

# Combating corporate tax avoidance by requiring large companies to file their tax returns

Combating  
corporate tax  
avoidance

Prem Sikka

*University of Sheffield Management School, Sheffield, UK*

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## Abstract

**Purpose** – The purpose of this paper is to develop arguments for a public policy of requiring all large companies to make their tax returns publicly available. It is argued that such a policy would help to check tax avoidance, strengthen public accountability and secure fair competition.

**Design/methodology/approach** – The policy proposal rests on notions of transparency and public accountability.

**Findings** – The paper argues that the proposed policy is feasible.

**Research limitations/implications** – The paper hopes to stimulate debates about the value of public filing of corporate returns and limits of public accountability.

**Social implications** – The paper extends the range of public policies which might be able to check organised tax avoidance.

**Originality/value** – It is one of the few papers to call for public filings of large company tax returns.

**Keywords** Public accountability, Transparency, Tax avoidance, Large companies, Tax returns

**Paper type** Viewpoint

## Introduction

Tax avoidance is a matter of public concern as it disables the capacity of democratically elected governments to meet policies mandated through the ballot-box, including the mandate to invest in social infrastructure and redistribute income and wealth to secure social stability. Due to secrecy and opacity, the amount of tax avoided/evaded is hard to know. In all, 28 member states of the European Union (EU) are estimated to be losing around one trillion euros each year (Euronews, 2013). It is estimated that between \$7.6 and \$32 trillion of the world's wealth is hidden away in low/no tax jurisdictions and escapes tax altogether (Henry, 2012; Zucman, 2015). Various models estimate that global revenue losses due to tax avoidance by corporations could be up to \$600 billion each year with approximately \$400 billion in developed countries (these are mostly members of the Organisation for Economic Co-operation and Development) and \$200 billion elsewhere (Cobham and Janský, 2017; Crivelli *et al.*, 2015; International Monetary Fund, 2015). Revelations such as the Panama Papers (<https://panamapapers.icij.org/>), Luxembourg leaks (LuxLeaks ([www.icij.org/project/luxembourg-leaks](http://www.icij.org/project/luxembourg-leaks))), HSBC leaks (<https://projects.icij.org/swiss-leaks/>) and the Paradise Papers ([www.icij.org/investigations/paradise-papers/](http://www.icij.org/investigations/paradise-papers/)) show that corporations are at the forefront of global tax avoidance. A common practice is to use

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complex structures, intragroup and related party transactions to shift profits to low/no tax jurisdictions and reduce corporate tax liabilities.

Corporations are aided by a highly organised tax avoidance industry dominated by major accountancy firms. Some of their personnel have been fined and imprisoned for enabling their clients to evade taxes (Mitchell and Sikka, 2011). In 2005, an internal study by Her Majesty's Revenue and Customs (HMRC), UK's tax authority, concluded (*The Guardian*, 2009) that 50 per cent of the Big Four's tax fees came from "commercial tax planning" and "artificial avoidance schemes", which generated fees of around £1 billion a year. In 2013, the tax avoidance business of the big accountancy firms became the subject of a hearing by the UK House of Commons Committee of Public Accounts. Just before the hearing the Committee received evidence from a former senior PricewaterhouseCoopers employee stating that the firm's policy was that it would sell a tax avoidance scheme which had only a 25 per cent chance of withstanding a legal challenge, or as the Committee chairperson put it "you are offering schemes to your clients – knowingly marketing these schemes – where you have judged there is a 75% risk of it then being deemed unlawful" (UK House of Commons Committee of Public Accounts, 2013a b, Ev4). Partners of Deloitte, KPMG and Ernst & Young admitted to "selling schemes that they consider only have a 50% chance of being upheld in court" (p. 5).

Unsurprisingly, the erosion of tax base and profit shifting has become a major international political issue (International Monetary Fund, 2013a, b; United Nations Finance for Development, 2014). Parliamentary inquiries into corporate tax avoidance in the USA and UK have often been thwarted as corporations, their advisers and tax authorities have sought refuge behind the cloak of confidentiality of tax affairs (Mitchell and Sikka, 2011; Sikka, 2015). This paper argues that secrecy surrounding the tax affairs of corporations should be dissolved and all large corporations subject to tax should be required to make their tax returns and related documents publicly available.

