CBCR: CIOT comments on EU Commission’s proposals for public reporting

International Tax

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Although the CIOT supports greater transparency by MNCs, it is not clear to us that the EU Commission’s proposals for public reporting will be helpful. There needs to be clearer articulation of the principles governing international corporate taxation to restore public trust.

The CIOT wrote to the Treasury before an EU working group meeting in April on the Commission’s proposals for public country-by-country reporting (CBCR) to relay the CIOT’s views.

We said the CIOT supported greater transparency by multinational companies on their tax affairs as a means to restore public trust in the international tax system. However, we said we also held the view that restoring such trust required a clearer articulation by governments and institutions, such as the EU, of the principles governing the international corporate tax system, including:

- the arm’s-length principle;
- the concept of taxing profits not revenue; and
- the concept of taxing profit where value is created not where it is consumed.

We noted that all of these principles were re-affirmed by the OECD in the BEPS process. This, together with more explanation of modern supply chains by multinational enterprises, would allow the public to place information such as CBCR in the proper context.

We told the Treasury that we consider there to be limits to the value of the Commission’s proposals on transparency, noting that sections of civil society have

already queried their value given that CBCR will be limited to EU states and particular ‘havens’ and that aggregated data would be provided for the rest of the world. We also noted that, given how much data would be available, it was inevitable that data could be cherry-picked to suggest some companies, or indeed countries, continue to operate aggressive tax structures or indulge in aggressive tax competition.

For these reasons we believe it is even more important that governments and institutions such as the EU, as well as companies, articulate clearly the key principles governing the international tax system so that the public can distinguish between ‘aggressive structures’ and straightforward commercial activity.

In addition, we suggested that:

- The UK should not introduce any compulsory public reporting before other countries.
- The EU should allow two years’ reporting to tax authorities before public reporting is introduced.
- The EU should not introduce public CBCR until the BEPS actions are embedded in national law. Given the earliest possible date for treaty change is 1 January 2018, it would be best to start on or after 1 January 2019. The timetable built into the draft directive assumes financial years starting after – at the earliest – autumn 2018.

The letter is available on the CIOT website.