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Making Transparency Possible

Return to a better tax system

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What to do when transparency is opposed?

- Civil society has been working hard towards getting increased transparency by multinational companies who dodge taxes (and create a level playing field for national companies who pay their taxes)
- What is the response?
  - The Ministry of Finance in Norway is desperately trying to avoid tackling the tax havens by NOT putting teeth into the country-by-country reporting
  - Is the political parties in the Parliament able to join forces to make sure that the necessary changes are done?
  - In the meantime Norway is working to mainstream EITI without making sure that the minimum transparency is taken care of (with the Ministry saying that they are «sure the EITI board will make a wise decision»)
  - Is the EITI board able to «resist» a «suggestion» like that?

What to do when transparency is opposed?

- What is the alternative to transparency?
- Adequate taxation!
- If there is adequate taxation of the multinational companies (effectively on par with the taxation of national companies), then there isn't that much to «fight» about
- Is this possible in a world where countries on a yearly basis follow the spiral towards minimum taxation of both multinationals (because they do not have the tools) and national companies (because they want to keep the competitiveness of national companies up with the multinationals)?
- Does there exist the tools to tax the multinational companies on par with the national companies and keep up the tax level?
- Yes, they exist, and it does not need much tinkering to make them work

What should civil society give multinationals if they do not want transparency? Taxation!

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- There is already in the international tax system a class of tools that can be utilized and enhanced to do away with the tax effects of the tax havens
- The three tools are
  - 1 Withholding taxes → almost not used within the OECD countries and negotiated away in bilateral tax treaties → can be used towards all types of cross-border transactions, including those where only a service crosses the border, i.e. AirBnB, Uber, software licenses etc

    The only thing one needs to do is to apply a withholding tax on all cross-border transactions and when the transaction is paid for, the withholding tax is paid for from the same account directly to the tax authorities (this is easy in todays technological world)

  - 2 Tax credits → used to secure no double-taxation → will secure that companies which has withholding taxes applied to their transactions can deduct these as tax credits against their national taxes (unless they are in a tax haven of course) → can be also tweaked to secure avoid double-non-taxation

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- The three tools are (continued)
  - 3 REVERSE Tax credits → turn the tax credit principle (which is used on revenues) around and apply it on cross-border costs in multinational companies
  - Effectively give the multinational companies the tax rate they want → separate cross-border transactions within a multinational company from their other transactions and multiply the amount with the average tax rate of the multinational company previous year → this effectively converts a deduction of cost into reverse tax credits that the company can use within the country instead of the home country using tax credits.
  - This would result in each multinational company being taxed at the tax rate they themselves has strived for for all their cross-border transactions.
  - Any country can take this instrument in use immediately as the tax credit system is a tool that exist in the international tax system already, the principles are easy to use and the result is clear-cut → each company is taxed with their own desired tax rate as demonstrated in their financial statements.

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- Example (individual country numbers not shown here)*

	CURRENT METHOD			REVERSE TAX CREDIT-METHOD		
	US – Norway	US– UK– Norway	US– Tax haven– Norway	US– Norway	US– UK– Norway	US– Tax Haven– Norway
Parent in US:						
Middle country:						
Norway:						
Overview of total taxes:						
US taxes after tax credits	$208,5	$193,5	$191,0	$208,5	$193,5	$195,0
Middle country taxes	N/A	$15,0	$0,0	N/A	$15,0	$0,0
Norway	$54,0	$54,0	$54,0	$54,0	$54,0	$67,5
TOTAL TAXES	-$262,5	$-262,50	$245,0	-$262,5	$-262,50	-$262,50
Profit before taxes:						
US	$550	$500	$500	$550	$500	$500
Middle country		$50	$50		$50	$50
Norway	$200	$200	$200	$200	$200	$200
Total taxes	-$262,50	-$262,50	-$245	-$262,50	-$262,50	-$262,50
Profit after taxes	$487,50	$487,50	$505	$487,50	$487,50	$487,50

* For simplicity the same tax level is assumed in US, UK and Norway in example, while this is not true in reality

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- The nice thing about it?
- You do not need to have transparency to do it!
- Any country can implement it and they do not need to do anything but collect all the intra-group cross-border transactions into a separate amount, multiply it with the average tax rate of the corporation and convert it into tax credits to be used against the companies in-country taxes
- This is a free-for-all tax mechanism that Publish What You Pay Norway shares with all countries, all civil society organizations, all media and all politicians that wants a fair society based upon that all companies are being treated equal
- With Reverse Tax Credits multinational companies are treated equal with national companies … and the use of tax havens does not matter anymore!

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THANK YOU

… and from now on we hope that no one opposes transparency anymore because else the risk is that civil society switches from demanding transparency to demanding taxation
- the tool is Reverse Tax Credit!