This paper is organised in three further sections. The next or the second section provides details of the proposed policy. The third section provides a rationale for the proposed policy by arguing that it will provide transparency, enhance competition, enable investors to make meaningful assessments of future cash flows and risks and enhance public accountability by empowering parliamentary committees to ask searching questions of tax authorities and corporate indulgence in tax avoidance through complex schemes. The fourth and final section concludes the paper with a summary and discussion.

### **Policy proposal**

This paper calls for the tax returns of all large companies, together with related information, to be made publicly available. Tax returns should be filed with the designated public body at the same time as audited annual accounts. In this context, tax return means the full tax computation for each legal person subject to corporation, capital gains and other taxes. A typical tax computation would show how accounting profits are converted to taxable profits, the reliefs claimed by companies, intragroup and related party transactions and other information that has a bearing on the calculation of tax liability. The tax computation may well be supported by a number of detailed schedules and notes and advice received from accountants and other tax advisers. Indeed, rules can be changed to require companies to disclose whatever is conducive to broader social objectives. It is noted that some jurisdictions (e.g. the Caymans, Bermuda) do not levy corporate taxes and thus entities located therein will not produce a tax return. However, their parent companies (which may be based in countries that levy corporate taxes) are likely to be party to profit shifting transactions. Hence, the suggestion above is that the tax returns would need to provide detailed information about intragroup and related party transactions. The policy proposed here envisages

public filing of all material information necessary for understanding of corporate tax affairs.

The proposal does not require companies to generate any additional information as it requires filing of information that all companies already have. In the era of electronic filings, the cost of filing the tax returns is likely to be negligible and miniscule compared to the amounts that companies spend on public relations campaigns or on the construction of complex tax avoidance schemes. Companies cannot claim to be disadvantaged by additional filings because the proposal would apply to all large companies.

The above proposal is to apply to “large companies” only. Such companies are often defined in corporate legislation. The EU definition, as implemented in the UK Companies Act 2006, distinguishes large companies from others and is shown in Table I.

In most countries, relatively few entities are likely to be classified as large companies/groups and be subjected to the proposed filing. The corporate data relating to the UK, the world’s sixth largest economy, illustrates this point. The data published by the UK Government ([www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/559219/bpe\\_2016\\_statistical\\_release.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559219/bpe_2016_statistical_release.pdf)) show that at the start of 2016 there were about 5.5 million private sector businesses. The split is 3.3 million sole proprietorships (60 per cent of the total), 1.8 million companies (32 per cent), and 421,000 ordinary partnerships (8 per cent). Small businesses accounted for 99.3 per cent of all private sector businesses and 99.9 per cent were small or medium-sized enterprises. Therefore, the proposed policy would not apply to the vast majority of companies. The UK Government data show that 7,200 companies had more than 250 employees and can meet the criteria shown in Table I. These companies employ about 10.5 million people and have a turnover of about £2 trillion, and would be subjected to the proposed policy.

## Rationale for the policy

### *Transparency*

Ever since the inception of limited liability for corporations, there has been a concern that limit on liability, the pursuit of sectional interest (e.g. shareholder wealth maximisation) and high financial rewards for company directors can encourage practices that are detrimental to the welfare of society. In his analysis of early forms of limited liability, Adam Smith, considered to be the father of liberal economics, wrote:

The directors of such companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master’s

	Turnover	Balance sheet total	Average no. of employees
Micro-entity	Not more than £632,000	Not more than £316,000	Not more than 10
Small company	Not more than £10.2 million	Not more than £5.1 million	Not more than 50
Small group	Not more than £10.2 million net or not more than £12.2 million gross	Not more than £5.1 million or not more than £6.1 million gross	Not more than 50
Medium-sized company	Not more than £36 million	Not more than £18 million	Not more than 250
Medium-sized group	Not more than £36 million net or not more than £43.2 million gross	Not more than £18 million net or not more than £21.6 million gross	Not more than 250
Large company	£36m or more	£18 million or more	250 or more
Large group	£36 million net or more or £43.2 million gross or more	£18m or more or £21.6 million gross or more	250 more

**Table I.**  
Criteria for  
company size

honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company (Smith, 1776, pp. 606-607).

