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Financial Accountability & Corporate Transparency

FACT Sheet

Updated: February 2020

Greater Corporate Tax Transparency: The Case for Public Country-by-Country Reporting

Multinational corporations currently report only their global financial accounts to investors and the public. Requiring them to publicly report basic financial information on a country-by-country basis will reduce the abuse of tax havens and help investors assess tax-related risk.

The ***Disclosure of Tax Havens and Offshoring Act*** **(H.R.5933 and S.1609)** requires large multinational corporations to publicly report, country-by-country, to the Securities and Exchange Commission: list of subsidiaries, their main activity, and their revenue, profit, tax, number of employees, stated capital, accumulated earnings, and tangible assets. This data is already reported to the Internal Revenue Service.

Why is Country-by-Country Reporting Needed?

Investors need this information to assess risk: Corporate tax represents up to about one-third of after-tax earnings. It is a critical variable for financial analysts to model risk; yet it is a black box. As tax authorities and lawmakers around the world ramp up enforcement and reform policies to crack down on international tax avoidance, investors increasingly face unknown risk. Consider:

- Apple was fined a staggering $14.2 billion by the European Union in 2016 for using Irish tax breaks found illegal under EU law.[1] Other US companies are in the EU's sites, while Microsoft and Facebook are under IRS investigations and could be fined billions of dollars.[2]
- In a 2016 court case involving the sale of Dell, respected experts differed in their valuation of the company by 126% (or $28 billion), in part because they projected vastly different future offshore tax liabilities.[3]
- A new international agreement is under negotiation, which could significantly increase future taxes of digital and other companies, but without this information, investors will be unable to model the impact of reforms on individual stock prices.

Individual taxpayers and small businesses will benefit from this information as it will deter the use of tax havens: When multinationals use accounting tricks to shift their profits to tax havens, other taxpayers pick up the bill. Transparency will, by itself, dissuade some brand-minded corporations from relying on tax havens. Consider:

- International corporate tax dodging is estimated to cost US taxpayers about $60 billion in 2018.[4]
- IRS aggregate data show that US multinationals book 41% of their foreign profits in ten tax havens.[5]
- An academic study of European banks showed that, after they were required to publish country-by-country reports from 2014 onwards, the banks exposed to tax havens increased their effective tax rate by 3.7 percentage points relative to the non-exposed banks.[6]

Lawmakers need this information to close loopholes: Relying on public pressure to curb tax dodging is unsustainable. Tax law must change. But secrecy hinders the debate. Academics, think tanks, the media, and advocacy organizations could use this information to inform the debate. This data could also be used to advance knowledge and public policy analysis in other fields than tax.

Developing countries need this information to be public to access it: An international agreement is in place for tax authorities to collect and exchange this information among themselves. But most developing countries are effectively shut out of the system. Developing countries rely proportionally more on corporate tax and face enormous budget needs.

We must restore public trust: Repeated scandals like the Panama and Paradise Papers[7] have raised public awareness and anger regarding corporate tax dodging. Secrecy followed by public scandal breeds distrust.

Q & A

The IRS already has this information; isn't that enough? No, the IRS enforces the law. While helpful, policymakers also need the information to determine whether current rules are effective at stopping corporate tax dodging, and investors need it to assess tax risk.

The bill creates more red tape, doesn't it? No, companies already report this information to the IRS. The bill does not call for any additional reporting burdens.

IRS data is confidential, isn't it? Yes, but the bill does not require the IRS to release any tax information. It calls on the SEC to collect and publish financial information that investors need.

This information constitutes trade secrets, doesn't it? No, legal experts have determined there is no risk to trade secrets.[8] The SEC already requires publication of a wealth of information about corporations, and such transparency is critical to foster fair competition in a free market economy. It is secrecy that creates instability, allows monopolies to foster, and harms investors and consumers.

This information will be misinterpreted by the public, won't it? No, financial analysts, academics and other experts are qualified to interpret this information accurately and responsibly.

Transparency will put US multinational corporations at a competitive disadvantage, won't it? No, the EU is close to adopting a similar bill. The main sticking point there is that the United States is not following through. If Congress adopted this bill, it would quickly become a global norm.

The Tax Cuts and Jobs Act ended tax haven abuse, right? No, the Congressional Budget Office and an academic study project the TCJA will only cut profit shifting by, respectively, about 20% and 12% to 16%.[9]

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2 Paul Keel, "The IRS decided to get tough on Microsoft. Microsoft got tougher," *ProPublica*, January 22, 2020, http://bit.ly/32rWTH5.

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3 *The FACT Coalition*, "A Taxing Problem for Investors", September 12, 2016, http://thefact.co/RuJrq.

4 Richard Phillips, "Post-TCJA, International Corporate Tax System Still Leaking Hundreds of Billions in Profits", *Institute on Taxation and Economic Policy*, November 5, 2018, http://bit.ly/393OI6e. For a more precise 2017 (pre-TCJA) estimate, see also: Kimberly Clausing, "How Big Is Profit Shifting?", 20 January 2020, http://bit.ly/Clausing2020.

5 *Internal Revenue Service*, "Table 1A: Country-by-Country Report (Form 8975): Tax Jurisdiction Information (Schedule A: Part I) by Major Geographic Region and Selected Tax Jurisdiction, Tax Year 2017", https://www.irs.gov/pub/irs-soi/17it01acbc.xlsx.

6 Michael Overesch and Hubertus Wolff, "Financial Transparency to the Rescue: Effects of Country-by-Country Reporting in the EU Banking Sector on Tax Avoidance", 8 February 2019, http://bit.ly/Overesch2019.

7 International Consortium of Investigative Journalists, https://www.icij.org/.

8 Memo to *The FACT Coalition*, November 30, 2018, http://bit.ly/FACT-TradeSecrets.

9 *Congressional Budget Office*, "The Budget and Economic Outlook: 2018 to 2028", April 2018, http://bit.ly/CBO-2018; Kimberly Clausing, "Profit Shifting Before and After the Tax Cuts and Jobs Act", 20 January 2020, http://bit.ly/Clausing2020b.

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