

What is country-by-country reporting?

Country by country reporting would require disclosure of the following information by each Multinational Corporation (MNC) in its annual financial statements:

1. The name of each country in which it operates;
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:
 - Its sales, both third party and with other group companies;
 - Purchases, split between third parties and intra-group transactions;
 - Labour costs and employee numbers;
 - Financing costs split between those paid to third parties and to other group members;
 - Its pre-tax profit;
4. The tax charge included in its accounts for the country in question split as noted in more detail below;
5. Details of the cost and net book value of its physical fixed assets located in each country;
6. Details of its gross and net assets in total for each country in which operates.

Tax information would need to be analysed by country in more depth requiring disclosure of the following for each country in which the corporation operates:

1. The tax charge for the year split between current and deferred tax;
2. The actual tax payments made to the government of the country in the period;
3. The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period;
4. Deferred taxation liabilities for the country at the start and close of each accounting period.

Sales information will also require additional analysis. If sales made from a state are more 10% different from the sales figure made to customers within that state then data should be declared on both bases so that there is clear understanding of both the source and destination of the sales a multinational group makes.

In addition, if the company operated within the extractive industries we would also expect to see a full breakdown of all those benefits paid to the government of each country in which a multinational corporation operates broken down between these categories of reporting required in the Extractive Industries Transparency Initiative¹.

The proposal requires this information be disclosed for all jurisdictions - without exception - in which a multinational corporation operates. Anything less will not do or transactions might be lost to view. Importantly, this does not require each country to agree to this

disclosure since it is suggested that the requirement should be imposed by an International Financial Reporting Standardⁱⁱ.

Why we want country-by-country reporting

Country-by-country reporting is important for the following reasons:

- 1. Transparency matters.** In many countries a corporation does not have to put its accounts on public record. That means that what an MNC does in that country is not a matter of public record. That matters. What MNCs do has enormous implication for the wellbeing of the world: **CbC** overcomes this problem. It puts all MNC activity 'on the record'. Many investors appreciate this.
- 2. Corporate social responsibility (CSR) matters.** CSR is about the relationship between a company and its host community. But this does require that the host community knows the company is there. **CbC** reporting provides that information.
- 3. Accountability matters.** A company cannot be accountable unless it can be identified. This means that the names an MNC uses locally must be on public record. Too often they are not. **CbC** reporting names local subsidiaries.
- 4. Trade matters.** At least 60% (and maybe more) of world trade is intra-group. In other words it takes place across national boundaries but between companies under common ownership or control. Existing MNC accounts completely eliminate all of this trade from public view. **CbC** shows it all. This is vital if trade relationships are to be understood, and made fair.
- 5. People matter.** MNC accounts include statements on the number of employees a company has and their aggregate remuneration. **CbC** would require this statement for every country in which an MNC operates. This would provide invaluable information on labour conditions.
- 6. Tax matters.** MNCs have more opportunity than any other group in a society to plan their tax affairs. They can seek to shift their profits from state to state to find the lowest overall bill. **CbC** discloses the profits that companies record in each country in which they operate and the taxes that they pay on them. This means they can be held accountable for what they do and do not pay. It's estimated that if this problem were tackled enough tax could be collected to pay for the Millennium Development Goals.
- 7. Corruption matters.** The Extractive Industries are dominated by MNCs. The Extractive Industries Transparency Initiative seeks to hold those companies to account for the tax payments they make, and the governments that receive those payments to account for what they do with them. Many MNCs resist disclosure of information on what they pay because of competitive pressure, contractual obligations and local political opposition. **CbC** would overcome these objections, significantly enhancing transparency in this sector, and help cut corruption.

8. **Development matters.** Developing countries lack revenue to finance public goods and services. Aid helps alleviate this problem but creates a dependency, harms the democratic accountability of developing country governments because they aren't accountable to their electorates for what they spend and aid can itself directly contribute to corruption. Local declaration of economic activity by MNCs with the resulting accountability for taxes paid could break this cycle and help create fully independent, accountable governments capable of raising their own taxation revenues.
9. **Governance matters.** Many of the major corporate scandals of recent times have involved extensive use of offshore subsidiary companies. These are becoming increasingly common throughout the MNC world, but it is recognised that the problem of managing them creates severe governance issues for MNCs. This results in increased risk for shareholders and others who need to understand the risk inherent in an MNC's activity.
10. **Where you are matters.** Some countries are politically unstable. If a company trades there shareholders should know. Some are politically unacceptable. If an MNC trades there civil society wants to know. Some countries are subject to sanction. Trading there is illegal. Where you are matters. **CbC** holds a company to account for where it is.

If you want to know more

For a more detailed description of country-by-country reporting, what it is and what it does see "Country-by-Country Reporting: Holding Multinational Corporations to Account Wherever They Are"ⁱⁱⁱⁱ by Richard Murphy of Tax Research LLP, published by the Task Force on Financial Integrity and Economic Development.

There is also a great deal of discussion of country-by-country reporting on the blog of Tax Research UK at www.taxresearch.org.uk/blog.

The Tax Justice Network website is a mine of information on campaigning issues related to country-by-country reporting www.taxjustice.net

Contact information

www.taxresearch.org.uk/blog
richard.murphy@taxresearch.org.uk
+44 (0) 1366 383 500

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The Old Orchard, Bexwell Road, Downham Market, Norfolk PE38 9LJ
United Kingdom
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Endnotes

ⁱ <http://eitransparency.org/>

ⁱⁱ A revision to IFRS8 on Segment Reporting could achieve this objective. See <http://www.iasplus.com/standard/ifrs08.htm> for a description of the current inadequate standard or <http://www.taxresearch.org.uk/Documents/IAS14Final.pdf> for a discussion of its inadequacies.

ⁱⁱⁱ Available here <http://www.financialtaskforce.org/2009/06/17/country-by-country-reporting-holding-multinational-corporations-to-account-wherever-they-are/>