Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

35th SESSION
24 - 26 October 2018
Room XVII, Palais des Nations, Geneva

Wednesday, 24 October 2018
Afternoon Session

Agenda Item 3.
Enhancing comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

Presented by

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Tax before all

Sustainability reporting for the SDGs

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United Nations ISAR 35
UNCTAD, Geneva

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On the Tax Justice Network:

"TJN has done more than any other organisation to put fiscal justice at the center of the policy agenda.

Tax issues should not be left to those who want to escape taxes!

Changes will come when more and more citizens of the world take ownership of these matters. TJN is a powerful force acting in this direction."

Thomas Piketty

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Overview

- Why **tax**? The primary means of SDG implementation
- Country-by-country reporting
- SDG 16.4
- Data standards and opportunities

SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

17. Strengthen the means of implementation…

17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection

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Why tax? The 4 Rs

- Revenue
- Redistribution
- Re-pricing
- Representation

Country-by-country reporting

- Biggest economic actors globally are also most opaque
- Roots in the work of GEISAR
- Modern proposal: Tax Justice Network (Murphy, 2003)
- G20, G8 in 2013 require OECD to develop a standard

Country-by-country reporting

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- **Identity:** Name, type of entity, place of incorporation and principal activity…
- **Locations** in which reporting entity and related parties operate
- **Value of sales** made by the reporting entity and its related parties in each state in which they are located split between **third parties and intra-group**
- the value of **intra-group purchases** made by reporting entity and related
- the value of **local resources, be they labour or natural,** utilised by the reporting entity and its related parties in each state in which they operate
- the **corporate profits** generated in each location…
- **the taxes on corporate profit** paid by the reporting entity and its related parties in each state in which they operate

Country-by-country reporting

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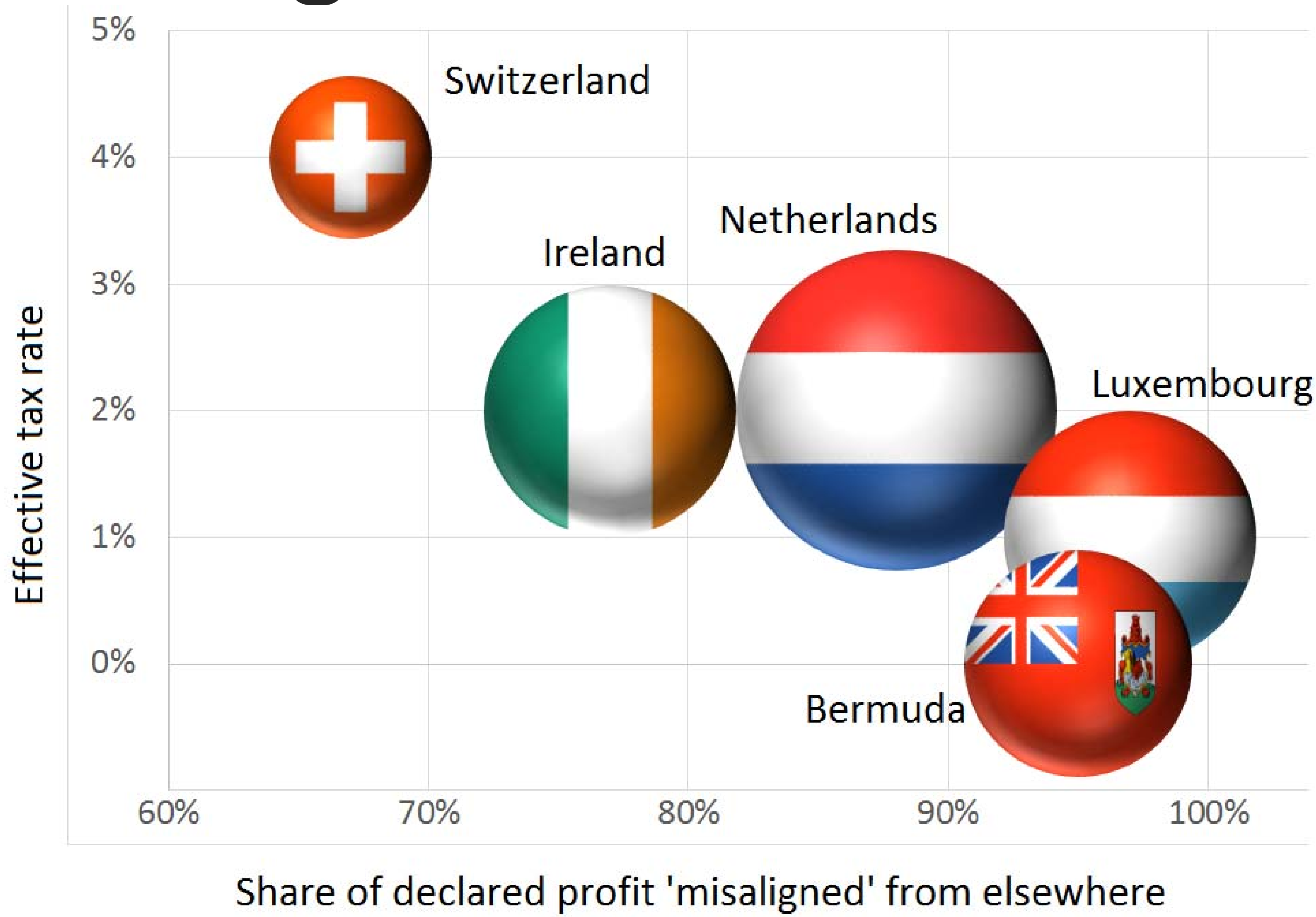
Which accountabilities?

