How country-by-country reporting exposed tax havens

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Something called country-by-country reporting, which I created, changed the tax world forever. It forced multinationals to reveal how much profit they were shifting into tax havens. In this video, I tell the story of how I created this idea, how it became law in more than 70 countries, and how it is still reshaping global tax justice today.

https://www.youtube.com/watch?v=9GykYsdtWFU?si=TFLDtrr6UCfYFQ36

This is the audio version:

https://www.podbean.com/player-v2/?i=u8sqs-196ff24-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Country-by-Country Reporting: A Tax Revolution

Why It Matters

Something called country-by-country-reporting changed the tax reporting of the world's largest corporations forever. And before you think that this is boring, it's absolutely fascinating. Because what it did was require that every large company had to report what use it was making of tax havens, so that it could no longer hide profit there away from the prying eye of tax authorities.

This matters. This matters to you because you need those companies to be paying the tax they owe.

And it matters to me because I created country-by-country reporting.

It holds multinationals to account locally. But let me tell you a story about how it began.

The Beginning of the Idea

In Jersey in 2002, I met a chap called John Christensen. I was invited to go there by somebody who was called Prem Sikka. Prem is now a Labour peer in the House of Lords. But then he was a professor of accounting at the University of Essex. And he thought that John Christensen and I should meet each other. There was a meeting going on. I was looking for the opportunity to take a weekend away because Thomas, who is at this moment sitting on the other side of the camera I'm looking into, was a nightmare baby at the time, who wouldn't sleep through the night, and frankly, I would've gone to a conference on anything to have a couple of nights' sleep.

John and I met. Almost the first question he asked me was, how would we expose those companies who were shifting their profits into tax havens and make sure that they were held accountable for the tax that they weren't paying as a consequence? And I answered the question by saying, "That's simple, John. All it would require is that every one of those companies provide a profit and loss account or income statement for every country in which they operate."

And as a consequence, country-by-country-reporting was born. It was an idea born in a yacht club conversation. It's now a legal requirement in more than 70 countries around the world, and has impact way beyond that number because the companies who are using tax havens have to report on a country-by-country basis, whether or not the tax haven says they have to.

What the Proposal Required

So what does the proposal say? It's very simple. It's incredibly straightforward, and the data wasn't hard to find if only the companies wanted to declare it. It required these things: reporting of sales, and there were two types of sales that had to be reported. Those were the intragroup sales, in other words, the sales from one part of a group of companies to another part of the same group of companies. And those genuine sales from a place to third-party buyers. The people like you and I who buy from a company because we really need the products or services that they've got for sale. We wanted to know what those two figures were for every single place where a company was operating.

We wanted to know purchases split in the same way, intergroup and third-party.

We wanted to know how much profit was declared in each and every country where the company worked, including each and every tax haven.

And we wanted to know how much tax it was declaring that it would owe in that place. But we split that number into two parts. One was the amount of tax they said they might pay one day. And the other was the actual amount they were paying now, because we know that a lot of accounting tricks are used to up the declared amount of tax payable, but which never turns into cash payments.

We also required two other pieces of data. Again, nothing very complicated here: data on the number of staff in the jurisdiction and the value of the physical assets that were located in that place. And by physical assets, I mean literally the cars, the vans, the lorries, the computers, the buildings. You get the idea, the tables, the desks, the cameras, that stuff. That's what a tangible asset is. And we just wanted to know that data for every single country where the large corporation was.

The idea [was published in January 2003]() when Thomas finally slept through the night. I claim a record as being the only person who has probably ever in history and probably ever will in history, write a draft International Accounting Standard to celebrate the fact that his son slept through the night.

And to be honest with you, I thought that at that time only John and Prem would read this, and it was published by Prem's Association for Accountancy and Business Affairs.

The Logic: Unitary Taxation

But it's important to understand the logic of this because there is a strong underlying logic, and that is to be found in something called unitary taxation. And unitary taxation grew up in the USA, because in the USA, there are 50 states and companies frequently trade in many of them, and many of those states have a corporation tax. So it's quite important that they can allocate their profits to the states where they're trading, and this requires them to use a formula which is implicit in unitary taxation to determine where value arises so that a state can decide whether it has the right to charge a profit or not.

And unitary taxation is pretty simple. It says, and I think they're right, that value is created by sales - actually sales to real third-party people like you and me - by staff, the people who work for the company, and by tangible assets, the capital it employs. There's nothing greatly radical about this. It's actually very straightforward. But the fact is that this then lets something be calculated.

The ratio of genuine sales to total sales by the group could be calculated.

