3

Country-by-country Reporting

Richard Murphy

3.1 INTRODUCTION

It is now more than a decade since I first proposed the idea of country-by-country reporting by multinational corporations (Murphy, 2003). In essence the idea is a simple one. All that country-by-country reporting demands is that multinational corporations publish a profit and loss account and limited balance sheet and cash flow information for every jurisdiction in which they trade as part of their annual financial statements. Though the idea is simple, it has been the subject of much debate and not a little controversy since I first outlined it in 2003.

That process of debate has not, however, been fruitless. Country-by-country reporting has made enormous strides in the last few years although, as yet, no one is talking about delivery of the key idea of publishing audited separate accounts for each jurisdiction in which a multinational corporation operates. We have instead had statutory requirements in both the United States and European Union (CCFD-Terre Solidaire, 2013) that companies in the extractive industries (relating to oil, gas, mining and in the EU only, forestry) must report the taxes that they pay and limited additional data for each country in which they operate. In addition, the EU has now required (Directive 2013/36/EU, Article 89) that banks publish data on a country-by-country basis for their turnover, number of employees, profit, tax paid, and any subsidies received. Debate is now also taking place in the EU parliament on whether this requirement should be extended to other companies in other sectors. And perhaps most importantly of all, the G8 under the chairmanship of UK Prime Minister David Cameron asked the Organisation for Economic Cooperation and Development (OECD) in June 2013 to consider whether multinational corporations should report their profits on a country-by-country basis to all the tax authorities who might consider their affairs (G8 Leaders, 2013, para. 25). This has now been included for consideration by the OECD's Base Erosion and Profit Shifting Programme (see Action 13 in OECD, 2013).

As this chapter notes, all these developments under the country-by-country reporting brand name (for that is what it now seems to be) are welcome. However, the core demand has not been achieved. That is why the campaign for full country-by-country reporting is continuing despite progress made to date.

3.2 THE ISSUE AND REFORM PROPOSAL

At the core of the demand for country-by-country reporting is a contention that globalization is not working for the benefit of everyone. Some nation states and large parts of the world's population have lost out as the power of the global corporation has risen, including its power to not pay tax in the right place at the right rate and at the right time. That has been obvious since 2008 and popular agitation since then has highlighted the scale of worldwide tax avoidance by many of the most profitable multinational corporations, leading with Google.[1] What is now also increasingly appreciated is that the model of accounting put forward by the accountancy profession (International Financial Reporting Standards) exacerbated the financial crisis that erupted in that year in a number of ways.[2]

Most obviously, current accounting standards fail by treating multinational corporations as if they operate in a homogenous global ether that floats above the physical and human geography of the world. As a result they report just one profit or loss irrespective of where their money is earned and have only one balance sheet wherever assets may be located. The financial markets focus exclusively on this consolidated balance sheet even though for a great many reasons this is a completely incorrect view of the enterprise. As the events of 2008 clearly indicated, companies are unavoidably tied to real places. They operate within national frameworks of law and regulation. What they do in each place, what they report, and how they spread risks between different locations—these are all of enormous significance to the jurisdictions that host their activities.[3]

Furthermore, all limited companies are granted a license to operate by each and every country in which they trade. It is commonplace (but not universal) for multinational companies to set up subsidiary companies for their operations in each country in which they work. That ring fences their risk in the country in question, makes it easier to differentiate their tax liabilities between territories and, of course, grants them limited liability within that jurisdiction.

[1] See, for example, Drucker (2010). [2] See, for example, UK Parliament (2012a).
[3] This concern is the foundation of the enquiries by the UK parliament's Public Accounts Committee into the activities of Google, Starbucks, and Amazon—see UK Parliament (2012b).

The issue remains relevant even when they do not establish a formally constituted subsidiary in a jurisdiction. In that case, country-by-country reporting has the advantage of revealing trade in a jurisdiction that may otherwise remain hidden from view. That is because it requires disclosure of trades undertaken in jurisdictions through what are called "permanent establishments" that are, in effect branches of companies incorporated in another place but which also enjoy limited liability as a result.