- **Multinationals, general** (who are you, where are you and what do you do there? We know much less about multinationals than single entity with public accounts)
- **Multinationals, tax** (alignment with real economic activity)
- **Jurisdictions, tax** (alignment with real economic activity)
  - Undermining taxing rights of others?
  - Asserting own taxing rights?

Misalignment



SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

Target 16.4

By 2030, **significantly reduce illicit financial** and arms **flows**, strengthen the recovery and return of stolen assets and combat all forms of organized crime

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SDG 16.4.1a

An indicator of misaligned profits, based on OECD country-by-country reporting data:

The value of profits reported by multinationals in countries,

for which there is no proportionate economic activity

Data standards and opportunities

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- Crucial to avoid+reverse multiplication of standards – consistency is key for comparability and accountability
  - **OECD standard** flawed - but least flawed of those in operation (vs extractive sector and EU CRD IV)
  - **Global Reporting Initiative** draft standard: *much* stronger technically – traction now key

Data standards and opportunities

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- UN ISAR role:
  - Confirm TAX before CSR, to avoid #SDGwashing
  - Set the standard for country-by-country reporting

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Sustainability reporting for the SDGs

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SDG 16.4.1a

Defined for each jurisdiction, can be summed across some or all.

For each jurisdiction *i* we define the misaligned profit as:

$$\chi_i = \omega_i \Pi - \pi_i \qquad \ldots(1)$$

where:

- ω_i is the share of all multinationals' economic activity in jurisdiction *i*;
- Π is the global, gross profits of all multinationals; and
- π_i is the share of all multinationals' gross profits declared in *i*.

SDG 16.4.1a

Economic activity captured as simple average of indicators of production (share of FTE employees in jurisdiction, ι_i) and consumption (final sales in jurisdiction, γ_i). We define, for all *i:*

$$\omega_i = \frac{1}{2}(\iota_i + \gamma_i)$$

We also use the label Ω for the global total of multinationals' economic activity, and define:

$\Omega = \sum_{i=1}^{n} \omega_i$; and

$$\Pi = \sum_{i=1}^{n} \pi_i$$

It follows that the global sum of misaligned profits, X, is equal to zero:

$$\mathrm{X} = \sum_{i=1}^{n} \chi_i = 0$$

SDG 16.4.1a

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We propose that the profit misalignment indicator for use in SDG target 16.4 is the global sum of *positively misaligned* profits – that is, the total excess profits declared in jurisdictions with a greater share of profits than would be aligned with their share of economic activity.

Equivalently, this can be calculated as half the sum of the absolute values of misaligned profit:

$$SDG_{16.4.1a} = \frac{1}{2}\sum_{i=1}^{n}|\chi_i| \qquad \ldots(2)$$

Underlying jurisdiction-level misalignment measures => accountability