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69 DTR 5

United States

U.S. Businesses Fear More Audits Due to Global Tax Reports

By Ben Stupples

U.S. companies are expecting more inspections of their accounts due to the global tax reports they will file this year, highlighting the impact of increased financial transparency for multinational businesses.

In their 2017 annual reports, travel businesses Liberty Expedia Holdings Inc. and ILG Inc. warned the private reports will "result in increased global tax audit activity."

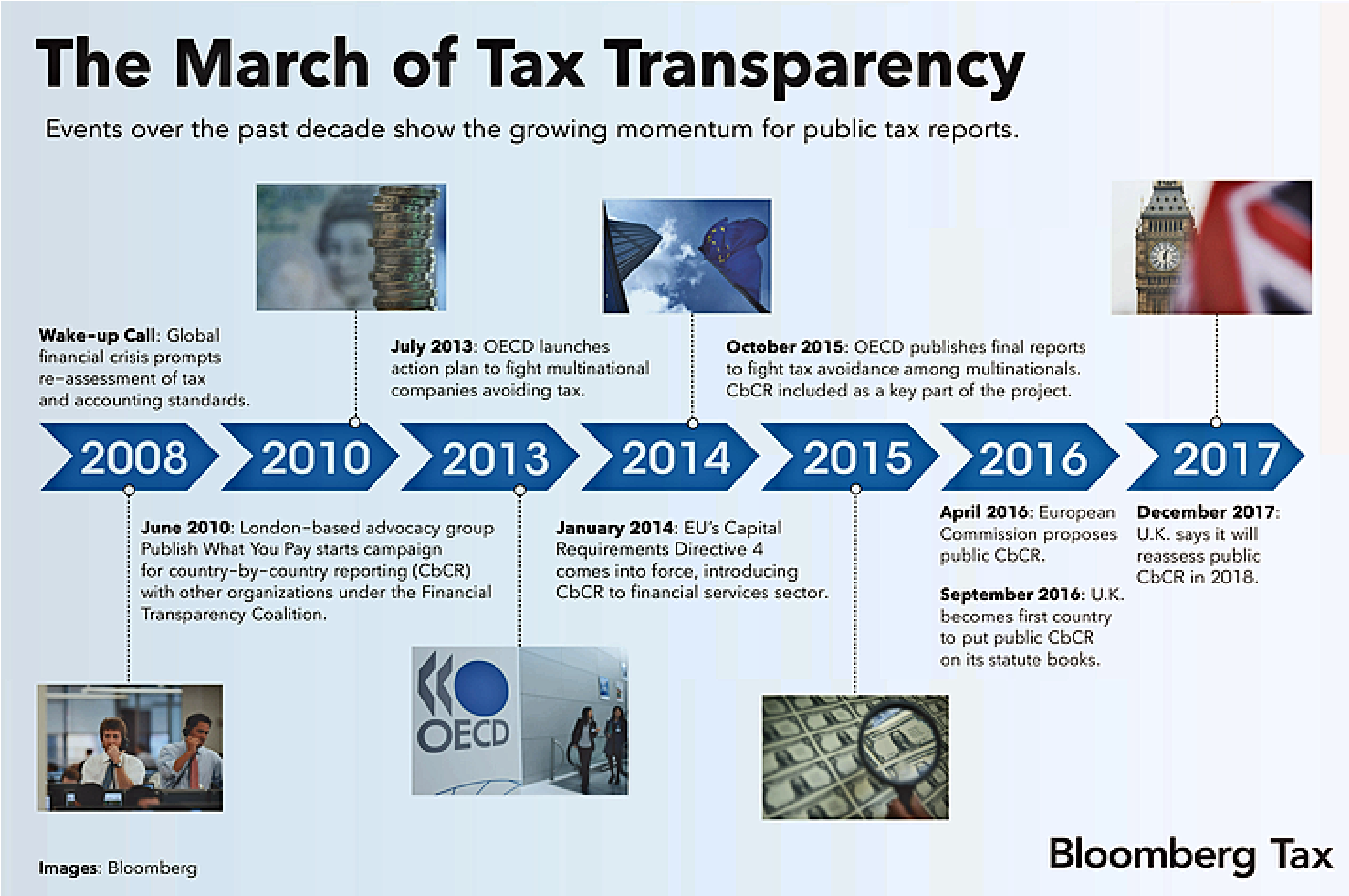
Snapshot

- Country-by-country reports due to IRS due by end of 2018
- Measure provides clearer picture of companies' global activity

The comments from timeshare operator ILG and from Liberty, Expedia Inc.'s holding company, come as U.S. businesses look ahead to filing their first official global tax reports to the IRS by the end of 2018. Known as country-by-country reporting, the reports are the most widely adopted policy from the OECD's 2013 project to curb tax avoidance among multinationals. While the measure applies in the U.S. from the end of companies' 2017 financial year, the IRS accepted voluntary filing for the previous 12 months.

"Businesses will have to expect tax authorities to use this new tool, and all my information is that they think it is really useful," Richard Murphy, a tax transparency advocate and economic professor at City University of London, told Bloomberg Tax by email.

Higher numbers of audits due to country-by-country reporting "may or may not result in more tax paid," said Murphy, who wrote the first version of the global reporting measure in 2003. "But the one thing you can be sure of is that companies are going to need to get a lot better at explaining how they allocate their profits across their group as a whole, which is something that they have not been used to doing to date."



Transparent Picture

Country-by-country reporting gives governments a more transparent picture of companies' global operations. Under the measure, multinational businesses must privately disclose financial data—such as taxes paid, or employee numbers—for each country in which they operate. In the U.S., country-by-country reporting only applies to businesses with annual group revenue of more than $850 million.

The warnings on country-by-country reporting from Liberty and ILG come as multinationals argue against further financial transparency. Neither company responded to Bloomberg Tax's request for comment. The reports were respectively filed Feb. 14 and March 1.

At a January panel discussion at an International Bar Association conference in London, tax directors from U.S. drugmaker Johnson & Johnson and Italian carmaker Fiat Chrysler Automobiles NV said making their country-by-country reports publicly available would create unnecessary complications.

Publishing the reports may "lead to the misunderstanding of reality," said Fiat's Europe, Middle East and Africa tax chief, Monica Cavallini.

"The difficulty here is that, with the level of detail provided in a CbC report, you would almost need a supplementary document to explain what it means," said Johnson & Jonhson's U.K. tax director, Nicholas Wheadon. A public version "would almost pose more questions than provide answers."

Proactive Disclosure

Some companies, though, do plan to publish their reports.

At a Nov. 17 conference in London, Vodafone Group Plc's tax chief John Connors said he expects the telecommunication company's global tax report to become public, possibly via a leak.

Due to this fear, Connors and Erik Knijnenburg, head of tax at Swedish clothing retailer Hennes & Mauritz, have told Bloomberg Tax they plan to publish their companies' country-by-country reports. Aiming to manage the interpretation of the tax data, both documents will have explanatory notes.

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