

PWC on why we need tax transparency

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There are occasions when the case for tax transparency and country-by-country reporting gets support from unexpected quarters. PwC was not one where I expected to find arguments in favour of tax disclosure, but in June Eelco van der Enden, a partner in PwC in the Netherlands [published an article with the International Federation of Accountants](#) in which he argued that there are eleven reasons for tax transparency. Some of the logic takes a moment to follow, but I think the list worth sharing as indication of at least one Big 4 partner's thinking right now:

- * For some industries, like extractive and banking, mandatory transparency regulations already exist. This has not resulted in market distortions—confirmed by companies subject to these transparency regulations. Why should these industries be transparent on tax and others not?
- * Many companies are already voluntarily tax transparent or intend to become so in the near future.
- * Non-transparency to avoid financial or reputational risks is foolhardy from a professional risk management perspective. It is gambling in the “tax-detection-risk lottery,” and it is not a sign of good corporate governance.
- * The argument that “company secrets” would be disclosed appears to be founded on the thought that, currently, data is safe within the company. Much (big) data is already publicly available. Furthermore, the information to be disclosed will not consist of secret formulas, but merely basic information on the difference between financial and tax accounting.
- * Tax administrations already have more information than will need to be published. Dysfunctional tax administrations are not prevented by non-transparency in tax. In fact, tax transparency offers an opportunity to confront the public and politicians with the bad behavior of tax administrations.
- * The argument that tax is too complicated to explain is not relevant. Try harder or implement less “unexplainable” structures.
- * If transparency prevents tax optimization, and this is seen as a competitive

disadvantage, then the question is, “how does this relate to a company’s (tax) governance and corporate social responsibility?”

- * A company needs a functional tax control framework in order to be sure it can file timely, validated, and correct returns. Tax transparency in itself will not lead to serious additional administrative costs. The European Commission has looked into this.
- * Countries are developing initiatives for more tax transparency on a state-by-state basis. Coordination and streamlining of international reporting standards via the European Union and the Organisation for Economic Co-operation and Development is needed to avoid a myriad of transparency regulations.
- * After LuxLeaks and the Panama Papers, NGOs and journalists will keep publishing such information in a format over which taxpayers have no control. Voluntary transparency can result in more public and political understanding of the tax strategy of (transparent) companies.
- * The United States itself has introduced regulations to improve transparency in risk management, reporting, exchange of information, and other areas.

These arguments miss key themes because they are, effectively procedurally based. So issues such as stakeholder need, investor need and the need of developing countries to secure data that tax agreements might not to deliver to them are all ignored in this list, and could expand it considerably, to PWC's credit if that had been done, but nonetheless even the pragmatic approach is interesting.

The argument for public country-by-country reporting is being won.