Indeed, since the dawn of modernity greater information and public accountability have been used as mechanisms for shedding light on dubious practices, fostering democratic governance and possibilities of greater citizen participation in public policymaking (Roberts, 1991). Such discourses have informed state policy and gradually greater transparency and public accountability have become established antidotes to anti-social practices of corporations and their managers. Frequently, in the aftermath of scandals, the state has required companies to publicly file financial statements and additional information (Littleton and Yamey, 1956; Edwards, 1989; Sikka *et al.*, 1998). The constant redrawing of the boundaries between the public and the private spheres of information has sought to dilute the discretion of directors and enabled stakeholders to ask searching questions. The new policies often had to be imposed in the teeth of opposition from those who valued status-quo (Puxty *et al.*, 1994), and arguably helped to restore confidence in capitalism by reassuring the people that capitalism is not corrupt; corporate management is accountable to the public and that the state is willing and able to enact measures to check abusive practices. Such logic applies not only to financial reporting but also to many other walks of life as businesses are required to display information about health and safety, hygiene and many other working practices.

The proposal for requiring companies to publicly file their tax returns is based on the logic of greater provision of information for the public. The public filing of tax returns seeks to empower citizens so that they can ask uncomfortable questions about the tax avoidance strategies used by companies. The availability of tax returns will also encourage critical media scrutiny, especially when companies report artificially low tax liabilities. This may alert resource strapped tax authorities to focus on selected companies. The mere availability of public information and possible public opprobrium might dissuade some companies and their directors from indulging in aggressive tax avoidance practices. The availability of tax returns will enhance citizen choices in that those unhappy about particular practices can show their concerns by boycotting corporate goods and services.

The additional filings are necessary because traditional financial statements do not provide information about how companies convert accounting profits to taxable profits, or how profits are shifted to low/no tax jurisdictions. Despite a plethora of accounting standards, companies can select methods which enable them to report high accounting profits but low profits for tax purposes without any explanation. Company accounts are often silent on tax avoidance strategies. Indeed, there is increasing divergence between accounting and taxation practices (Sikka, 2017) and conventional financial statements are often a poor guide to tax practices. Many of the accounting definitions of assets, liabilities, income and expenses are also unacceptable for tax purposes. Traditional financial statements assume that shareholders are owners of corporations and therefore emphasise income, including unrealised gains and seek to shareholders of the possible increase/decrease in their wealth. In contrast, taxes are levied on realised profits on behalf of society in accordance with specific laws rather than professional practices. Corporate taxation practices do not see an organisation through the shareholder lens, rather the corporation is seen as an entity and the taxes levied by the state seek to secure a portion of the value added by the company for the benefit of society as a whole. The recent adoption of country-by-country reporting, if it results in publicly available reports, may provide some information about taxes paid by companies in each country of their operations (Organisation for Economic Co-operation and Development, 2017) but it will

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not show how accounting profits are converted to taxable profits or the avoidance strategies used to reduce tax liabilities. Therefore, the public filing of tax returns provides new or additional information.

### *Competition*

The public filing of tax returns is also desirable from competition perspective. The tax returns would highlight the discrepancies between the tax advantages enjoyed by large and small and medium-size companies, often local/national businesses, and invite policymakers to respond to distortions of the markets.

