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Public country-by-country reporting

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Contents

Summary

Multinational enterprises (MNEs) are not required to publish details of the amounts of tax they pay in each country they have operations in, though there has been a lot of debate as to whether "public country-by-country reporting", as it has been called, should be introduced – in part, in response to concerns that MNEs have been successful at exploiting the way national tax systems interact to minimise the total amount of corporation tax they pay.

On Wednesday 2 November 2017 there is to be a debate on public country-by-country reporting in Westminster Hall on Wednesday 22 November, at 4.30pm. The debate is sponsored by Nigel Mills MP, and is scheduled to last an hour.

1. Background

Introduction

Multinational enterprises (MNEs) are not required to publish details of the amounts of tax they pay in each country they have operations in – though there has been a lot of debate as to whether "**public country by country reporting**", as it has been called, should be introduced – in part, in response to concerns that MNEs have been successful at exploiting the way national tax systems interact to minimise the total amount of corporation tax they pay.[1] That said, there *are* requirements that MNEs provide this type of information to the revenue authorities.

In February 2016 the Government introduced provisions for MNEs to provide the tax authorities with an annual 'country-by-country' (CbC) report. UK headed MNEs, or UK sub groups of MNEs, must make an annual CbC report to HM Revenue and Customs (HMRC) showing for each tax jurisdiction in which they do business:

- the amount of revenue, profit before income tax and income tax paid and accrued
- their total employment, capital, retained earnings and tangible assets.

MNEs are also required to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of business activities within a selection of broad areas which each entity engages in. Statutory provision for this regime is made by s122 of the *Finance Act 2015*, with the detailed rules set out in secondary legislation (SI 2016/237).

The Government anticipates that CbC reporting will help HMRC to better assess international tax avoidance risks. In addition it is intended that the information reported by MNEs will be shared with other relevant tax jurisdictions so that they too can identify when MNEs have engaged in certain forms of base erosion or profit shifting activity.[2] However, it has opposed the case for unilateral action on requiring this information to be published, stating, for example in answer to recent PQs, that "it is important that there is a level of international support and co-ordination that leads to both domestic and foreign headquartered groups being required to report information for a comprehensive range of countries in which they operate."[3]

Debates on the case for public CbC

In the 2016 Budget the Government announced that it would "introduce new measures to improve large business tax compliance,

1 A Library paper discusses corporate tax avoidance, and international efforts to tackle it, in the context of the reforms made to corporation tax since 2010: *Corporate tax reform (2010-16)*, SN5945, 20 June 2016.
2 HM Revenue & Customs, *Country-by-country reporting – updated,* March 2017
3 PQ7126, 12 September 2017

including a new requirement that large businesses publish their tax strategies and special measures powers to tackle a minority of large businesses that persistently engage in aggressive tax planning."[4] This followed a consultation exercise over summer 2015; details were confirmed in December that year:

> The measure will introduce a legislative requirement for all large businesses to publish an annual tax strategy, in so far as it relates to UK activities, approved by the Business's Executive Board.
>
> The strategy will cover 4 areas:
>
> - the approach of the UK group to risk management and governance arrangements in relation to UK taxation
> - the attitude of the group towards tax planning (so far as affecting UK taxation)
> - the level of risk in relation to UK taxation that the group is prepared to accept
> - the approach of the group towards its dealings with HM Revenue and Customs (HMRC)
>
> Non-publication of an identifiable tax strategy or incomplete content based on the 4 areas outlined above could lead to a financial penalty. This penalty will be subject to the usual HMRC appeals process.[5]

Provision to this effect was made by s161 and schedule 19 of the *Finance Act 2016*.

