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Financial Accountability & Corporate Transparency

FACT Sheet

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

Requiring multinational corporations 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. Public country-by-country reporting is advancing around the world as stakeholders advocate reform; the European Union[1] and the Global Reporting Initiative[2] have both adopted measures to promote tax transparency.

The ***Disclosure of Tax Havens and Offshoring Act*** **(H.R.3007/S.1545)** requires large multinational corporations to publicly report, country-by-country, to the Securities and Exchange Commission (SEC): a list of subsidiaries, main activity, revenue, profit, tax, number of employees, stated capital, accumulated earnings, and tangible assets. This data is already reported to the Internal Revenue Service (IRS), meaning that compliance with these requirements will represent no additional cost to reporting corporations.

Why is Country-by-Country Reporting Needed?

Investors need this information to assess risk: Corporate tax represents up to about one-third of pre-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:

- In November 2020, the U.S. Tax Court ruled that Coca-Cola used profit-shifting to underpay $3.3 billion in taxes from 2007 through 2009.[3] Correcting these transfer pricing practices may result in the company facing a possible $12 billion in additional tax liability through 2020.[4]
- Apple was fined a staggering $14.2 billion by the European Commission in 2016 for using Irish tax breaks found illegal under EU law.[5] A court overruled the Commission, which is considering an appeal. Other US companies are in the EU's sights, while Microsoft and Facebook are under IRS investigations and could be fined billions of dollars.[6]
- In a 2016 court case involving the sale of Dell, experts differed in their valuation of the company by 126% ($28 billion), in part because they projected vastly different future offshore tax liabilities.[7]

1 The FACT Coalition, "European Action on Multinational Tax Transparency Requirements Underscores Need for Strong U.S. Action," June 2, 2021. https://thefactcoalition.org/european-action-on-multinational-tax-transparency-requirements-underscores-need-for-strong-u-s-action/

2 The Global Reporting Initiative, "GRI 207: Tax 2019," 2017, https://www.globalreporting.org/media/sfcpcrt4/gri-207-tax-standard-2019-factsheet.pdf?id=1616.

3 https://news.bloombergtax.com/daily-tax-report/coca-cola-gets-mixed-court-decision-in-3-4-billion-irs-dispute.

4 Coca-Cola, "Coca-Cola Reports Fourth Quarter and Full 2020 Results," February 10, 2021, https://www.coca-colacompany.com/press-releases/coca-cola-reports-fourth-quarter-2020-results.

5 European Commission, "State aid: Ireland gave illegal tax benefits to Apple worth up to €13 billion," August 30, 2016, http://bit.ly/2wRGvTH.

6 Paul Keel, "The IRS decided to get tough on Microsoft. Microsoft got tougher," *ProPublica*, January 22, 2020, http://bit.ly/32rWTH5. Paul Keel, "Who's afraid of the IRS? Not Facebook," *ProPublica*, January 23, 2020, http://bit.ly/395r2OP.

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

- A new OECD agreement is under negotiation, which could significantly increase future taxes of digital and other companies. Without country-by-country reporting, investors will be unable to model the impact of reforms on individual stock prices.

Individual taxpayers and small businesses will benefit from this data as it will deter the abuse of tax havens: When multinationals use accounting tricks to shift profits to tax havens, taxpayers pick up the bill. Transparency will, in itself, dissuade image-conscious corporations from abusing tax havens. Consider:

- Correcting incentives to engage in international corporate tax dodging could raise an estimated $432 billion over ten years in the United States, and nearly half of the same amount for foreign jurisdictions.[8]
- IRS aggregate data show that US multinationals book 41% of their foreign profits in 10 tax havens.[9]
- An academic study of European banks found 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.[10]

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. This data could also be used to advance knowledge and public policy analysis in other fields than tax.

Developing countries need this information to raise more tax revenue: An international OECD agreement is in place for tax authorities to collect and exchange this information among themselves. Yet 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[11] have raised public awareness and anger regarding corporate tax dodging. Secrecy followed by public scandal breeds distrust.

For additional information, contact Ryan Gurule at rgurule@thefactcoalition.org.

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8 Clausing, Kimberly, Emmanuel Saez and Gabriel Zucman, "Ending Corporate Tax Avoidance and Corporate Tax Competition: A Plan to Collect the Tax Deficit of Multinationals", July 2020, https://bit.ly/2Y58kU0.

9 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.

10 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.

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