For example, tax avoidance strategies give large multinational corporations such as Amazon, Microsoft, Starbucks, Apple and eBay opportunities to devise complex corporate structures and use tax havens, secrecy and opacity to shift profits, avoid corporate taxes and secure additional cash flows. In contrast, local/national businesses cannot easily indulge in the same practices. Many small businesses do not have the resources to hire accountants and lawyers to construct elaborate tax avoidance schemes. For example, Starbucks has used a variety of subsidiaries, affiliates and transfer pricing practices to shift profits to low/no tax jurisdictions to reduce its tax liabilities. Consequently, its contribution to the cost of providing and maintaining the local infrastructure is low (UK House of Commons Committee of Public Accounts, 2012). Local cafés and restaurants compete with Starbucks, but are not in a position to craft complex corporate structures, use tax havens, shift profits and avoid taxes, and are thus economically disadvantaged. Tax avoiding companies can unfairly undercut their normal competitors not necessarily because of some superior products and services, but because of the availability of additional cash flows secured through tax avoidance. They can outbid their normal competitors for goods and services and secure monopolistic control of the market. The additional cash flows enable large companies to indulge in mergers and takeovers to enhance their market dominance. Artificially high cash flows enable large companies to expend greater resources on advertising and influencing policymakers and opinion formers to secure favourable regulations. Tax avoiding companies make full use of social infrastructure to generate profits but avoid making the required contribution. Consequently, smaller and local businesses bear a higher proportion of the cost of providing the social infrastructure. The public filing of tax returns will help to highlight the competition discrepancies and generate pressures for reform.

### *Risk management*

In capital markets, rational investors make assessments of future cash flows and risks to enable them to make investment decisions. However, the absence of tax returns and information about tax avoidance strategies obfuscates assessment of future cash flows and risks as investors are unable to distinguish between profits from normal sustainable activities and those arising from contestable tax avoidance practices. Nation states are increasingly resorting to litigation and penalties to secure tax compliance. The litigation and related uncertainty can last for years and secrecy around such events does not enable investors to make good assessments of future cash flows, returns and risks. The eventual settlements with the state also result in unfair wealth transfers. For example, companies may inflate their profits through tax avoidance strategies and pay higher returns to shareholders. However, some years later when as a result of litigation companies face repayments bills and penalties, the burden of this retribution falls on shareholders who did not benefit from the original inflated returns.

Sikka and Willmott (2010) provided a number of examples to show that tax authorities are increasingly taking a robust stance against companies engaged in tax avoidance. US tax authorities have targeted the transfer pricing and royalty payments of some of the largest

corporations, which include, Home Depot, Limited Brands Inc., Kmart Corp., Gap Inc., Sherwin-Williams Inc., Tyson Foods Inc., Circuit City Stores Inc., Stanley Works, Staples Inc., and Burger King Corp. They have sued oil companies such as Shell, Mobil Oil, Oxy USA, Chevron, Conoco, BP Amoco, Texaco, Pennzoil, UPRC, Sun Oil Company, Kerr-McGee, and Exxon for allegedly underpriced energy sales at below-market posted prices and thus recording low royalties, and eventually secured a settlement of \$400 million. They have also demanded US\$1 billion in back taxes plus interests and penalties from Symantec (maker of the Norton brand of antivirus and security software) for transfer pricing practices in connection with technology licensing agreements. Transfer pricing policies of GlaxoSmithKline, a global pharmaceutical company, have also been scrutinised by the US Government. The tax authorities claim that the rate the company charged for marketing services supplied by its US affiliate from 1989 to 1996 was far too low, and thus understated Glaxo's US income and avoided around \$5.2 billion of US taxes. After some 17 years of protracted litigation and negotiations, Glaxo settled the dispute by making a payment of US \$3.1 billion.

Canadian tax authorities have scrutinised the 1980-1989 transfer pricing policies of SmithKline, particularly the prices relating to cimetidine, an active ingredient used in the manufacture of the drug Tagamet. The company purchased its key ingredient at \$400 per kilogram from its offshore affiliates located in the Bahamas and Ireland. In the early 1980s, generic forms of the ingredient became available at prices ranging from \$50 to \$250 per kilogram and this reduced the market price of the drug. SmithKline continued to purchase the ingredients under the pre-existing agreement at \$400 per kilogram, resulting in the reporting of lower profits and even losses in Canada. The tax authorities argued that the profits in Canada had been artificially deflated by the company's transfer prices which ignored the open market prices. Following protracted litigation, a judge concluded that "If this company [...] had been paying the international market price for supplies of this drug rather than a higher price to a related corporation [at a non-negotiated price], its operating profits then would have been almost three times as much [...]. One could readily speculate that the company would still have been in a profitable position had it decided not to purchase the more expensive drug from its sister subsidiary" (cited in McMechan, 2004). In 2008, the company paid additional taxes of \$51.5 million and also paid the tax authority's legal costs of \$3.2 million (Sawyers and Gill, 2015).