Generally Finance Bills will *only* contain provisions concerning national taxes. On the occasions where the Government wishes to include measures *related* to central finance, it must obtain Parliamentary approval to do so, in the form of a 'Procedure Resolution', which is put before the House with the Ways and Means Resolutions that underpin the Bill. This is why the list of Resolutions which the House approved prior to the publication of the Finance Bill 2016 *included* a Procedure Resolution to this effect.[6]

Caroline Flint MP took the opportunity presented by this provision being in the Bill to table an amendment, to add a requirement to schedule 19, to the effect that a MNE group required to publish its tax strategy would have to include the CbC report it had provided to HMRC.[7] In the 2015-16 Session Ms Flint introduced a Ten Minute Rule Bill with a similar purpose.[8]

Ms Flint set out the purpose of her amendment in a press notice; an extract is given below:

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4 *Budget 2016*, HC 901, March 2016 para 2.93

5 HMRC, *Tax administration: large businesses transparency strategy: tax information & impact note*, December 2015. See also, HM Treasury, *Overview of tax legislation & rates*, March 2016 para 1.76

6 HC Deb 22 March 2016 c1542

7 Amendment 1, *Finance Bill 2016: Committee of the Whole House – Notices of Amendments*, 15 June 2016 p32; Caroline Flint MP press notice, *Caroline Flint leads campaign on multinational taxes*, 13 June 2016

8 HC Deb 15 March 2016 cc808-810

> Multinational businesses like Google will be forced to publish where they do business, the money they make and the tax they pay, following a cross party initiative in Parliament, led by Caroline Flint. The Don Valley MP has joined forces with colleagues on the powerful Commons Public Accounts Committee which held an inquiry into the Google tax affair, to require public disclosure by multinationals, known as "public country-by-country reporting" because they operate across several countries. The MP has tabled an amendment to the Finance Bill.
>
> Said Caroline Flint: "I am delighted to have such strong backing from Public Accounts Committee colleagues from all parties. MPs of different parties are saying it's time to shine a light on these secretive tax arrangements and make sure big multinational enterprises pay the right amount of tax. We believe the tide of opinion is moving towards openness, after the Google tax affair and the release of the Panama Papers. We want the Government to champion this – in the interests of UK business, and fairer taxation."
>
> … There are some similar but more limited proposals before the European Parliament, which the Government supports. Said Caroline Flint: "I hope the EU will reach agreement to tackle this, as the problem of multinational tax avoidance affects every government in Europe. Regardless of the EU position, we believe now is the time for the UK to act, show leadership on this issue and address the unfairness in our tax system created by extreme secrecy and confidentiality."
>
> The campaign is promoted on social media using the hashtag #showmethemoney.[9]

Ms Flint's amendment was debated on 28 June, by the Committee of the Whole House, and rejected by 295 votes to 273.[10] On this occasion Ms Flint made the case for this change, saying:

> I want the HMRC to be armed with all the necessary information to secure fair tax contributions from these companies, based on their UK activity, but we need more than the HMRC to have a confidential look; we all deserve to see the bigger picture, and by publishing, we will see that.
>
> Publishing is one way to persuade some of these companies to restore their corporate reputations. Was it because of the extraordinary focus on Google that Facebook announced a welcome change to the recording of its profits in the UK? I believe so. If a company is reporting profits in tax havens where they have only a PO box and a name plate but no apparent staff or activity, do we not want to know that? Let us follow our convictions; let us do what we know to be right. Let us shine a light on the activities of these large multinationals which—let us be honest—run rings around revenue and customs authorities around the world. Let us not flinch, play for time, and hope that some international agreement will eventually be reached by the EU or the OECD.[11]

Opposing the amendment Treasury Minister David Gauke argued that it would be 'premature' to do this:

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9 Caroline Flint MP press notice, *Caroline Flint leads campaign on multinational taxes*, 13 June 2016

