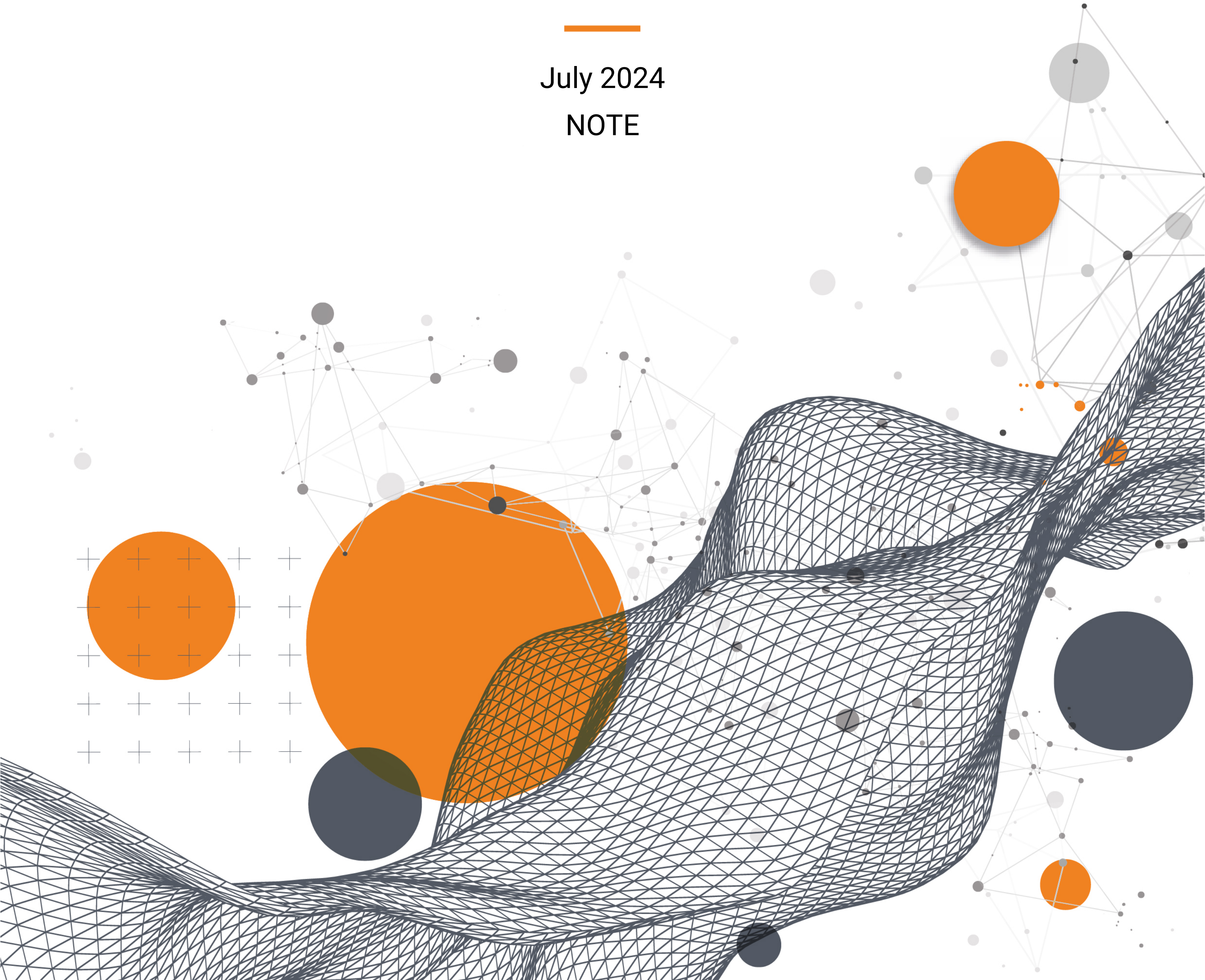
EUTAX Observatory

Australian Public CbCR: filling the gaps?

Giulia Aliprandi

July 2024

NOTE



Summary

The Australian government is implementing a new public Country-by-Country Reporting (CbCR) regime to enhance tax transparency for large multinational enterprises. This note analyzes the key aspects of the Australian Public CbCR legislation, how it compares to other reporting standards, its potential impact, and blind spots.

