SUMMARY

1. What's the problem?

What's the key problem in the Western Europe? Corporate tax avoidance. What's the key problem in the Eastern Europe? Corruption. What's the common cause of both of these problems? Opacity of corporate ownership structures, including the anonymity of ultimate beneficial owners of such entities, as well as the ensuing hidden tax planning schemes of such corporations.

If one creates a sufficiently complex and partly "invisible" corporate ownership structure extended to a tax haven, one can hide untaxed profits and money channelled out of public budgets in subsidiaries in the invisible part of this structure. By creating such corporate ownership structure one can make it impossible to prosecute financing of criminality with public funds, go easily around international sanctionsor state capture of market of public funds etc.

2. What's the solution to the problem?

The solution to the problem of corruption resulting from the opacity of corporate structures is the disclosure of corporate ownership structures. The solution to the problem of corporate tax avoidance is the disclosure of corporate ownership structures accompanied by the disclosure of effective corporate tax rates. The disclosure solution is recommended both by the OECD and academics.

Corporations which voluntarily disclose corporate ownership structures and effective corporate tax rates are not dangerous. We know who owns them and controls them. We also know how much tax they pay and where so we know they are not avoiding corporate tax. By contrast, if the corporate structure is unknown, it is nearly impossible to find the owner and convict him if bribes are included in the public contract price and then channelled to the ultimate owner through dividends or other means of corporate tax shifting. UK research and conclusions of international organisations confirmed that "*there is a clear link between such illicit financial flows and company structures*".

3. Which solutions are already being applied?

In 2013, UK Prime Minister David Cameron proposed obligatory disclosure of corporate ownership structures and the effective corporate tax rates. Following the approval of his proposals at the G-8 summit in Lough Erne, in 2014 OECD started to work on the "Base Erosion – Profit Shifting" project. This project is currently on-going and is supposed to deliver recommendations to OECD Member States how to deal with corporate tax avoidance.

At the EU level, in 2014 the Parliament, Council and the Commission reached an informal agreement on the creation of the public register of ultimate beneficial owners. Under the Accounting Directive the Commission shall report by 21 July 2018 about the practices regarding the publication by companies of country-by-country reports on at least the profits made and tax on profits paid. In February 2015, the U.S. President Obama proposed a one-off tax on offshore corporate profits of U.S. companies.

At the same time, voluntary initiatives of NGOs and small businesses, such as the UK's FAIR TAX mark initiative, supposed to reward non-avoiding companies with transparent ownership structures have started to appear. The idea of a tax-label was also advanced as one of the possible solutions by the Secretary-General of European labour unions.

4. What are the shortcomings of the existing solutions and why is TAXPARENT mark better?

The OECD BEPS initiative will deliver recommendations on the country-by-country reports and better communication between tax authorities, but it will take quite some time before they start to be applied. Moreover, they will not be binding and will not provide states and companies with concrete tools how to disclose corporate structures and effective tax rates as well as their character will be prescriptive rather than motivational. Since circumvention is in the heart of tax avoidance, hard rules will never be able to prevent it.

The voluntary initiatives, although motivational and immediately applicable, lack clear message about transparency and effective tax rate which could be understandable to consumers. While sharing the

philosophy and the objectives of the Fair Tax mark concept, TAXPARENT solution is much more practical: it translates corporate ownership structure and effective tax rate into an easily understandable TAXPARENT mark.

5. How would the TAXPARENT mark look like and work?

The concept of the taxparent mark is simple: a company which would make its entire corporate ownership structure, up to the ultimate beneficial owner, and its global effective corporate tax rate public on the internet website will have the opportunity to get the taxparent mark. Who gets the TAXPARENT mark will have a competitive advantage of a better reputation with the consumers since it will be able to "sell" the fact that it is transparent and duly pays the corporate tax.

Each company which will want to get the TAXPARENT mark will simply enter its corporate ownership structure into prepared on-line template; in addition, in respect of each company within the structure it will indicate the amount of effective corporate tax paid in each jurisdiction. Then, it attaches the justifying documents, for example, a certificate from the companies registry or the published accounting documents. From this information the web application will create corporate ownership structure and compute the global effective corporate tax rate.

Subsequently, the application will generate a TAXPARENT mark for the corporation indicating the amount of global effective corporate tax rate and the number of stars reflecting the amount of corporate tax paid in all the EU countries. The company will put this e-trustmark on its website. The e-trustmark will be interactive: when the visitor clicks on it the entered corporate ownership structure and the gloval effective corporate tax rate will display to the visitor. The TAXPARENT mark will be granted for the period of one year (until the publication of the accounting documents in the next year). The project of the TAXPARENT mark is currently being conceived by Transparency International Czech Republic.

6. Which benefits should the TAXPARENT bring?

First, TAXPARENT mark will bring a competitive advantage to companies which voluntarily disclosed their corporate ownership structure and (global) effective corporate tax rate. To get the mark will be easy for the small companies with simple corporate structures. It will be slightly more time-consuming for larger corporations with more complex ownership structure. Yet, getting the mark will be non-discriminatory and proportionate to the size of the company. If the smallest can get a competitive advantage, then the bigger will follow thanks to a simple business envy.

