Funding the Future

The EU Parliament has just demanded that the Commission...

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I gather that the EU Parliament has just voted to approve the package of tax demands of the EU Commission previously made by the Economic and Monetary Affairs Committee of the Parliament. This means that the Parliament has voted for a European Fair Tax Label. As the creator of the idea I admit I am pleased.

That country-by-country reporting on pubic record was another demand adds to the pleasure, as does recognition by the parliament of the importance of the EU tax gap, of which I have prepared the only estimate at present. These, and a lot of other issues I have worked on, were in the package that now looks like an early Christmas present.

But, this is not the end of the issue. I wrote this in the Guardian two days ago and think it important to reiterate that this vote is only the first step in a process and the Commission now has no choice but make clear where it stands. That is the next crucial stage in getting what is needed:

On Wednesday, the European commission will vote on a series of demands made by the EU parliament on corporate tax transparency.

This is important: no parliament has done more to promote tax justice issues than the European parliament. Its demands represent important steps towards ensuring large companies pay the right amount of tax, in the right place and at the right time.

The demands are also significant because they will force the commission to say where it stands on a number of key issues.

Country-by-country reporting

Foremost amongst these is the call from the parliament for all large companies to report their profits on a country-by-country basis from June 2016. This requires multinational companies to provide a full account of the countries in which they trade, specifying for each what profit they make and how much tax they pay. Implementing this would, for the first time, force these companies to explain their use of tax havens, among other things.

This call has long been resisted by corporations on the grounds that it would cost too much to supply the data. But that argument is now a hollow one as in September 2014 the Organisation for Economic Co-operation and Development decided that all multinationals should report to their tax authorities on that basis. The EU parliament is saying that it's time that the public had access to this information.

Effective decisions can only be made if full information is available to those who have to decide. Country-by-country reporting would provide information that investors, employees, governments, regulators and other stakeholders all need if they are to properly appraise their engagement with multinational companies operating in these jurisdictions.

The challenge to the commission on this point is this: will it evidence its belief in the economic theory of free markets, which requires that this data be made available, or will it support the companies that want to withhold this data from the public to preserve their opportunity to avoid taxes?

Fair tax payer label

Other demands the parliament is making are almost as important, including its call for the creation of a Europe-wide "fair tax payer label". Governments across Europe, including those based in London and Edinburgh, want to assess tax behaviour as part of the decision-making process when determining which companies to buy services from.

This is very difficult at present. As the technical director of the Fair Tax Mark, which has been pioneering assessment in this area, I welcome the parliament's call for this new label. The Fair Tax Mark, upon which it is modelled, requires companies to offer considerably more explanation of their tax affairs than most companies do. After fewer than two years of operation, 16 companies now have the Fair Tax Mark, including FTSE 100 energy company SSE, cosmetics company Lush and several members of the Co-op.

If all companies bidding for public contracts across Europe needed to have this label, then governments and other bodies would be able to easily assess which companies are paying the taxes they owe. This would result in a real change in tax behaviour.

Estimating the corporate tax gap

There is one other measure that stands out in the long list of demands: the call to the commission to prepare an official estimate of the amount lost to tax evasion and avoidance in each European member state.

It is a little absurd that the only such estimate available (pdf) at present was prepared by me. I have no doubt this work could be improved upon, and I hope that the commission accepts this challenge.

Unless we can quantify the scale of the tax problem we face, the argument to allocate appropriate resources to tackling it cannot be made. Yet if the losses are anything like the â‚¬1tn (£730bn) that I estimate the governments of the EU member-states lose in tax evasion and avoidance each year, this should be one of the highest priorities for governments throughout the EU.

Collecting tax could become a viable alternative to austerity. The wellbeing of millions of people is at stake. Will the commission side with those people, or not?