This privilege of limited liability is an extraordinary thing. It is enjoyed by multinational corporations as a whole, but just as importantly it is usually also enjoyed by the subsidiary companies they create in each and every jurisdiction where they operate. This concept of limited liability within limited liability appears to have evolved more by accident than by design, but the result of the grant of that privilege by each of the jurisdictions in which a multinational corporation works affords it enormous financial reward. This benefit arises because a multinational's cost of capital, for the entity as a whole and for each of its subsidiaries, is substantially reduced by the availability of limited liability to it and its subsidiary companies. It needs much less capital to trade than would an individual or organization without limited liability. The enterprise as a whole is not exposed to risks incurred by its subsidiaries. Societies around the world explicitly accept that if for any reason a constituent of a multinational corporation ceases to trade then that company and the owners of its capital will not have to make good the loss they have incurred. The risk of a subsidiary's collapse will instead be transferred to the state in which it traded and the members of the community who traded with it in that place.

Most of the time this risk is ignored and the cost of the resulting failures is contained within the business, banking, and investment communities of each country as a part of the collective risk they take. However, as is very obvious now, that is not always the case. Since 2008 large parts of the world's banking community, almost all of it protected by limited liability, has required massive state bailouts at cost to the communities the world over. That process has yet to end.

There is then a clear dichotomy: global financial accounting ignores international borders because it says that the primary users of general purpose financial reporting are present and potential investors, lenders, and other creditors of the company 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 (Deloitte, 2010). There is no doubt that some of these may primarily view the entity as a single global enterprise for the purposes of their risk assessment at present and existing accounts are designed to facilitate that process. On the other hand, the fact that they say they use accounts in this way is not surprising; this information is the only data that they have. If they had country-by-country data they may well use it; without any experience of having it, the fact that they say they do not use it is not evidence that they would not do so. This potential use is the first reason for providing country-by-country data, and its significance should not be ignored. Existing financial reporting standards help senior management of many companies hide from view much of what they do. Providing a more rounded insight on those activities, which country-by-country reporting is bound to do, has to be of benefit to all those who represent the shareholder community.

Indeed, country-by-country reporting would, by providing data that is not currently available, ensure that the providers of capital to companies enjoy a view of the risks that they face that is currently unavailable. This data will also allow participants in capital markets to better appraise the risks they accept and if risk is better understood then the cost of capital for companies will be reduced. That has an inevitable consequence, which is an increase in investment and so growth. As such, the call for country-by-country reporting is an intensely pro-business demand.

This argument for country-by-country reporting does, however, ignore the fact that there are many other stakeholders of the company, including the authorities and populations of the many jurisdictions in which it trades, who will also wish to appraise the risks that it creates for them locally. Enabling this stakeholder process of financial risk assessment is the second reason for country-by-country reporting because it empowers those exposed to the risks created by the subsidiaries of multinational operations to assess just what those subsidiaries are doing. The various risks to which national jurisdictions are exposed are outlined later in this paper.

One risk that stands out as needing assessment does, of course, relates to tax paid and (as importantly) not paid both within a particular jurisdiction and also within others where one jurisdiction thinks a multinational corporation might be hiding profits that it has the right to assess to tax. Country-by-country reporting is particularly well suited to this task because, by demanding data for each and every jurisdiction in which a multinational corporation trades, it requires reporting for those jurisdictions where it is quite legal for accounts to not be put on public record at present. Colloquially called tax havens, but for the purpose of this analysis more accurately defined as secrecy jurisdictions,[4] these places provide a double veil of secrecy for multinational corporations. If the financial statements of multinational corporations are already deficient in not requiring them to account for their activities locally then secrecy jurisdictions exploit this fact by providing them with a deliberately created environment where no local information is published, meaning

[4] I define secrecy jurisdictions as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain with that regulation being designed to undermine the legislation or regulation of another jurisdiction and with the secrecy jurisdictions also creating a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.

that certain parts of the multinational corporations activities can, at its choice, entirely disappear from view, in the process destroying any form of accountability for its activity. Country-by-country reporting has been deliberately designed to counter this opportunity for corporate secrecy.

