FACT COALITION
Financial Accountability & Corporate Transparency

FACT Sheet

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Public Country-by-Country Reporting

Boosting Tax Transparency to Guard Investors, Protect Taxpayers, and Inform Policymakers

The scale of offshore tax avoidance by multinational corporations is enormous. It's estimated that U.S. multinationals, alone, have accumulated $2.6 trillion in untaxed profits booked offshore, on which they owe an estimated $767 billion in unpaid federal taxes.[1] While tax fairness and transparency advocates in the U.S. have raised concerns about the lack of information disclosed about offshore tax practices for years, countries are beginning to take action.

Disclosing more information on where companies book profits, record revenues, and pay taxes would protect taxpayers by discouraging abusive tax avoidance schemes; protect shareholders by providing them with information about the risks associated with their investments; and inform policymakers as Congress considers overhauling the U.S. tax code.

The Problem

It's A Lot of Money

Global corporate tax avoidance is enormous. In the U.S. alone, the gaming is estimated to cost federal taxpayers between $94 billion and $135 billion per year.[2]

And It Is Growing

At one point, many years ago, it may have been arguable that the offshore money was not significant enough to a company's bottom line to be material to investors. That is no longer true. We are (and have been for some time) in a global economy. Conservative estimates (since we don't have the full data) document staggeringly high amounts of money. Apple's offshore profits alone ballooned by more than $30 billion in one year (2015 to 2016).[3] Credit Suisse found that many major companies' off-balance-sheet tax liabilities could be over 10 percent of their total value.[4]

It Is Largely Hidden

Multinational companies do not publicly report where they book profits or pay taxes. This helps to hide the full picture, fuels tax haven abuse, and undermines investor and taxpayer confidence in the system.

The Risks Are Growing

Investors have reason to be concerned. This is not theoretical:

- The European Commission recently ruled that Apple owes $14.5 billion in back taxes on $115 billion in income.[5]
- Starbucks and Fiat Chrysler have been slapped with tax penalties by the European Commission.[6]
- Caterpillar's offices were raided by federal agents in March 2017 as part of an ongoing tax probe,[7]
- Facebook is under IRS investigation and could be slapped with a $5 billion penalty.[8]
- Dell's company valuation prior to a recent sale was debated as experts proposed valuations that were $26 billion apart based, in large part, on offshore tax liabilities.[9]
- A number of companies have warned that tax enforcement is likely to hit earnings,[10] and Goldman Sachs has advised investors to focus on companies that pay high effective tax rates to minimize exposure to offshore tax liabilities.[11]

Policymakers Are Left in the Dark

Countries around the world are having discussions both internally and in multilateral settings to address corporate tax avoidance. The lack of information is an enormous problem as policymakers will act without this critical information.

Secrecy Undermines Accountability and Economic Stability

Offshoring profits distorts economies and markets. The lack of stable revenues creates uncertainty within countries.

The Solution

Public, Country-by-Country Reporting (CbCR)

Multinational corporations should be required to disclose, on an annual, country-by-country basis, the following information:

- profit or loss before taxes;
- income tax accrued for the current year;
- revenues from unrelated parties, related parties, and in total;
- income tax paid (on a cash basis);
- effective tax rate;
- stated capital;
- accumulated earnings;
- number of employees; and
- value of tangible assets other than cash or cash equivalents.

Each of the listed factors would provide basic data about a company's operations. None of them involves proprietary data.

It is NOT a Burden to the Multinationals

In the U.S., large companies are already reporting most of this information to the IRS. Tax authorities in dozens of other countries collect the information. In the U.S., it is not public so it's not helpful to investors or policymakers, but — since it is already collected — it would not add any new significant burden to include this information in the financial statements.

Many Companies Already Disclose this Information Publicly

As proof, many financial institutions and corporations in the extractive industries already provide most of the information in their European Union public filings with no ill economic effects. The E.U. further appears to be moving towards expanding those same public CbCR disclosures to all corporations operating in Europe.[12]

Opacity Is Shortsighted (Ignorance Is Not Bliss): Lack of Transparency Is the Greater Danger to the Companies.

One major concern among companies is that the information will be misinterpreted or misrepresented to the detriment of the company. But allowing companies to present the information in context should be preferable — especially from an investor's standpoint — than leaked or subpoenaed documents. The latter is more likely to create a crisis communications situation.

Policymakers Are Going to Act, Better to Have Full and Accurate Information.

The concern that this information will somehow be used to punish companies is also shortsighted. Lawmakers are acting now. The offshore tax dodging narrative was a major theme in recent U.S. elections. Aggressive tax avoidance is a regular story in Europe. The information is necessary to help guide decision-making.

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