The ratio of staff in the location to total group staff could be calculated.

And the ratio of total tangible assets in the location to total group tangible assets can be calculated.

You then divide each of those by three, add them up, and you multiply the result by the total group pre-tax profit. It's not a hard thing to do. Work it out, and you can see how it works.

And if the resulting country profit was higher than you expected based upon that formula, then you ask why. Why is it that this country is making more profit in proportion to sales, in proportion to people, in proportion to assets, than we would expect? And in particular, we ask that question if the jurisdiction in question happens to be a tax haven with a very low or no tax rate, which means that there's an enormous incentive to shift profits into the location.

In contrast, if the country's profit that has been reported is lower than the expectation based upon the formulas I've just explained, again, you ask why, but in this case, you look to see if there's a chance that the profit is being shifted out of a higher tax jurisdiction where money might really be owing and into a tax haven.

And that's it. That's all it is. It's pretty straightforward stuff. The maths is not complicated. The ratios are easy to estimate. If you now had chat AI and a couple of spreadsheets, you could do all of this in two hours for a whole group.

But the point is, having that data creates the smoking gun that lets a tax authority ask, "Why has this group apparently got far too much of its profits in tax havens and far too little in the places where it looks as though it might be owing?"

Opposition from Accountants and Governments

You would've thought people would want to know about that. So we took the idea to the International Accounting Standards Board, which is dominated by the big four firms of accountants, by the way, and said, we'd really like you to include this in your standards. And they said, "Oh no, we can't do that. There's no benefit in this for shareholders. We wouldn't want to create the possibility of a company paying more tax than is necessary. So thank you very much. But that's not for us." They ignored their social responsibility.

Even more amusingly, the big audit firms , some of them, actually claimed that it was impossible to do country-by-country reporting. One of them told me once, "We don't know where our clients undertake their transactions." And I said, "In that case, you should be putting a qualification on their account saying they haven't got proper books and records." But even though they rethought their claim that it couldn't be done, they fought this proposal tooth and nail all the way.

Governments have first said, "This is far too political. We can't do that. Business will run away." The opposition was intense and deeply revealing.

Building a Coalition for Change

However, from a lonely place, which is where this campaign was for several years after

I created it, it began to get noticed.

It was picked up by something called Publish What You Pay, which was looking at tax paid in the extractive industry sector - oil, gas, timber, fishing, things like that - and saying, “Hang on a minute, this might help us identify what tax is not being paid.” Their angle was quite straightforward. They wanted to keep wealth in poorer countries, and the members of Publish What You Pay were major NGOs, so people like ActionAid, Oxfam, Christian Aid and many more around the globe began to get behind this.

A coalition for global tax justice began to be created, and it was funded by Norway, which was very inspired of them. The Norwegian government backed what we were doing quite explicitly as part of its international relations work.

The UK Moment

And then the UK moment began to happen.

There was 2008. Attention was suddenly given to tax injustice.

The Occupy movement created the awareness of just what was going on with regard to tax not paid, largely using data that I had produced at the time, in fact, almost entirely using data that I had produced at the time. And there was a rising awareness of tax abuse by large companies in particular.

And many of you will know the names that were involved. Google, Amazon, and Starbucks. All the press articles on those companies started with some quote from me, and very often some work from me with the journalists who published them.

I was heavily involved in this process, and in 2012, Margaret Hodge, who was at the time an MP and chair of the public accounts committee, decided that she was going to investigate Google, Amazon, and Starbucks in parliament. Put them literally in the chair in front of her, and ask questions about their tax affairs.

I met Margaret during the hour before that hearing and briefed her on the question she should ask. I actually was texting her during the meeting to ask follow-up questions, and people realised that I was doing that because, in fact, they could see that I was also tweeting those questions and then they were being asked.

It was ruthless. No company wanted to go where Google, Amazon, and Starbucks had been that day. They suddenly realised that the game was up. There was going to have to be accountability for tax. And it was my technical input that exposed the gap.

Public anger grew, and in the beginning of 2013, David Cameron, then the UK Prime Minister, realised that he had to do something about that anger to reclaim the initiative on this, which Margaret Hodge, for all her strengths and weaknesses, had claimed for Labour at that point in time.

So he put country-by-country-reporting on the agenda of the G8, which was going to meet in Northern Ireland in June that year.

I was there at that G8 meeting. It was the second time in which I had been in the secure compound of the meeting, right inside the area where all the discussions take place.