All of this supports the reform proposal inherent in country-by-country reporting, which is that multinational corporations publish within those annual financial statements a profit and loss account and limited balance sheet and cash flow data for every jurisdiction in which the company trades, without exception.

3.3 WHAT IS COUNTRY-BY-COUNTRY REPORTING?

3.3.1 Why Do We Need Country-by-country Reporting?

We need country-by-country reporting for the reasons noted above, but we especially need country-by-country reporting in a world in which there is a crisis in collecting the tax that appears to be due by multinational corporations because of the obvious deficiencies in current accounting practices for tax purposes.

Current accounting practice makes it possible for multinational enterprises to avoid tax due while obeying the letter of the law. This effective exemption from tax enjoyed by a significant chunk of the global economy has contributed to a fiscal crisis. Vast corporate cash piles accumulate offshore as social programs and infrastructure investments onshore are cancelled.

The International Accounting Standards Board (IASB) is responsible for the International Financial Reporting Standard, which are the most widely spread accounting standards now used by multinational corporations. The IASB are aware of this deficiency: they have stated that the financial statements created using its standards are not suitable for tax authority use even if prepared for a single entity on a non consolidated basis (IFRS, n.d.:15). The problems in using group accounts for tax purposes include the following:

1. Those financial statements do not necessarily include all the companies that make up a group for tax purposes.
2. They do not disclose all the companies that are consolidated, or where they are, or what they do.
3. They purposefully exclude from consideration and view all intra-group transactions—which are precisely those that create transfer pricing risk.
4. They do not provide segment data that provides almost any useful indication of the location of transactions for tax purposes.

5. They do not necessarily reflect the transactions undertaken in the underlying accounts disclosed to the individual tax authorities dealing with the affairs of the individual companies that make up the group entity. That is because of the impact of what are called group consolidation journals that remove from account, without it being apparent, those intra-group profits arising, for example, from different accounting standards being used in different group companies. It is precisely this type of transaction about which tax authorities require information.

Country-by-country reporting was designed to address these deficiencies in existing accounting reporting when used for tax purposes. So far there is no alternative proposal that seeks to address these deficiencies in reporting for this purpose.

3.3.2 Country-by-country Reporting Is Designed for Use by All Multinational Corporations

Country-by-country reporting was always designed to be accounting disclosure applying to all multinational corporations, whatever the sector they worked in. That is because the problems it addresses are universal and apply to all sectors. It is stressed that country-by-country reporting is not an initiative for the extractive industries or banking alone. And nor is this an issue relating solely to tax payment or eliminating corruption, important as those issues are. Country-by-country reporting is about an integrated form of financial reporting that should be part of the financial statements of a multinational corporation.

3.3.3 The Questions Country-by-country Reporting Is Designed to Answer

Country-by-country reporting was specifically designed to answer questions on the following issues:

a. In which countries does a multinational company operate?
b. What are the subsidiaries of each multinational corporation called in each jurisdiction in which it operates?
c. What is the scale of a multinational corporation's operations in each country in which it operates?
d. How much does a multinational corporation have invested in each place where it trades?
e. Where does a multinational corporation record its profits?

f. Where does a multinational corporation pay tax and how much does it pay there?
g. What is the extent of intra-group trading within multinational corporations?
h. Where does the company engage staff and how well, on average, do they pay their staff in each jurisdiction in which they work?
i. Where does a multinational corporation exploit natural resources, and to what extent?
j. By implication, and based on analysis of the foregoing data:
   What is the risk of there being serious transfer mispricing within the group?
   If the level of activity and profit vary widely within the group does this suggest a high risk of tax enquiry at potential cost to future earnings?
   Is the multinational corporation a big user of tax havens, and if so what is the likely scale of the risk that results?
   What is the geopolitical risk within a multinational corporation and is that exacerbated by low tax payments?
   What degree of risk does a company face if its operations in any country were to close?
   Is the company's employment policy universally fair and if not what risk does that imply?
   Is the company's activity sustainable?

These questions, and many others, cannot be answered on the basis of financial statements prepared under International Financial Reporting Standard. This was the motivation for creating country-by-country reporting. These questions, the answers to which are vital for tax purposes but also for the effective operation of capital markets and for nationally based economic risk assessment, are clearly significant and yet they are ignored by the IASB and the other accounting standards setters.