10 HC Deb 28 June 2013 c203

11 HC Deb 28 June 2013 c173

> The amendment to clause 149, tabled by the right hon. Member for Don Valley (Caroline Flint), seeks to require large multinational enterprises to publish a country-by-country report on their activities within their published tax strategy … This Government fully share her aims of increasing transparency and clamping down on avoidance and evasion wherever it occurs. Indeed, this Government have led the way in calling at an international level for public country-by-country reports. However, I do not believe that her amendment would help to achieve the objectives that we all share. It is technically flawed, and hence would not achieve the stated transparency or pro-business objectives that we all espouse.
>
> The right hon. Lady has said that multinational businesses such as Google would be forced to publish headline information about where they do business, the money that they make and the tax that they pay, but that is not the case. According to Government legal advice, the amendment would, in practice, place such a requirement only on UK-headquartered multinationals. Foreign-headquartered multinationals such as Google would not be caught at all, and that undermines the transparency objective of the amendment.
>
> The amendment also risks putting UK multinationals at a competitive disadvantage by imposing a reporting requirement that does not apply to foreign competitors operating in the same market. For example, a company headquartered in the UK, whether on the mainland or in Northern Ireland, would have to file public reports, but a company headquartered in the Republic of Ireland—or, indeed, pretty well anywhere else—would not. That, I think, contradicts the level playing field objective whose importance the right hon. Lady has emphasised. At a time of increased uncertainty, we should be particularly cautious about disadvantaging UK-based businesses and imposing on them a further commitment that does not apply to their foreign competitors …
>
> I do not think that the UK should be the last mover in this respect by any means. The United States seems to be some way away from moving in this direction, and I do not think that we should wait for the United States; I think we should be there before it. We should be able to deliver, especially given that such good progress is being made at European Union level. We remain members of the European Union, and there is appetite for this in other EU states. I have no doubt that, if no progress has been made in a year or two, the right hon. Member for Don Valley will come back and ask, "Why has this not happened?", and in that event her case would be strengthened. However, I think that until we have given the deal a fair wind, it would be premature to act unilaterally.[12]

Subsequently at the Report stage of the Bill on 5 September, Ms Flint moved a *second* amendment to amend schedule 19, so as to "enshrine in law support for the principle of public country-by-country reporting with the power for the Government to introduce when the time is most appropriate."[13] In turn Treasury Minister Jane Ellison announced that the Government would accept this change:

> Amendment 145, to which the right hon. Member for Don Valley (Caroline Flint) spoke, would give the Treasury the power to

12 HC Deb 28 June 2016 cc157-9
13 HC Deb 5 September 2016 c136

> require groups to publish a country-by-country report showing their profits, taxes paid and other financial information for the countries in which they operate …
>
> The Government have consistently pushed for a multilateral solution for country-by-country reporting. For example, the Chancellor made the case for looking at this at the G20 in July. Amendment 145 is very much in keeping with that aim and provides the Government with the power to implement when appropriate. It is none the less important that the power is used to deliver a comprehensive and effective model … of public country-by-country reporting that is agreed on a multilateral basis.
>
> I am sure we will return to this issue and the basis on which we can go forward. It means a model that requires all groups, both UK headquartered and non-UK headquartered, to report accessible information for the full range of countries in which they operate. It is vital for ensuring that the policy intention of greater transparency is delivered. It is also important for ensuring that UK headquartered groups are not put at a competitive disadvantage…
>
> The Government remain focused on getting international agreement for such a model, as part of their continued efforts to ensure that taxes are paid and paid in jurisdictions where economic activities take place. The right hon. Lady and the House have my assurance that the Government will continue to take every opportunity to champion this agenda at an international level. It is increasingly clear that we move forward with a welcome degree of agreement across this House.[14]

This now forms para 17(6) of schedule 19 to *FA2016*; to date the Government has *not* used this power to require CbC reports to be published by those companies that submit them to HMRC.[15]

Treasury Minister Mel Stride reiterated the Government's position on this issue in answer to a recent PQ: "the UK is seeking multilateral agreement on a model of public country-by-country reporting (CBCR). It is important that there is a level of international support and co-ordination that leads to both domestic and foreign headquartered groups being required to report information for a comprehensive range of countries in which they operate."[16]

Proposals for CbC reporting at an EU level

In the past the Government has indicated its support for initiatives for public CbC reporting on a multilateral basis, citing the European Commission's proposal for an EU initiative, published in April 2016.[17] Details of the European Commission's proposal for public CbC reporting (COM 2016(198) are on its site,[18] as well as the proposal's scrutiny history to date. It appears that the proposal is still being considered, further to a series of amendments being made, with no agreed text as yet to go before Ministers.

