

Corporate tax – an opportunity as well as a threat

Of late, there is rarely a week that passes without a new company being questioned about its tax practices. Yet it wasn't so long ago that corporate tax was a siloed, peripheral concern: the transition from backroom to boardroom has been as rapid as it has been stark.

In a sense, this isn't surprising. In tough economic times, the perception that companies are not paying their fair share is bound to attract public ire. Indeed the public are unequivocal in their views. According to a recent survey conducted for the Institute of Business Ethics, corporate tax avoidance is a concern amongst a greater percentage of the UK population (34%) than a range of other issues – even surpassing the issue of executive pay (25%).

It is little wonder that corporate tax avoidance regularly makes the front pages, and not just in the tabloids. Against this hostile backdrop, some companies are astutely affording tax the greater attention that it merits. Yet the archetypal corporate response to the tax debate invariably cites legal compliance, and little else. Increasingly, this response doesn't quite cut it.

Public anger isn't so much based on the perception that companies are breaking the law, but rather that they are breaking the spirit of the law and – worse still – exploiting their positions of power to the detriment of revenue authorities (and thus the taxpayer). Via convoluted tax planning, treaties, exemptions and holidays, governments are collecting less than they otherwise might.

It is for this reason that ActionAid is actively involved in this debate. Whilst corporate tax avoidance is an issue in the UK, it is proportionately a much bigger concern in the developing world, where governments struggle to raise sufficient revenue to fund even the most basic services like healthcare and education, or to invest in the infrastructure necessary to support a modern, functioning economy.

The fact that developing countries rely on corporate income taxes for some 16% of their revenues (according to the IMF), compared to just over 8% in the developed world, only amplifies this problem. So what needs to be done?

Part of the solution is clearly better regulation and legislation. ActionAid has been campaigning for government-led reform of the global tax system, and whilst BEPS and other such measures are a partial step forward, our view is that they are not in themselves sufficient to fix a fundamentally broken system (not least because the G20 and OECD-led process neglected to adequately consider the interests of developing countries). But companies, too, have a role to play. The fact that most of the anger about tax avoidance is directed towards corporates themselves should make this abundantly clear.

We believe that the most progressive companies see tax not just as an operating cost, but an investment in the societies in which they operate. By adopting a responsible approach to tax, companies have an opportunity to make a significant and positive contribution, and in doing so, to win back the trust of their stakeholders. Realising this opportunity requires companies to reconceive their tax responsibilities. Tax must be seen not just as an issue of regulation, compliance or risk, but of values.

By embracing 'responsibility beyond legal compliance', companies can seek to ensure that their tax practices and policies reflect their broader duty to contribute to public goods: goods that support the type of societies in which they might not only operate and survive, but be profitable and sustainable for the long term.

In order to explore what corporate tax responsibility looks like, ActionAid – along with Christian Aid and Oxfam – recently published a discussion paper entitled '[Getting to Good: Towards Responsible Corporate Tax Behaviour](#)'. The paper articulates a range of example behaviours that we believe constitute

responsible tax practice, for example:

- Companies can publish their country-by-country reports before being legally required to do so.
- Companies can regularly audit their use of tax incentives and reliefs, and work to ensure that they are delivering the investment, jobs or R&D for which the incentive was provided.
- Companies can be more transparent about their relationships with tax authorities, publishing the outcome of any significant tax settlement.

Tax is a deeply complex issue, so the answers are not straightforward. Nor will they always be easy. And because no two companies are the same, there is no 'one-size-fits-all' solution. But we hope that the paper provides a practical approach for those companies that understand the centrality of tax as a business risk; appreciate that it is an emerging strand of the business and human rights debate; and see it as a core part of their obligations as corporate citizens. Not least in the developing world, tax is inseparable from development and the realisation of human rights.

Progressive companies realise this, and recognise that tax is fundamental to their ultimate sustainability. The time has come to address corporate tax behaviour head-on, and to place tax management squarely at the heart of responsible and truly sustainable business.