And I was there for one simple reason. I knew more about country-by-country-reporting than anyone else, and it was going to be adopted by the leaders of the G8 at that meeting. And if you want to go and have a look, it's in paragraph 25 of what is called the Lough Erne Declaration because Lough Erne is where the event took place in Northern Ireland - a pretty remote and very beautiful part of the country - and there was a commitment made to country-by-country-reporting.

From Campaign to Law

From 2003 to 2013 was a decade of hard work, but we now had the momentum.

The focus shifted to the OECD - the Organisation for Economic Cooperation and Development - the rich countries' think tank for the world run by those countries. And the organisation, which sets tax rules for the world, which is a bit unfair because, of course, there are around another of 160 countries who aren't directly represented. But this is the political reality, or it was the political reality at the time. I spent two years effectively negotiating tax justice issues with the OECD to deliver country-by-country reporting and other initiatives, including automatic information exchange from tax havens.

I'm going to cut a long story short, including the lovely morning I had when I spent over an hour basically in one-to-one conversation with the US delegate to the OECD on this issue, who at the end of the meeting declared, "I think I agree with you, Mr. Murphy." And at that point, as the head of tax at the OECD said, country-by-country reporting was real.

The consequence for me was that I was offered a professorship in International Political Economy at City, University of London.

I never made a penny.

But the consequence for everybody else was very significant. The OECD said, "You're going to prepare this stuff." And they turned it into a requirement that countries had to enact in law from 2017. And as I've already mentioned, 70 countries around the world have now done that.

There was a downside, though. The OECD said, "This is tax data. It's not accounting data." They were wrong. It was written as accounting data. But that was a compromise they made, and I deeply regret that they did. Because we needed this data on public record to prove that companies were accountable for what they were doing. But the door had been pushed open.

And in the meantime, we got country-by-country reporting for banks and extractive industries companies inside the EU. Very soon, we'll have country-by-country reporting for all large companies inside the EU. Australia is now leading on this issue and is demanding country-by-country reporting for all its large companies.

I co-authored the Global Reporting Initiative - GRI - proposal for Public country-by-country reporting, which is the basis of much of that work. It was a very bizarre thing to do because, in fact, I worked with a person from Vodafone and another person from PWC - PricewaterhouseCoopers, as once was - to create that proposal.

We worked in harmony, we came out with a good result. We are going to get public country-by-country reporting despite all the opposition that we faced.

The Impact

Country-by-country reporting does not prove abuse. It proves that there are questions to ask and questions to answer. But it means that multinational companies are no longer untouchable.

It means that profit shifting into tax havens is very much harder than it used to be. And academic estimates suggest that the scale of this activity has reduced by maybe 70%. And the trend is still downwards.

Let's just look at one quick example because it's just so illuminating. It came out right at the beginning of the history, but it showed how things had to change.

Barclays Bank, thinking that they were quite clever and would get ahead of the game, published a case study on their own results in 2013. And for that year, they reported that they had 54,000 people in the UK and they had made Barclays a combined loss between them of £1,339 million. In contrast, they had 14 people in Luxembourg and they had made a combined profit between them of £1,380 million, or let's be clear about it, almost £100 million a person.

Quite clearly, these figures were absurd. The expected profit in the UK was over £1 billion, and the expected profit in Luxembourg was around £71 million, according to the ratios that I had calculated.

The case for country-by-country reporting was made in a day. I reported this in The Guardian. They spread it far and wide. The world's corporations realised that if they were so naive as to report such figures ever again, they would be jumped upon from a great height. And indeed some have been ever since.

Lessons from Campaigning

Campaigning I learned must have a policy focus as a consequence. You can’t campaign for something without having an explanation of how it will be deliverable.

I worked out what country-by-country-reporting was before we began the campaign. We proved the technical feasibility before we ever got the troops out to start the serious campaigning, which led to the change.

I did learn that thick skin is absolutely essential if you are going to deliver change. But that persistence changes the world.

That’s another point that I learned as well. Country-by-country-reporting is radical, but it’s also really simple. The ratios it calculates tell the truth about the profits of multinational companies. And that makes it simple, clear and usable, and that’s precisely why it worked. We made multinational corporations accountable.

We proved that tax justice is possible with transparency.

We showed that good ideas and good technical thinking can attract allies. And with persistence, we can make a change.

A Final Footnote

But there’s one little footnote. The big four firms of accountants, PWC, Deloitte, EY, and KPMG, opposed this change all the way through to 2015, and then they saw a market opportunity in it. They began to set up consultancies to explain to their clients how to comply with it. I suspect they have made a fortune from it. I have never made a penny. I’m not worried about that. But what I can say with certainty is that trying to change the world is not the way to get rich, but it was a lot of fun.