14 HC Deb 5 September 2016 c146-7
15 See, for example, PQ6103, 6 September 2017
16 PQ7759, 12 September 2017
17 PQ33573, 20 April 2016
18 European Commission press notice IP16-1349, 12 April 2016

The Government set out its position on the proposal in greater detail in an explanatory memorandum submitted to the European Scrutiny Committee in April; an extract from this is reproduced below:

> In his Explanatory Memorandum of 28 April 2016 the Financial Secretary to the Treasury (Mr David Gauke) says, in relation to … the policy implications of the proposal …
>
> - the Government is committed to tackling tax avoidance and aggressive tax planning by MNEs;
> - its objective is to ensure that profits are taxed where economic activities are performed;
> - the UK has led the international drive for greater tax transparency — the Government initiated the international work on CbC reporting during the UK's G8 Presidency in June 2013, calling on the OECD to develop a model for CbC reporting to tax authorities under the BEPS project;[19]
> - the Government published regulations on 26 February 2016 to implement the OECD CbC reporting model—MNEs now have to provide HM Revenue and Customs (HMRC) with information about their global activities, profits and taxes, for accounting periods beginning on or after 1 January 2016;
> - the OECD CbC reporting model is intended to be a risk assessing tool, and will help tax authorities better identify when MNEs have engaged in certain forms of BEPS activity and where efforts to counter tax avoidance should be focused;
> - the Commission's proposal is in line with the Government's objective of further enhancing tax transparency by introducing public CbC reporting on a multilateral basis;
> - earlier this year, the Chancellor pressed his EU and international counterparts at ECOFIN Council and G20 meetings to push for the details of tax paid by MNEs to be made publically available on a CbC basis;
> - the Government supports the Commission's proposal—it is a step in the right direction towards new international rules for greater tax transparency;
> - introducing public CbC reporting requirements across all business sectors will improve transparency over businesses' tax affairs and restore public trust in the tax system;
> - the Government believes that there is a case to go further than the current proposal and require MNEs to publish breakdowns of both their EU and non-EU operations—this would allow the public to see the tax paid and profits made for each country in which a MNE operates;
> - if this approach were agreed, a blacklist for the purposes of public CbC reporting would no longer be required—however, as this does not form part of the current proposal, work will be undertaken on the criteria that could be used to determine whether a jurisdiction should be placed on the blacklist; and

[19] See, HMG, *Trade, Tax & Transparency: The 2013 UK G8 Presidency Report*, 2013

- the Government expects Member States, in the Council, to be closely involved in drawing up the blacklist and to work in parallel with the OECD to develop an international system for blacklisting non-cooperative tax jurisdictions.[20]

In December Treasury Minister Jane Ellison wrote to the Committee to set out what progress there had been; as part of her answer the Minister noted that under the proposal "MNEs would be required to disclose and disaggregate information on a 'country-by-country' basis for each Member State in which they operated, as well as for certain jurisdictions that do not comply with good governance standards in taxation. Information for the rest of the world (ie, jurisdictions that are not in the EU and not on the 'blacklist' of non-cooperative tax jurisdictions) would be aggregated into a single figure. The UK has consistently pushed for the report to present the information on a 'country-by-country' basis globally, but this has not gained sufficient support from other Member States."[21]

The initiative for a 'blacklist' of non-cooperative jurisdictions was part of the Commission's External Strategy for Effective Taxation published in January 2016, endorsed by EU Finance Ministers in May.[22] Details are collated on the Commission's site.[23] The Government's position on this issue was set out as part of the European Scrutiny Committee's report on this strategy, published in March last year.[24] The OECD also has an ongoing project assessing compliance with tax transparency, and in August this year published a peer review of 10 jurisdictions.[25]