This omission arises because, according to the IASB, the main purpose for the accounts produced using its International Financial Reporting Standard (IFRS) is to provide potential investors, lenders and other creditors of a company with the information they need to make decisions about buying, selling or holding equity or debt instruments issued by it or on providing or settling loans or other forms of credit with it (Deloitte, 2010).

This is an extraordinarily narrow view of accounting and accountability, which fails even on its own terms. It is made all the narrower by the fact that they are aware 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."

As a result the IASB 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." What they do not go on to say is what that other data that they chose that accounts produced using their standards do not supply might be, or how it might be obtained. Country-by-country reporting explicitly seeks to fill that gap, not least with regard to tax authorities.

3.3.4 The Data Supplied by Country-by-country Reporting

Country-by-country reporting would require disclosure of the following information by each multinational corporation in its annual financial statements:

1. The name of each country in which it operates; a country for these purposes being defined as any jurisdiction in which it has a permanent establishment for taxation purposes.
2. The names of all its companies trading in each country in which it operates.
3. What its financial performance is in every country in which it operates, without exception, including:
   3.1 Its sales, both third party and with other group companies
   3.2 Its hedging transactions, both third party and intra-group
   3.3 Purchases, split between third parties and intra-group transactions
   3.4 Labour costs and employee numbers
   3.5 Financing costs split between those paid to third parties and to other group members
   3.6 Its pre-tax profit
   3.7 The tax charge included in its accounts for the country in question split as noted in more detail below
   3.8 Details of the cost and net book value of its physical fixed assets located in each country including the cost of all investments (including those relating to exploration) made in assets related to extractive industries activity by location and the proceeds of sale from disposals of such assets by location
   3.9 Details of gross and net assets in total for each country in which the entity operates. Note that if sales data on source and destination bases for a jurisdiction are more than 10 percent different both must be disclosed on both bases for both third parties and intra-group transactions.

4. Tax information would need to be analyzed by country in more depth requiring disclosure of the following for each country in which the corporation operates:
   4.1 The tax charge for the year split between current and deferred tax
   4.2 The actual tax payments made to the government of the country in the period
   4.3 The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period
   4.4 Deferred taxation liabilities for the country at the start and close of each accounting period.
5. Separate accounting, distinct from the turnover category, for all futures, derivative, and forward contract sales with separate disclosure of purchases of similar financial instruments being disclosed with netting off not allowed.
6. Cumulative disclosure on a year-by-year and country-by-country basis of:
   6.1 Provisions made for taxes from the time that country-by-country reporting commenced
   6.2 Total tax payments made from the time that country-by-country reporting commenced.

There are additional requirements for companies operating in the extractive industries.

Vitally, this data is expected to reconcile with the audited group consolidated accounts and a statement proving that it does so would be a necessary part of country-by-country reporting. As such country-by-country reporting is not an alternative set of accounts for tax or other purposes: it holds the company to account for what it does and requires it to declare where that activity has arisen or is at least recorded (the two not necessarily being the same thing).

3.3.5 The Benefits of Country-by-country Reporting

The disclosure provided by country-by-country reporting would meet the needs of many users of the financial statement of multinational corporations that accounts prepared under International Financial Reporting Standard, which they currently rely on, cannot. Space available here does not, however, allow many of those benefits to be discussed. Instead we will focus on the issue that first prompted the idea: tackling international transfer mispricing by multinational corporations.

Country-by-country is designed to offer access to new data for tax authorities anxious to ensure that the subsidiary companies of multinational corporations are tax compliant when operating within their jurisdictions. Tax compliance in this context is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time, where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

The first, and perhaps most important use of country-by-country reporting by tax authorities would be in undertaking risk assessments on the corporate tax returns they receive to determine which ones they wish to investigate. All tax authorities have limited resources at their command and these have, therefore, to be used to greatest effect if tax abuse is to be tackled effectively.