Transfer pricing policies pursued by auto manufacturers Nissan, Honda and Toyota have attracted the attention of the UK tax authorities. The authorities claim that by virtue of its pricing of imported vehicles and parts, Nissan understated its UK profits by £400 million and added that:

Transfer pricing has all the tax authorities worried. When you have a global organisation moving products and components across borders there is the obvious suspicion that they are attempting to avoid tax rather than simply trying to improve efficiency (*The Daily Telegraph*, 2004).

Similarly, the UK Government has questioned the transfer pricing policies and related royalty payments by IBM. The investigation centred on the claim that the UK part of the company had increased its royalty payments from 8 to 12 per cent of its income derived from the sale of products and services to IBM Corp, its loss-making American parent company. IBM is alleged to have paid £700 million to the UK tax authorities to settle the case (Sikka and Willmott, 2010).

It is not just nation states, but trading blocs are also taking action against companies for taxes avoided through special tax arrangements in some jurisdictions. In January 2018, the General Court of the EU, the EU's second-highest court, ordered France (Reuters, 2018) to recover €1.37 billion in state aid, disguised as special tax concessions, from utility group EDF for matters going back to 2003. The European Commission has ordered Luxembourg

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to recover €250 million for tax practices from 2003 onwards which enabled Amazon to pay artificially high rates of royalties to companies in low tax jurisdictions and thus reduce taxable profits in EU countries. The Commission said that:

Luxembourg gave illegal tax benefits to Amazon. As a result, almost three quarters of Amazon's profits were not taxed. In other words, Amazon was allowed to pay four times less tax than other local companies subject to the same national tax rules (European Commission, 2017a).

In 2012, Luxembourg also gave selective tax advantages, i.e. not available to other companies, to Fiat and reduced the companies tax liabilities by €20-€30 million. Similarly, in 2008, the Netherlands gave selective tax advantages to Starbucks to enable the company to shift profits via royalty payments, and also purchase coffee beans from its Swiss affiliate at inflated prices. These practices reduced Starbucks' tax bill by €20-€30 million. In October 2015, the European Commission ordered (European Commission, 2015b) the Luxembourg and the Dutch governments to collect €20-€30 million of back taxes.

By far the biggest tax settlement may arise from the ongoing litigation relating to state-aid provided by Ireland to Apple, a US technology company. Since 1991 Apple enjoyed special tax concessions from the government of Ireland (European Commission, 2016b). The concessions enabled Apple to create complex structures and record all sales in Ireland rather than in the countries where its products were sold. Through various intragroup transactions profits were effectively shifted to low/no tax jurisdictions even though Apple had virtually no staff or presence in those jurisdictions. The arrangements enabled Apple to avoid tax on almost all profits generated by sales in the EU. In August 2016, the EU concluded the tax arrangements amounted to illegal state-aid. Ireland was ordered to recover the illegal aid of €13 billion. Ireland resisted and in October 2017 the European Commission referred the matter to the European Court of Justice (European Commission, 2017b). In December 2017, it was announced that the Irish Government reached an agreement with Apple to start collecting the €13 billion (*The Guardian*, 2017) and transfer the money to an escrow account in the first-quarter of 2018, pending the outcome of the EU Commission's referral of the matter to the European Court of Justice.

The above is a small part of the evidence which shows that litigation relating to tax avoidance can last for years and have material consequences for investor assessment of future cash flows and risks. Some of the uncertainties can be addressed by the public availability of corporate tax returns and related documentations. The information can enable investors to make a more informed assessment of future returns.