20 See, European Scrutiny Committee, *Thirty-third report of Session 2015-16*, 20 May 2016, HC 342-xxxii of 2015-16, pp 92-96.
21 European Scrutiny Committee, Ministerial correspondence ref.37663, 6 December 2016. Full details of the Committee's consideration of this proposal are on its site
22 ECOFIN press notice, *Council conclusions on an external taxation strategy and measures against tax treaty abuse*, 25 May 2016
23 See, European Commission, *Questions and Answers on the common EU list of non-cooperative tax jurisdictions*, 15 September 2016
24 "Tax Avoidance", Twenty-fifth Report, HC 342-xxiv, 18 March 2016 para 7.51-2. See also, Letter from Jane Ellison to the Chair of the Committee, 12 April 2016; European Scrutiny Committee, "Tax evasion and avoidance, money laundering, terrorist financing" HC71-xi, 14 September 2016 pp38-48
25 OECD press notice, *Global Forum releases second round of compliance ratings on tax transparency for 10 jurisdictions*, 21 August 2017

2. Parliamentary material

2.1 Selected Parliamentary Questions

Overseas Companies: Annual Reports: PQ33573, 20 April 2016

Asked by Imran Hussain : To ask Mr Chancellor of the Exchequer, what assessment he has made of the potential merits of making country-by-country reporting of UK-listed company profits publicly available.

Answered by: Mr David Gauke : The UK supports efforts to improve tax transparency. We initiated the international work on country-by-country (CbC) reporting to tax authorities during our G8 Presidency in 2013, calling on the OECD to develop a template for this as part of the BEPS project.

The UK was the first to commit to implementing the OECD model with legislation in Finance Act 2015. The Government believes that there is scope for greater transparency by pressing the case for public CbC reporting on a multilateral basis. As the Chancellor has said, this is something that the UK will seek to promote internationally.

The European Commission has now proposed amendments to the Accounting Directive for public CbC reporting, and we believe these proposals are a step in the right direction towards new international rules for greater public transparency.

*

Multinational Companies: Taxation, PQ67028, 13 March 2017

Asked by Stephen Timms : To ask Mr Chancellor of the Exchequer, when he expects to reach a multilateral agreement under which the UK may adopt public country-by-country reporting.

Answered by: Jane Ellison : The Government is supportive of efforts to improve tax transparency.

It initiated the international work on country-by-country reporting, calling on the OECD to develop country-by-country reporting to tax authorities as part of the Base Erosion and Profit Shifting (BEPS) Project.

The Government has been actively engaged with international partners on a multilateral approach to making this information public, which includes participation in the discussions on a European Commission proposal for public country-by-country reporting.

A multilateral approach is the only way of ensuring an effective model of public country-by-country reporting, one which provides a comprehensive breakdown of information for the jurisdictions in which both domestic and foreign headquartered multinationals operate.

The Chancellor of the Exchequer and other Treasury Ministers continue to meet with their international counterparts on a regular basis, including at the G20 and the European Union, to discuss multilateral actions to counter tax avoidance and promote tax transparency.

*

Taxation: Multinational Companies: PQ5916, 24 July 2017

Asked by Caroline Flint : To ask Mr Chancellor of the Exchequer, what progress he has made on reaching a multilateral agreement under which the UK will adopt public country-by-country reporting.

Answered by: Mel Stride : The UK has led international action to enhance tax transparency. This included initiating the international work on country-by-country reporting during its G8 Presidency in 2013, and being the first country to commit to implement the OECD model for country-by country reporting with legislation in the 2015 Finance Act.

The Government believes a multilateral approach to public country-by-country reporting would help ensure effective implementation. The UK has raised public country-by-country reporting with international partners and the Government will continue to engage with our international partners, including at EU level, on this issue.

