

TAXPARENT MARK



A positive solution to negative phenomena

What's the problem?

- "We pay taxes and still make better coffee than Starbucks."



Googies Art Café (Folkestone, the United Kingdom)

What's the problem from the consumer and business side?

- **Problem for ethical consumer**

- He/she would like to buy from those businesses which are responsible and do not engage in tax avoidance or corruption...
- ...but does not know how to find out whether the business from whom he/she buys pays taxes and is clean.

- **Problem of the ethical business**

- It would like to advertise that it is transparent as to its real owners and pays corporate tax to attract ethical consumers,
- ... but does not know how to do it (except for writing it on a shop sign like Kevin Holland, the owner of the Googies Art Café in Folkestone)

What's the problem from the public interest point of view?

- **Western part of the EU:** Corporate tax avoidance (e.g. LuxLeaks affair, Amazon, Apple, Google, Starbucks')
 - SMEs taxed at the statutory rate of 10% to 35%
 - Multinational corporations (MNCs) can be taxed at 1% or 0%
- **Eastern part of the EU:** Corruption and conflict-of-interest in distributing public funds, including EU funds
- **What's common cause of these problems?**
 - Opacity of corporate structures, including
 - the anonymity of ultimate beneficial owners (UBOs), and
 - the impossibility to determine effective corporate tax rates of multinational corporations

What is the solution? (1)

- Surprisingly enough, data allowing to make a distinction between responsible and clean company, on the one hand, and a corporate tax avoiding opaque business, on the other hand, are or very soon will be publicly available:
 - proposal of the fourth Anti-Money Laundering Directive (to be adopted in 2015) includes a public register of real owners of companies (possibly within the structures of existing commercial registers, companies registers etc.)
 - the **Accounting Directive** requires obligatory disclosure of revenues, tax on profits (corporate tax) and profits (earnings before tax) in financial accounts
 - **Directive 2009/101/EC** requires publication of financial accounts in public registers (commercial registers, companies registers etc.)

What is the solution? (2)

- **Unfortunately, these data are not presented in a way which would allow**
 - Ethical consumers to discern transparent companies which do not avoid corporate tax...
...and buy from them (rather than from opaque tax avoiding companies)...
 - Ethical businesses - which are transparent about their owners and pay a fair share of their profits to society - to attract ethical consumers...
- ... and thus match the ethical consumer with the ethical business.**

E-trustmark attesting taxparency...

E-trustmark which certifies that

- the company disclosed on the internet its corporate ownership structure up to UBOs,
- the company disclosed its effective corporate tax rate per jurisdiction,
- the company disclosed the amount of corporate tax paid in the EU, and
- that company's global effective corporate tax rate is above 10%.

... accompanied by a legislative instrument.

- **EU level**
 - Regulation on corporate taxparency, or at least a Recommendation issued by the Commission
- **OECD level**
 - OECD Convention on innovative approach to tax matters (draft to be presented in 2015), or at least Guidelines on corporate taxparency
- **National level**
 - National laws based on a model act on corporate taxparency

Would the solution be effective?

- **Disclosure ...**
 - OECD 2011 Report on Disclosure Initiatives - Tackling Aggressive Tax Planning Through Improved Transparency and Disclosure
 - Kleinbard, 2013 (USC Gould School of Law)
 - Zucman, 2014 (London School of Economics)
- **...of corporate ownership structures up to UBOs...**
 - disclosure of corporate structure allows to find out in which countries the MNCs pay taxes
- **... and of effective corporate tax rates per jurisdiction.**
 - disclosure of the effective corporate tax rate allows to find how much the MNC pays in corporate tax in each jurisdiction where it has subsidiaries
- **As a result, it is possible to see the global effective corporate tax rate of the MNC, places where it hides its profits and as well as who benefits from these profits.**

Study on e-commerce (2012)

- A successful e-trustmark should be attributed by a non-profit organisation or a public authority (if granted by a profit making company it is not credible)
 - Consumer perception of credibility of an e-trustmark is very similar if granted by a non-profit organisation or public authority
- Voluntary e-trustmarks work nationally, but have difficulties in spreading cross-border
- *"European Commission should not so much engage directly in the provision of trustmark services, but more leverage the trust-building role of neutral bodies"*

<http://ec.europa.eu/digital-agenda/en/news/eu-online-trustmarks-%E2%80%93-building-digital-confidence-europe-smart-20110022>

Stakeholders are ready to act

- Business in general ready and prepared that there will be some action in the area of corporate tax avoidance
- SMEs want an action in this area since they are being discriminated vis-à-vis MNCs from the "tax costs" perspective
- NGOs call for action against corporate tax avoidance
- Grass-roots solutions (trustmarks) start to emerge