### *Enhancing public accountability*

In principle, parliamentary committees can launch inquiries into tax avoidance but their efforts are thwarted because details of corporate tax computations are not known. On occasions, after taking legal advice, tax authorities are known to have reached compromises with corporations to reach settlement of disputes. Such settlements may give rise to new principles of taxation or dispute resolution, but they cannot easily be applied to other companies as the settlements remain secret. In the absence of tax computations and related details it is impossible for parliamentary committees to scrutinise the fairness of such settlements and make an informed assessment of the efficiency of tax authorities. The public availability of tax returns lifts the lid on secret settlements and partisan agreements, and will empower parliamentary committees to call corporations and government officials to account. The public filing of tax returns will enhance democratic accountability.

Google generated \$18 billion revenue from its UK operations between 2006 and 2011, but paid UK corporation tax of only \$16 million for the same period (UK House of Commons Committee of Public Accounts (2013b, p. 5). The Committee of Public Accounts inquired into

the low rate of taxation but was thwarted as it could not gain access to Google's tax computation or related information. The Committee considered Google's replies to its questions to be "unconvincing" (p. 4). Google's tax adviser, Ernst & Young, was also unwilling to share any information as matters relating to tax were considered to be confidential. Similar problems were encountered in the Committee's questioning of the tax affairs of Starbucks, Shire, Amazon and others (BBC News, 2012) and securing any meaningful information from accountancy firms designing, marketing and implementing tax avoidance schemes (UK House of Commons Committee of Public Accounts (2015).

Following leaks by whistle blowers, an inquiry by the UK House of Commons Committee of Public Accounts (2011) examined special settlements between Vodafone, Goldman Sachs and HMRC. The tax authority confirmed that it had reached a special settlement, but despite repeated requests the chairman of HMRC sheltered behind taxpayer confidentiality and refused to provide any information about the settlement or the amount of taxes involved. The Committee concluded:

We have serious concerns about how the Department handled some cases involving large settlements, where governance arrangements were bypassed or overlooked until it was too late. In some cases the same officials negotiated and approved the settlements, which is clearly unacceptable [...] The Department has made matters worse by trying to avoid scrutiny of these settlements and has consistently failed to give straight answers to our questions about specific cases, which has severely hampered our ability to hold it to account for the settlements reached [...] The Department has insisted on keeping confidential the details of specific settlements with large companies, even where there have been legitimate concerns about the handling of cases (p. 3).

The Committee went on to add:

It is absurd that we have been forced to rely on information in the media to find out about cases that raise concerns, and of course we only know about cases on which information has been published in the media. The Department was not able to point to an absolute statutory bar on disclosure of information about specific cases. Its withholding of information is in fact a policy decision taken by Commissioners. This approach fails to give proper regard to HMRC's duty to assist the Public Accounts Committee in examining whether or not the Department is giving best value for money. There is less justification for keeping tax information about large corporations confidential than information about individuals (p. 5).

In another hearing relating to special settlement with Google, the UK House of Commons Committee of Public Accounts (2016) concluded that:

The lack of transparency about tax settlements makes it impossible to judge whether HMRC has settled this case for the right amount of tax. Taxpayers' legal right to confidentiality means that HMRC cannot explain how it has arrived at this or other settlements, or demonstrate that the rules have been applied correctly [...] We are concerned that HMRC appears to have settled for less corporation tax from Google than other countries are willing to accept (p. 5).

Following the above examples, it is reasonable to say that the public availability of corporate tax returns and related information will strengthen public accountability and parliamentary scrutiny of corporate tax affairs, efficiency of tax authorities and ensuring that tax authorities treat all businesses equally. Neither corporations nor tax authorities will be able to shelter behind claims of confidentiality. Any special concessions offered to large companies will need to be offered to other businesses too, thus creating level playing field for all businesses. The proposed filings will check the discretion of civil servants, enhance the rule of law and strengthen public faith in the power of parliament.