*

Multinational Companies: Taxation, PQ5917, 26 July 2017

Asked by Caroline Flint : To ask the Secretary of State for Exiting the European Union, whether the Government plans to include a multilateral deal on public country-by-country reporting as part of its negotiations on leaving the EU.

Answered by: Mr Steve Baker : The UK has led international action to enhance tax transparency, and believes a multilateral approach to public country-by-country reporting would help ensure effective implementation. We have raised public country-by-country reporting with international partners and the Government will continue to engage with our international partners, including at EU level, on this issue.

*

Taxation: Multinational Companies, PQ6103, 6 September 2017

Asked by Caroline Flint : To ask Mr Chancellor of the Exchequer, what estimate his Department has made of the number of countries the Government would need to support any multilateral agreement on public country-by-country reporting for the purposes of implementation of paragraph 17 (6) of Schedule 19 of the Finance Act 2016; and what steps he is taking to secure the support of that number of countries.

Answered by: Mel Stride : Knowing who ultimately owns and controls a company is a crucial part of the global fight against corruption, money laundering and terrorist financing. The UK is leading by example and our freely accessible public register of company beneficial ownership went live in June 2016.

Last year, the UK co-launched a ground breaking new initiative with the EU G5 for the systematic exchange of beneficial ownership information. Since launching the initiative, over 50 countries, including all of the Crown Dependencies and relevant Overseas Territories, have signed up.

Building on the success of that multilateral approach, the UK is now pushing for multilateral agreement on a model of public country-by-country reporting (CBCR).

It is important that there is a level of international support and co-ordination that leads to both domestic and foreign headquartered groups being required to report information for a comprehensive range of countries in which they operate. That is necessary to ensure that public CBCR meets its objective and to avoid the initiative distorting business decisions on their group structure and headquarter location.

The UK is, as part of this, engaging constructively with the European Commission proposal for public CBCR. That includes the high-level aims of the Directive, and the more detailed aspects of the Directive that are alluded to in the question, on which discussions are still ongoing.

*

Taxation: Multinational Companies: PQ7759, 12 September 2017

Asked by John McDonnell : To ask Mr Chancellor of the Exchequer, what steps his Department is taking to ensure that multinational firms file public reports on their dealings, country by country; and whether these steps affect the UK's negotiations strategy on the UK leaving the EU.

Answered by: Mel Stride : The UK is seeking multilateral agreement on a model of public country-by-country reporting (CBCR). It is important that there is a level of international support and co-ordination that leads to both domestic and foreign headquartered groups being required to report information for a comprehensive range of countries in which they operate. The UK has raised public CBCR with international partners and will continue to do so, including at EU level. The Government remains determined to get the very best deal for businesses and households during the negotiations with the EU.

*

Multinational Companies: Company Accounts : PQ107886, 16 October 2017

Dr David Drew : To ask Mr Chancellor of the Exchequer, what recent discussions he has had with his counterparts in other EU countries on public country by country reporting.

Answered by: Mel Stride : The government continues to support the development of a public country-by-country reporting model that operates on a multilateral basis as this would help ensure effective implementation. The Chancellor of the Exchequer and other Treasury Ministers continue to meet with their European counterparts on a regular basis, including at the Economic and Financial Affairs (ECOFIN) Council, to discuss issues including tax transparency. The UK will continue to engage constructively with the European Commission proposal for public country-by-country reporting.

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Multinational Companies: Company Accounts, PQ107885, 24 October 2017

Asked by Dr David Drew : To ask Mr Chancellor of the Exchequer, what plans he has to support public country by country reporting.

Answered by: Mel Stride : The government continues to support the development of a public country-by-country reporting model that operates on a multilateral basis as this would help ensure effective implementation.

The Chancellor of the Exchequer and other Treasury Ministers continue to meet with their European counterparts on a regular basis, including at the Economic and Financial Affairs (ECOFIN) Council, to discuss issues including tax transparency.

The UK will continue to engage constructively with the European Commission proposal for public country-by-country reporting.

