

## **PUBLIC VERSUS PRIVATE: WHY MECHANISMS TO COMBAT TAX DODGING MUST BE PUBLICALLY AVAILABLE**

Large multinational companies and wealthy individuals are currently able to avoid paying the tax due in each country in which they operate. This problem is facilitated by a global system of secrecy. At the G20 this year global leaders will agree to a number of reforms to address this system of secrecy and the tax avoidance and tax evasion that it facilitates. We are calling for two specific reforms to help increase transparency in the global financial system. In both cases, we believe the information that becomes available needs to be made available to the public in order to ensure it truly benefits the world's poorest nations and people.

### **Country by country reporting**

Country by country reporting would require corporations to report on their operations - including sales, profits, taxes due and paid, purchases, number of employees, assets, purchases, labour costs and financing costs - for every country in which they operate.

This process is beneficial to both developed and developing countries for a number of reasons.

Firstly, increased transparency promotes trust in the economic system. The OECD argues that when wealthy multinationals avoid paying taxes the willingness of the general public to continue paying their share of taxes is undermined:<sup>1</sup>

*...if other taxpayers (including ordinary individuals) think that multinational corporations can legally avoid paying income tax it will undermine voluntary compliance by all taxpayers – upon which modern tax administration depends.*

This could result in a substantial loss of revenue, undermining the tax base needed to fund basic services like health, education and proper policing. Greater transparency maintains the confidence of all people about the fairness of the tax system.

Furthermore the ability to identify whether multinational corporations are paying tax in the countries where their economic activity takes place creates a disincentive for corporations to continue dodging their taxes. Making this information publically available would enable communities and governments in developing nations to hold multinational corporations accountable to the tax they should be paying.

Secondly, public country-by-country reporting helps investors and other businesses know the risks they face in dealing with a particular multinational company. These risks are almost impossible to determine without country by country reporting. Furthermore this allows

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<sup>1</sup> OECD, 'Addressing Base Erosion and Profit Shifting', OECD Publishing, <http://dx.doi.org/10.1787/9789264192744-en>, 2013, p. 8.

ethical investors to ensure they are not investing in companies that are engaged in tax dodging.

Finally, business efficiency is dependent upon the availability of high quality information. Unless that information is available then sub-optimal investment and business decisions will be made at the cost to society as a whole, both in developed and developing countries. Country-by-country reporting may take away some of the advantages that the current level of secrecy provides to certain multinational companies, but it is beneficial to business and societies as a whole.<sup>2</sup>

### **Beneficial Ownership Disclosure**

This would require all countries to maintain a public register disclosing the beneficial owners and controllers of companies, trusts and foundations.

Requiring public disclosure of the real ultimate beneficiaries of companies and other legal entities (like trusts) will make it harder for criminals and tax evaders to hide their connection to ill-gotten gains. It will make the system to combat money-laundering more effective. A publically available register would not only help authorities identify such people, it would also reduce the burden and costs for banks, accountants, lawyers and others who are currently required to know and report who their customers are. The result will be a net benefit to business.

Further, public disclosure of the real owners of companies will allow people in developing countries to know if corrupt leaders or officials are using such companies to steal government money. Any benefits to developing nations will be minimal if the disclosure required is only available to authorities in developed nations or to the corrupt government itself.

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<sup>2</sup> Richard Murphy, 'Country-by-Country Reporting. Accounting for globalisation locally', Tax Justice Network, 2012, p. 56.