Second, TAXPARENT mark will bring a simple and understandable means for the consumers how to differentiate between clean and responsible companies form the opaque and tax avoiding ones. Consumers understand and appreciate those marks from which they can directly elicit what they mean: from the TAXPARENT mark they will understand that the company is transparent and how much corporate tax it pays. Hence, consumers will be incited to buy products of companies with TAXPARENT mark which will create the virtuous circle since, in turn, it will attract businesses to get this mark.

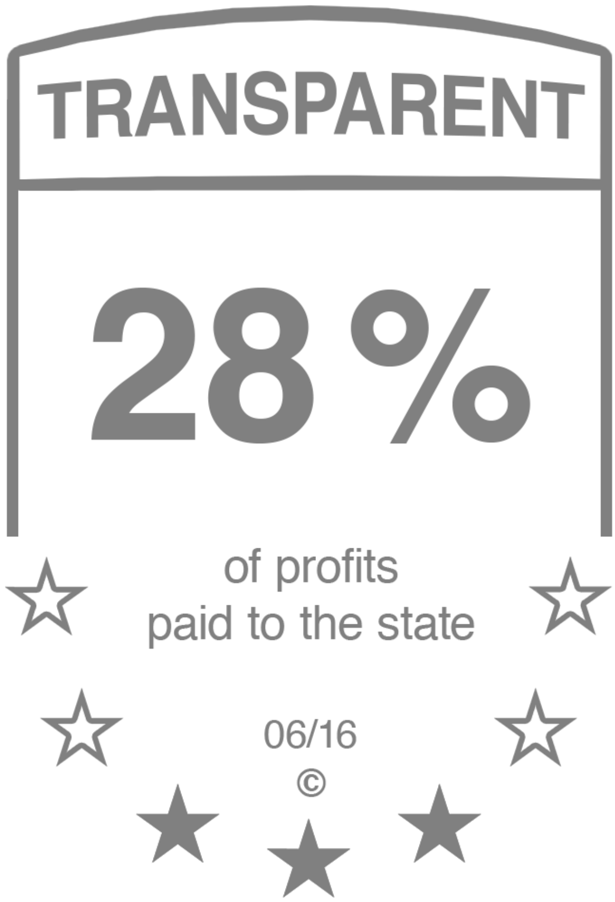
Third, event if it is not possible to expect that tax avoiding companies with secret owners would become voluntarily taxparent, TAXPARENT mark has a potential to create an informal ethical standard which would distinguish transparent from non-transparent companies. If this ethical standard got extended also to large multinational corporations whose global effective corporate tax rate is as a result of profit shifting low (for example, 4 %), would desire to get the TAXPARENT mark, they would have the possibility to make a top-up payment to the EU budget (it would be a de facto tax of offshore profits).

Fourth, and probably most important, authorities granting public funds could start to require that private companies which apply for public contracts and grants have the TAXPARENT mark. The conditions for obtaining TAXPARENT mark are non-discriminatory and in compliance with public procurement laws. This would again trigger a virtuous circle: authorities would grant public monies only to companies whose ownership structure, up to the ultimate beneficial owners, would be publicly known (no minister or public official would dare own company which would receive public monies) Thus corruption and state capture would be reduced.

7. **Possible legislative measures accompanying the voluntary TAXPARENT mark**

Next to the implementation of the voluntary TAXPARENT mark, it is clearly possible to adopt a binding measure which would oblige either all companies or those companies receiving public funds to be eligible for the TAXPARENT mark. Such binding measure could, for example, foresee that a companies which voluntarily disclose to the public their corporate structure and its global effective corporate tax rate and this rate is above 10% could receive the TAXPARENT mark (companies with business-to-consumers activities); companies which would not want to disclose this information to the public could do so only for the eyes of the authorities provided that their global effective corporate tax rate would be above 10% (companies business-to-business activities). Lastly, companies whose global effective corporate tax rate would be below 10% would be obliged to disclose their global effective corporate tax rate in all communications to consumers.

8. **TAXPARENT mark – graphical prototype**



TRANSPARENT – confirms that the company made all its corporate onwership structure public up to ultimate beneficial owners.

28 % - show that the global effective corporate tax rate of the multinational corporation of which the company is a part is 28 % (i.e. average of effective tax rate of all companies within the multinational corporation controlled by the displayed ultimate beneficial owners paid in all state where it is present (which allows to reveal piling up of profits in offshore tax havens with low or zero tax rate)).

******* - indicate that the sum of amounts paid in corporate tax in all EU countries where the multinational corporation of which the company is a part is present is between EUR 100K – 999K (three figures before K (thousand) equal three stars).

06/16 – marks the validity of the TAXPARENT mark (up to June 2016)

© - attests that the TAXPARENT mark was obtained on the basis of proper certification via the abovementioned web-application.