2.2 Public Accounts Committee

[*29th Report - HM Revenue & Customs performance in 2015/16*](), HC 712, 2 December 2016 (pp8-9, p7)

Improving performance reporting

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) on its performance in 2015/16.[26] HMRC collected £536.8 billion of tax revenues in 2015/16, some £19.1 billion more (3.7%) than in 2014–15, and paid out £40 billion in benefits. While HMRC's running costs increased from £3.1 billion in 2014–15 to £3.2 billion in 2015–16, the cost of collection fell from 0.58 pence per £1 revenue to 0.55 pence in 2015–16.[27] HMRC is introducing major changes to how it works to make greater use of digital services and reduce its costs. Its stated vision is to have "one of the most digitally advanced tax administrations in the world".[28]

2. HMRC estimates that it achieved a compliance yield (from tackling those who seek to avoid or evade their tax liabilities) of £26.6 billion in 2015–16 against a target of £26.3 billion (C&AG's Report, paragraph 1.26). The compliance yield calculation draws on a range of different measures of revenue generated or losses prevented, all of which involve a degree of estimation and uncertainty (C&AG's Report, Figure 9).

HMRC's latest estimate is that the tax gap (the difference between the amount of tax that should in theory be collected and what is actually collected) in 2014–15 was some £36 billion.[29] While there has been a downward trend in the tax gap over the last 10 years from 8.3% in 2005–06 to 6.5% in 2014–15, it has levelled out in recent years.

3. We asked HMRC about the revisions it makes to its estimates of the tax gap for previous years. HMRC told us that revisions to prior year data were made to reflect new information becoming available to refine the assumptions behind some of the calculations. HMRC noted that it only used tax gap estimates to consider long term trends and did not assign much importance to year on year movements (Qq 44, 46). HMRC also told us that it used the tax gap data to inform its "strategic picture of risk", which helps determine the type of compliance work the Department should undertake (Qq 48–49).

HMRC also referred to options under consideration, such as reporting tax gap estimates with a range of uncertainty around the central estimates, to improve the usefulness of the measure (Q 45).

4. We asked HMRC how far it could realistically reduce the size of the tax gap. HMRC told us that a zero tax gap was unattainable as there were factors, such as businesses going bankrupt before tax due is

26 C&AG's Report, HM Revenue and Customs 2015–16 Accounts, Session 2016–17, HC 338, 12 July 2016
27 C&AG's Report, Figure 4 and HM Revenue & Customs, Annual Report and Accounts 2015–16, HC 338, 12 July 2016, page 49
28 HM Revenue & Customs, Single Departmental Plan 2015–2020
29 HM Revenue & Customs, Measuring tax gaps 2016 edition, 20 October 2016

collected and certain elements of the hidden economy, which it could never hope to eliminate.

HMRC does not set itself any tax gap targets to meet as it treats the tax gap as a backward-looking measure of how it has performed. However, HMRC agreed to consider what minimum level for the tax gap might be achievable (Q 47).

5. HMRC told us that, while there should be some consistency between its reported compliance yield and the size of the tax gap over a period of time, it was not possible to quantify the relationship between the two measures (Qq 47, 52, 62).We questioned whether HMRC's compliance yield targets were stretching given that it had exceeded its targets for the past two years (Qq 50, 52). HMRC's compliance yield targets are agreed with HM Treasury on an annual basis (Q 52). The Department recognised that its compliance yield measure was not an exact science and was based on a number of estimates. HMRC accepted that it should retrospectively evaluate the accuracy of its estimates based on the outcomes achieved (Qq 59, 62).

6. We asked HMRC about the impact expected from the new requirement for multinational companies to provide information on their activities on a country-by-country basis which came into force earlier this year (Qq 69–71). HMRC noted that country-by-country reporting would provide it with better data on where multinationals were raising their revenues (Q 71).

The data would also inform HMRC's risk assessment and selection of cases for investigation (Q 72). The Department told us that if country-by-country reporting data indicated that businesses had not paid the correct amount of tax it would investigate. HMRC estimated that the introduction of country-by-country reporting would result in about £45 million of additional tax yield (Qq 72–74).