Country-by-country reporting data lets any tax authority better and more cost- effectively assess the risk that the constituent members of a multinational corporation trading in its jurisdiction are avoiding tax. This could best be done by applying a unitary apportionment formula to the group accounting data reported by country that is disclosed in the multinational corporation's financial statements. This does not require that unitary taxation be in operation; this is a risk assessment tool whether or not it is in use. Such an apportionment approach seeks to locate profit in the places where it is likely to have arisen on the basis of what are called "key allocation drivers," which are discussed in more detail below.

This risk assessment process is not possible at present. The country data that a multinational corporation reports at present need not be prepared consistently from state to state since different accounting standards can be applied in each whilst if a "bottom up" approach is adopted intra-group profits may be apportioned inappropriately whilst group adjustment journals that are used to ensure that the overall group result that is reported is true and fair may be ignored, again distorting any such analysis. Country-by-country reporting has been designed to overcome these problems and to make such apportionment analysis for risk assessment purposes possible. Indeed, for tax authorities this contribution to the cost effectiveness of their risk assessment process is the way in which country-by-country reporting can almost certainly deliver the greatest added value in tackling international tax abuse, by identifying which companies might be undertaking that abuse, and where. This enables tax authorities to direct scarce resources to best effect.

This approach implicitly accepts the principles behind unitary taxation even if that system is not then used to assess the resulting profit. This point is important: using a unitary taxation approach to tax risk assessment does not require using unitary taxation to assess the resulting tax due. It is a tool to assess the appropriateness of profit allocation for tax purposes, just as arm's length pricing is a tool.

The techniques of unitary taxation have been widely used to allocate profits between companies operating in different states within the USA and have therefore been tried and tested. No one pretends they are perfect. But they can provide powerful indicators of likely acceptable or unacceptable profit allocations that can in turn guide the inquiries of national tax authorities.

Unitary apportionment allocates the total group profit earned by a multinational corporation to locations on the basis of a formula. The classic formula is called the Massachusetts apportionment and it allocates profit on the basis of a formula that gives equal weighting to third-party sales, employees and physical fixed assets made from or located in a jurisdiction. This approach is discussed in more detail in chapter 4 of this book.

There is good reason for choosing these three "allocation keys" for determining whether or not the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes: companies cannot make profit without sales and they cannot make sales without employing people and physical assets, many of which will be linked to the production process. Of course the choice is not always going to be perfect and different methods and weights can be chosen if it is considered desirable for different commercial sectors. But the point is that if chosen with care such a method should indicate within reasonable boundaries of probability (which is the appropriate measure for a risk assessment tool) of whether or not profit is being recorded where it is most likely to be earned. It was this thinking that led to the requirement that employee and fixed asset information to be disclosed under country-by-country reporting.

Using such a formula apportionment method has the advantage of meaning that artificial reallocations of activity within a group (through intra-company trading, debt and intellectual property charges, for example) can be largely eliminated from consideration when deciding what the likely real location of the profit arising within a group might be. This is especially so if third party sales are stated net of intra-group purchases to negate their artificial reallocation, which is why data on intra-group transactions within country-by-country reporting is essential in any such accounting system.

Importantly, the issues that this risk assessment method would address are also those activities that are, unsurprisingly, those where the greatest difficulty arises with arm's length transfer pricing (see chapter XX of this book for more information on this issue). The result is that the objectives of fair profit allocation reflecting underlying economic substance, that the "arms length principle" of transfer pricing that the OECD promotes as the ideal solution to solving transfer pricing disputes, can be replicated and improved upon, using a unitary apportionment calculation based on country-by-country reporting data but with much less effort and so cost than is the case under the OECD's chosen bilateral approach, which can in any event lead to more than or less than the whole of a group's profit being taxed.

Three consequences would follow from this.

First, companies could themselves present this data to all authorities with whom they engage to show that their profit allocations are reasonable. If linked to "safe harbour" provisions suggesting degrees of tolerance on allocation, especially with regard to profit attributed to low-risk states, such an approach could be used to significantly reduce the degree of transfer pricing documentation required in compliant organizations. This would save them and tax authorities considerable cost, while at the same time adding substantial certainty to their tax affairs. It is hard to see why major multinational corporations would not welcome this.

