Funding the Future

Accounting reform is essential if tax abuse is not goin...

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I was asked recently how I might avoid tax in a large multinational company given all the reporting requirements that now exist, such as automatic information exchange, country-by-country reporting and so on? The follow up question was, how could I get away with it?

Most especially in the light of the new proposed OECD tax rules that are to be applied to the tax affairs of some of the very largest companies in the world, my answer was straightforward. I would firstly manipulate my profit margin to get it below 10%. Shifting disclosure of some aspects of activity into the statement or comprehensive income or into the the statement of changes in equity might make that possible in many cases, and I would certainly not rule out such things happening now.

Second, I'd make sure that my tax rate in the income statement looked as good as possible to deflect attention, and that can easily be done by moving tax credits into the statement of comprehensive income or statement of changes in equity.

I am not suggesting that any company is doing this right now, but when the tax bill might actually change by reason of doing so what is the chance that some company will fall to the temptation of making such changes? I'd suggests it is quite high.

In that case making sure that the disclosures that I suggest are required in blogs here and here this morning are very important. Cutting off opportunities for abuse before they arise is vital. Such an opportunity is looming here. It needs to be closed by requiring a full tax reconciliation by each multinational corporation as soon as is possible, and by also extending that requirement to all companies news, whatever their size.