### **Summary and discussion**

This paper has sought to argue that the public filing of the tax returns of large companies, together with related information, will help to check tax avoidance. It will strengthen



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parliamentary and public scrutiny of corporations and tax authorities. Increased transparency and public accountability would exert pressure on companies to clean up their practices. Public filing of the tax returns of large companies would also improve competition. Still, some opponents would raise the spectre of the cost of public filings, even though they are likely to be minuscule. Such opponents usually neglect the social costs associated with secrecy. In the absence of public filings, companies would continue to indulge in damaging tax avoidance practices and undermine public revenues which would either require citizens to pay higher taxes or forego hard-won social rights, neither of which is conducive to social welfare or long-term social stability.

Corporate elites frequently appeal to the discourse of privacy and confidentiality to obstruct enhanced disclosures and public accountability. For example, discourse of privacy has been unsuccessfully mobilised to oppose obligations for companies to file accounts, prepare consolidated accounts, reveal turnover, profits, audit reports, director remuneration, audit fees, non-audit fees paid to auditors, replacement costs of assets, provisions depreciation and bad debts and much more (Puxty *et al.*, 1994). A key point here is that privacy is applicable to natural persons. A corporation is not a natural person. It is a legal person and it only exists because of the policies of the state. A corporation is a creature of the state and on behalf of citizens the state has a democratic mandate and obligation to ensure that corporations operate in the public interest and be made accountable for their practices. That has been a cornerstone of public policy. From such a perspective, the state has imposed numerous obligations on companies (e.g. publish audited accounts, compliance with health and safety laws, equal pay, minimum wage, forbidding gender, age and racial discrimination, etc.). The requirement to file tax returns is part of the policies that seek to check unacceptable and anti-social practices. Some may argue that their international competitors could gain advantage from tax disclosures. However, such claims have little substance. There is no evidence to show that companies in the Bahamas, Jersey, Guernsey, Gibraltar, Bermuda, Belize or Anguilla have gained any competitive advantage because entities in other places publish financial statements. In any case, all large companies will be required to file tax returns. Besides, competitive advantage depends on product innovation, manufacturing processes and research and development, and the proposal here is not asking companies to share details of their scientific processes, secret formulas, details of sensitive products or research and development. For its survival, the state needs to check tax avoidance and the public filing of tax returns is a powerful policy option.

The policy proposed in the paper can be applied unilaterally by any state or a bloc of states (e.g. EU). During the June 2017 general election the manifesto of the UK Labour Party, the main opposition party, contained a “Tax Transparency and Enforcement Programme (<http://labour.org.uk/wp-content/uploads/2017/10/Tax-transparency-programme.pdf>)”. Amongst other things it pledged the following:

Public filing of large company tax returns. Labour will require all large companies to publicly file their tax returns and related documents at Companies House. This will not only inform the public of novel tax avoidance tactics used by companies but also empower parliamentary committees to ask searching questions of the companies and HMRC. Currently, it is all too easy for companies to avoid this as they hide behind the veil of confidentiality.

Labour Party did not win the UK general election, but contrary to the forecasts of various opinion polls secured a commendable 40 per cent share of the votes cast. The possibilities of checking tax avoidance through public filing of corporate tax returns may well have resonated with some people. Labour’s commitment to the policy was affirmed in a parliament debate on 14 November 2017 when its spokesperson stated that “Labour calls for [...] the public filing of large company tax returns” (UK House of Commons Hansard, 2017).

Currently, nation states are considering a number of reforms to check corporate tax avoidance. These include a redesign of the way corporations are conceptualised and taxed (European Commission, 2015a, 2016a) and a piecemeal reform of selected anomalies (Organisation for Economic Co-operation and Development, 2015a, b). This paper has sought to extend policy options by appealing to notions of transparency, public accountability and fair competition and argue that the public availability of corporate tax returns can help to check tax avoidance. Hopefully, the policy of requiring large companies to file their tax returns will become part of the larger armoury in the fight against organised tax avoidance.

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**Corresponding author**

Prem Sikka can be contacted at: [prems@essex.ac.uk](mailto:prems@essex.ac.uk)