Second, all tax authorities would know that they were all receiving the same data from a multinational corporation at the same time; the doubt that quite reasonably exists at present that tax authorities are themselves subject to arbitrage by multinational corporations would be eliminated. This would also benefit companies because what they could make clear is that they were declaring all their taxable profits once, and once only, to all relevant tax authorities.

Third, it would be easier to resolve disputes since the impact of any adjustment would be more readily apparent if country-by-country reporting data were to be supplied to tax authorities. Again, the risk of double taxation would be reduced as a result.

The consequence of these advantages is obvious: one of business' key objectives with regard to international taxation—the elimination of double taxation—is bound to be easier to achieve if country-by-country reporting is in place, whilst the goal of tax authorities—the elimination of double non-taxation—will also be easier to facilitate. The inevitable consequence is a more equitable and easier-to-resolve tax system. Moreover, given the considerable savings that could be achieved for a multinational corporation that seeks to be compliant in its tax allocation if its obligation to prepare the onerous documentation that arm's length pricing currently requires was waived, the overall burden on business would be reduced as a result. Even ignoring the other benefits for a great many stakeholders,[5] the case for country-by-country reporting for tax purposes is compelling on this basis.

3.4 OBSTACLES TO IMPLEMENTATION AND CREATING A COALITION OF THE WILLING

Whilst the case for country-by-country reporting may be compelling to its advocates, and progress towards delivering it has been extraordinary in the decade since it was first proposed, there are obstacles to its implementation. As Reuters (Bergin, 2013) reported in October 2013 when considering submissions

[5] Elaborated at length in Murphy (2012).

on the subject to the OECD as part of its transfer pricing documentation review that in turn forms part of its Base Erosion and Profits Shifting project:

> Business groups were cool on a proposal tabled in June by the Group of Eight (G8) leading developed economies, that companies should provide information to tax authorities on their earnings and tax payments on a country-by-country basis.
>
> The idea was that greater transparency would help tax authorities—especially those in developing nations which lack the investigative resources of richer nations—to spot when companies were shifting profits out of their countries, and thereby avoiding taxes.
>
> But business groups including Britain's Confederation of British Industry, the United States Council for International Business (USCIB) and French employers' body Medef, expressed concerns that business would face unreasonable administrative burdens and risked having confidential commercial information leak out to competitors.
>
> "Because of these concerns, we suggest that the OECD ought to consider alternatives to country-by-country reporting," wrote William Sample, chairman of the tax committee at USCIB, whose members include Microsoft and Exxon Mobil Corp.

In saying this they reflect the concern expressed by Big Four accountancy firm Ernst & Young who in 2013 wrote in a report entitled "Tax Transparency: Seizing the Initiative" (Ernst & Young, 2013):

> In making the decision in terms of what to disclose, the range of information that can fall under the 'tax transparency' banner is broad. One approach is country by country reporting of tax payments, an approach creating concern for some organisations. In its raw form, it is seen by many as complex, burdensome and still not necessarily the panacea to improved transparency. For example, country by country reporting does not directly inform stakeholders about whether an organisation has or has not adopted aggressive tax positions, albeit positions that are within the letter of the tax law.
>
> Still, as a recognised reporting concept, adopted by the Extractive Industry Transparency Initiative, the influence of country by country reporting has begun to extend and it is now supported by the EU and set to become a requirement for banking as well as extractive entities. Country by country reporting has also been proposed at a territory, rather than sector, level by the Australian Treasury.
>
> The floodgates are, however, not yet open. Any further regulatory developments, in the EU at least, will take a number of years. This suggests that the development by organisations of alternative tax transparent reporting approaches such as increased narrative disclosure and more informative rate reconciliations may yet stem the tide on country by country reporting. Alternatively, voluntary adoption of a more refined version of country by country reporting may allow organisations to create a balanced, workable framework that meets the concerns of stakeholders.

The source of the opposition to country-by-country reporting is clear: it comes from big business and its advisers. Their anxiety on the issue is apparent, as is its source. They do not want, at any cost, to disclose what they actually do and where, precisely what country-by-country reporting would require. Global companies fear being held to account locally.

They therefore seek to avoid country-by-country reporting in a number of ways. They say they do not have the data to prepare country-by-country reporting or that it would be too expensive or onerous to prepare the data. Most commonly they argue that the data produced by country-by-country reporting would simply not be useful.