7. The country-by-country reporting that has been agreed is for information to be supplied on a confidential basis, as this was the only basis on which some countries would agree to adopt the new initiative. The Finance Act 2016 gave the Government the additional power to introduce a public country-by-country reporting requirement for large multinational companies.[30] This power was adopted after work by members of the Committee to promote an amendment to the Finance Bill on the issue.[31]

The Government supports the view that country-by-country reporting should be public but believes that it should be implemented on an international basis or, failing that, on a multilateral basis. The Government is committed to working with international partners to reach agreements on a multilateral basis (Q 74).Ideally, the Department would like to see public country-by-country reporting agreed internationally as a global standard (Q 75).

30 Finance Act 2016, section 161 and Schedule 19, paragraph 17 (6)
31 Amendment 145 to consideration of Finance Bill 2016 (Report Stage), 5 September 2016

Conclusions and recommendations

6. HMRC and HM Treasury need to make the tax affairs of large multinational companies more transparent to increase the pressure on them to pay their fair share of tax. This Committee has repeatedly called for the tax affairs of multinational companies to be made more transparent. We therefore welcome the fact that HMRC will soon receive automatically information on the global activities of large multinational companies that do business in the UK (through what is known as country-by-country reports).

However, these country-by-country reports will be supplied on a confidential basis and will thus not contribute to increasing transparency over the tax affairs of these companies. We also welcome the cross-party consensus that now exists on the need for public country-by-country reporting, which will require international agreement to make a reality. The power to require public country-by-country reporting was set out in UK law following work by members of the Committee to promote an amendment to the Finance Bill 2016.

Recommendation: HMRC and HM Treasury should lead the global debate for public country-by-country reporting and push for international agreement on its introduction.

*

Government response to the Committee's 29th report, Treasury Minutes, Cm 9429 March 2017 (extract, p12)

6: Committee of Public Accounts conclusion: HMRC and HM Treasury need to make the tax affairs of large multinational companies more transparent to increase the pressure on them to pay their fair share of tax.

Recommendation: HMRC and HM Treasury should lead the global debate for public country-by-country reporting and push for international agreement on its introduction.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The UK has led, and will continue to lead, international efforts to tackle tax avoidance and enhance tax transparency, including calling for a broad international or multilateral agreement for public country-by-country reporting by large multinational companies. The Government will continue to work with international partners with the aim of delivering a comprehensive and effective model of public country-by-country reporting.

In particular, HMRC and the Treasury will continue to participate in the discussions on the European Commission proposal with a view to delivering on that objective. A multilateral approach will ensure public country-by-country reporting applies to both UK headquartered and non-UK headquartered multinationals, requiring them to report on their profits made and taxes paid for the full range of countries in which they operate.

3. Press articles

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"George Osborne voices support for tax transparency", *Financial Times*, 12 February 2016

"What is being done to tackle tax-dodging?", *BBC news*, 12 April 2016

"EU regulators demand greater tax transparency from multinationals", *Guardian*, 12 April 2016

"EU to force companies to open up on tax", *Times*, 13 April 2016

"New global rules on firms' tax disclosure urged by economists", *BBC news*, 9 May 2016

"MPs back plan to force global firms to publicly disclose income and tax", *Guardian*, 1 September 2016

"Global tax tentacles extend their reach as authorities tighten grip", *Daily Telegraph*, 6 September 2016

"U.K. opts for public country-by-country reporting", *Bloomberg*, 7 September 2016

"Anger over Uber's £400,000 tax bill", *Times*, 11 October 2016

"Letters to the Editor: Let's act now on country-by-country reporting", *Financial Times*, 20 July 2017

"Amazon paid just £15m in tax on European revenues of £19.5bn", *Guardian*, 10 August 2017

"Britain criticised by MEPs for failing to take action on tax havens", *Guardian*, 10 November 2017

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