated by activities in a number of countries. How should the profit be attributed to each of the countries involved? One way would be for each country to make an arm's length profit on what is done in that country with the balance of the profit being attributable to the UK. That is basically the current system.*

*However in practice, ascertaining the arm's length profit due to each country is easier said than done. It can easily take 10 years to agree the figure with a tax authority. So the company's initial estimate is fairly meaningless. It is not wholly meaningless to a tax authority, as it helps it to validate its own initial view of the profit attributable to its country. Publishing to tax authorities makes sense; wider publication does not.*

As readers here will know, I cannot claim objectivity on country-by-country reporting since I created the idea, but I can see through nonsense like this none the less.

There are three flaws to what Maas is saying.

The first is that arm's length pricing works. He assumes there is a market comparison for all the activities multinational corporations undertake between states even when many of them are wholly artificial e.g. the relocation of intellectual property made in

one state in another (a tax haven) solely for tax gain. There is no such market price comparison available. Arm's length pricing does not work.

Second, he acknowledges this by saying that negotiating a solution to this conundrum takes time.

And he then uses that fact to say we should neither know the start point to the negotiation or the outcome because that would be misleading.

This gives rise to three questions. First, misleading to who? Investors, surely, who face massive uncertainty in their earnings as a result? Is he saying they should not know that? If so, isn't he denying that the first purpose of accounts is to advise them of the true performance of the company in which they are invested?

Second, if this information is misleading why give it to tax authorities? Surely they have a right to honest data?

And third, if it is misleading, how come it can be signed off as true and fair by the auditors? Surely they are negligent in that case?

Maas is in a hole. I suggest he stops digging.