Some of these claims are just nonsense. If, for example, a multinational corporation does not know where its transactions are located it cannot accurately determine its tax liabilities. As such it is failing to both maintain proper books and records of account as required by the law of almost all countries and proper internal control systems as required, for example, by Sarbane Oxley. Similarly the argument that this data will be hard to audit is just wrong: it may increase audit cost because auditors might have to consider the accounts they review in more depth but it is hard to say that this does not provide benefit to shareholders whose risk is reduced as a result.

Perhaps the most absurd argument though is the one most often put forward, that country-by-country reporting data will simply not be useful, which is resorted to by the management of multinational corporations when all other arguments have failed. They seem in the process to be suggesting that:

a. Users of accounts will not understand country-by-country reporting data, despite that fact that it will be presented in similar format to all other financial reporting.
b. There are no civil society users of accounts.
c. Tax authorities, regulators, and others never look at or comprehend accounts.
d. Investors will not use data if it is made available to them but will instead choose to ignore it when making their decisions.

None of these arguments is plausible. However, powerful and wealthy lobby interests back these arguments. The OECD (2014) discussion paper on country-by-country reporting, published in January 2014, was a disappointment to many campaigning for it. It is not clear from the report that the OECD has even understood the basic principles on which country-by-country reporting is based. For example, the OECD have asked whether country-by-country reporting should be supplied by what is, in effect, simple republication of local statutory accounting for the member companies of multinational corporation rather than by attributing the activities recorded in the single, consolidated set of financial statements issued by the group as a whole to individual jurisdictions, which is what country-by-country reporting requires. Some of the data they propose should be published, such as the tax actually paid in a jurisdiction instead of the tax due within it, also makes almost no accounting sense. It is clear as a result that the argument for country-by-country reporting has not yet been won despite the promising noises made in 2013.

That is disappointing; as has been argued here, country-by-country reporting data has considerable potential value in use. It is likely that when live data is available very many more uses will be found. In that case this argument has to be seen for what it is, which is a claim that management should be trusted with the stewardship of assets without consequent accountability.

It is this last idea that offers the prospect for taking this idea forward. Three major concerns have emerged since 2008 that suggest that the demand for full country-by- country reporting could be the basis for a campaign attracting a broad coalition of support.

The first demand is for accountability: the unquestioning relationship of trust with big business based on the assumption that all trade is good has been shattered in the aftermath of the crash.

The second demand is for transparency: the idea that opacity left the world's economy unprepared for what hit it in 2008 is clear. David Cameron made this a theme of his G8 summit in June 2013 (G8 Leaders, 2013).

The third concern is, of course, about tax, which issue was almost unheard of by the public before 2008 but is now well and truly known.

Each of these concerns is manifested in a number of ways. The concern about trade clearly has a focus on banking for some, especially in places like the UK where this has lead to greater austerity than many countries. For others, such as those in countries dominated by the extractive industries, corruption is the concern. For others it is environmental concern that makes them want to hold business to account. Consumers are worried about unaccountable energy companies. A worry about massive social media concerns who appear to be accountable nowhere motivates many. Some just want to know who they are dealing with and that they are good citizens.

In each case there is a coincidence of aims. Politicians feel powerless in the face of these enterprises and those they deal with feel helpless in the face of leviathans. That is why the common aim of all who seek to make corporations accountable is to link the global to the local. This helps ensure that tax is paid in the right place at the right time. But it also means politicians can gauge what they're up against and supply chains can be appraised. This is a major concern already and is likely to loom larger as global logistics are increasingly stressed by climate change.

The reality is that no single lobby with these interests can win this reform by itself and to date it is the tax case that has stimulated demand for country-by-country reporting. That has delivered some results—and got business worried. However, the tipping point will come when this demand reflects a coalition of interests. That means politicians have to see the gains, and not the threats. And that will happen when the three biggest campaign aims in the world coalesce around this demand. They are the development community, who have driven this agenda to date, the environmental campaigning community, and those who demand the resources to meet education and health needs, both of whom are now seriously impacted by increasing private sector involvement worldwide.

