

## Why the time for Tax Reporting Standards has arrived

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I [have already written](#) about the need that I think exists for Tax Reporting Standards and have linked to my [note on the issue](#). The first section of that note deals with the reasons why I think we need Tax Reporting Standards now, and is as follows:

### ***Background — the rise of the tax justice movement***

- \* ***Corporate tax risk was on almost no-one's radar in 2002;***
- \* ***In the decade that followed the work of the Tax Justice Network, and of those who supported their cause, put Google, Amazon and Starbucks (amongst many others) under intense public and political scrutiny;***
- \* ***The consequence was the OECD Base Erosion and Profit Shifting agenda, which has resulted in the adoption of one of the Tax Justice Network's key ideas and demands - country-by-country reporting - for the purposes of tax reporting from companies to their tax authorities, but not (so far) to the public;***
- \* ***A momentum for change has been created as a result of civil society pressure and there is no sign that the demand for multinational corporation accountability with regard to tax has been anywhere near sated as yet.***

### ***The creation of tax risk***

- \* ***The civil society campaign on corporate tax abuse has emphasised that corporate tax behaviour creates risk for society and investors;***
- \* ***It has, in part, done so by creating reputational risk for companies;***
- \* ***This has seemingly encouraged an increasingly aggressive stance from tax authorities keen to play on this issue;***
- \* ***The result is an increase in tax risk that existing tax reporting does not permit almost anyone to appraise.***

## **The asymmetry of data**

- \* **Existing tax reporting is widely acknowledged to be too opaque to be of use to those seeking to appraise corporate tax risk;**
- \* **Existing tax disclosure is deeply secretive:**
- \* **Tax returns are invariably secret;**
- \* **Accounts are also in many cases secret as well e.g.**
- \* **In the case of tax haven companies;**
- \* **For smaller companies;**
  
- \* **Existing financial reporting standards on tax are weak and produce largely incomprehensible data, especially because reporting of current and deferred taxation is often combined in ways that make meaningful interpretation of current tax liabilities hard to achieve;**
- \* **Most of the existing data on tax from multinational companies fails as a result to answer the questions now asked of their affairs;**
- \* **Financial markets are as a result of this failure likely to be functioning profoundly inefficiently: the existence of significant asymmetry in the knowledge that exists within and outside companies on the risks that those entities might face might be resulting in material misallocation of capital resources that could impose substantial costs on those engaged in financial markets, on tax revenues and on many aspects of broader society.**

**There is no indication that the IFRS Foundation has any attention of tackling this issue**

- \* **The IFRS suggests that [ii]:**
- \* **The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit**
  
- \* **They say:**
- \* **The primary users need information about the resources of the entity not only to assess an entity's prospects for future net cash inflows but also how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources (i.e., stewardship).**

- \* **But add:**
- \* **The IFRS Framework notes that general purpose financial reports cannot provide all the information that users may need to make economic decisions. They will need to consider pertinent information from other sources as well.**

- \* **And then note:**
- \* **The IFRS Framework notes that other parties, including prudential and market regulators, may find general purpose financial reports useful. However, the Board considered that the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. Hence, regulators are not considered a primary user and general purpose financial reports are not primarily directed to regulators or other parties.**
- \* **The consequence is that many users of accounts and those seeking to answer questions that do not relate directly to the supply of capital must look elsewhere for the answers they are seeking;**
- \* **It is apparent that the IFRS take the view that most of the questions now asked of companies with regard to their tax affairs do fall into the category where answers must be sought elsewhere: they have suggested that the questions raised are political and therefore are beyond the remit of IFRS to answer.**

#### **On tax there is nowhere else to look for data**

- \* **In that case the time has come to create the data that is now needed to assess the tax risk inherent in companies;**
- \* **The only way to do this on a reliable and consistent basis is to create and then enforce Tax Reporting Standards (TRS);**
- \* **TRS must be issued by a Tax Reporting Standards Committee that aims to eventually set standards for the world, as have other accounting standard setters.**

**[ii] <http://www.iasplus.com/en/standards/other/framework>**