One campaign lobby is powerful: three utterly persuasive. That means country-by-country reporting will work when it delivers the accountability and tax that means that trade is seen to be of benefit and trust is restored in global business. This is possible. One lobby has got us a long way. Making this a concern for the environment, education, and health will deliver the desired outcome.

And at that point something else will happen. As Schopenhauer argued, truth goes through three stages. In the first stage, it is ridiculed. In the second stage, it is violently opposed. And in the third stage, it is accepted as self-evident. Country-by-country reporting has got through the ridicule stage. It is now facing serious opposition. With enough being persuaded of its merits the time will come when a fourth lobby will embrace it as self-evidently useful, and that is business itself. That may be a while off yet, but enlightened fund managers may yet help trail a path in that direction.

We have not got country-by-country reporting yet. When we do, global business will never look the same again. Rather than busying itself with tax avoidance and the associated grand corruption it will be free to concentrate on productive activity. The sector will be able to compete in good faith, free from the suspicion that it is exploiting covert monopolies or subverting democratic governments. If we could convince it that the outcome may be in its best interests then real reform will happen, and that's now within the boundaries of possibility.

REFERENCES

Bergin, Tom, 2013. "Big Companies Push back against G20 Tax Avoidance Plan," *Reuters*. 23 October.

CCFD-Terre Solidaire, 2013. "Country by Country Transparency: Dodd Frank Act and EU Directives." http://www.oecd.org/ctp/tax-global/Country_by_country_transparency-DoddFrankAct_and_EUDirectives.pdf, Last accessed 8 August 2014.

Deloitte, 2010. "Conceptual Framework for Financial Reporting 2010." IAS*Plus*. http://www.iasplus.com/en/standards/other/framework, accessed 5 August 2015.

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32013L0036:EN:NOT, accessed 5 August 2015.

Drucker, Jesse, 2010. "Google 2.4% Rate Shows How $60 Billion Is Lost to tax Loopholes," *Bloomberg*. 21 October. http://www.bloomberg.com/news/2010-10-21/google-2-4-rate-shows-how-60-billion-u-s-revenue-lost-to-tax-loopholes.html, accessed 27 August 2014.

Ernst & Young, 2013. "Tax Transparency: Seizing the Initiative." http://www.ey.com/Publication/vwLUAssets/Tax_Transparency_-_Seizing_the_initiative/$FILE/EY_Tax_Transparency.pdf, accessed 5 August 2015.

G8 Leaders, 2013. "Lough Erne G8 Leaders' Communiqué." https://www.gov.uk/government/publications/2013-lough-erne-g8-leaders-communique, accessed 5 August 2015.

IFRS, n.d. "Meeting Summaries and Observer Notes." http://www.ifrs.org/IFRS-for-SMEs/histroy/Meeting-Summaries-and-Observer-Notes/Documents/SME0806b02-Aobs.pdf, Last accessed March 2013.

Murphy, Richard (on behalf of the Association for Accountancy and Business Affairs), 2003. "A Proposed International Accounting Standard Reporting Turnover and Tax by Location." http://visar.csustan.edu/aaba/ProposedAccstd.pdf, accessed 5 August 2015.

Murphy, Richard 2012. "Country-by-Country Reporting: Accounting for Globalisation locally." Tax Justice Network. http://www.taxresearch.org.uk/Documents/CBC2012.pdf

OECD, 2013. *Action Plan on Base Erosion and Profit Shifting*. OECD Publishing. http://www.oecd.org/ctp/BEPSActionPlan.pdf, accessed 5 August 2015.

OECD, 2014. "Discussion Draft on Transfer Pricing Documentation and CbC Reporting." 30 January. http://www.oecd.org/ctp/transfer-pricing/discussion-draft-transfer-pricing-documentation.pdf, accessed 5 August 2015.

UK Parliament, 2012a. "Banking Standards: Written Evidence from Timothy Bush." 21 August. http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27iv30.htm, Last accessed 27 August 2014.

UK Parliament, 2012b. "Public Accounts Committee—Nineteenth Report." 3 December. http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/716/71602.htm, Last accessed 27 August 2014.