The analysis reveals that while the Australian Public CbCR legislation aligns with global trends and initiatives, there are mismatches in the requirements implemented across different countries, which may leave gaps in transparency. To maximize effectiveness, there is a need to align with the best global transparency practices and avoid creating new loopholes.

The note estimates that approximately 50% of large US companies and a significant portion of multinationals from countries like China, Japan, and Germany will potentially have to disclose information on their tax haven presence. However, some key tax havens are missing from the draft list of countries required for disaggregated reporting. Australia should not rely on the EU CbCR directive to improve transparency on European tax havens but include them in the list of countries to be disclosed.

NOTE IN A NUTSHELL

Australian Public CbCR: Australia is introducing new financial disclosure requirements to enhance corporate transparency and address tax avoidance concerns. It requires large Australian-headquartered and foreign multinationals with significant Australian operations, to report detailed financial information on a per-jurisdiction basis for a limited set of jurisdictions.

1. Australian Public CbCR significantly expands global profit disclosure. Approximately 50% of large US companies and a substantial portion of multinationals from China, Japan, and Germany will potentially have to disclose their tax haven activities.

2. Despite this progress, mismatches between different CbCR requirements create loopholes. Not all multinationals will be covered by all standards, leaving some blind spots.

3. Improving geographical coverage could address some limitations. Luxembourg, Malta, Puerto Rico, the Netherlands, Ireland, Cyprus and the UK should be included.

4. Some of the largest companies in Australia and globally already publish full CbCRs voluntarily, going beyond the proposed law's requirements.

This note has received funding from the European Union (GA No. TAXUD/2022/DE/310). The views expressed in this note are those of the authors and do not necessarily reflect the views of the European Commission.

I thank for their helpful comments and suggestions: Sebastien Lafitte, Pierre Bachas, Quentin Parrinello and Gabriel Zucman.

Contents

1 Introduction

The Australian government is implementing a new public Country-by-Country Reporting (CbCR) regime to enhance tax transparency for large multinational enterprises. This initiative comes at a critical time, as the global economy faces unprecedented levels of corporate tax avoidance through profit shifting Alstadsæter et al. (2023).

Recent data reveals the substantial impact of profit shifting on Australia's tax revenues. In 2020, Australia lost approximately AUD 7 billion in corporate tax revenue due to profit shifting (Source: Atlas Offshore). This represents about 10.7% of Australia's total corporate tax revenue. The trend of revenue loss has been increasing over recent years, mirroring global patterns. Globally, multinational enterprises shifted a staggering $1 trillion in profits to tax havens in 2022, representing 35% of all foreign profits booked by these corporations. This persistent tax avoidance has led to significant losses in corporate tax revenues worldwide, with governments losing nearly 10% of the corporate taxes they could have collected (Alstadsæter et al., 2023).

In response to these challenges, various international efforts have been initiated. One of the most significant measures was endorsed in October 2021 by nearly 140 countries and territories: the principle of a global minimum tax of 15% on the profits of multinational companies, known as Pillar Two of the OECD Two-Pillar solution. While this landmark agreement marks a step towards addressing profit shifting, it also has limitations that may hinder its effectiveness.

To complement such global initiatives and bolster their effectiveness, instituting robust tax transparency requirements for multinationals is crucial. Evidence suggests that transparency initiatives can contribute significantly to curbing tax avoidance by multinational enterprises. Requiring public tax information can discourage tax avoidance among multinationals, thus playing an important role in complementing other anti-profit shifting measures.

Currently, large multinationals publishing public CbCR account for less than 2% of large companies, and less than 5% of global revenues and global profits (Aliprandi and Borders, 2024). Only six Australian multinationals currently publish their CbcR. Despite the future introduction of the EU Public CbCR directive, significant gaps remain, especially among U.S. multinationals and firms from major economies like China and Russia, which have only a few CbCR disclosures available. Despite an upward trend in voluntary CbCR disclosures, these figures highlight a significant gap in global tax transparency. This underscores the urgent need for more comprehensive and widespread transparency measures.

In this context, Australia's new CbCR regime represents a crucial step towards combating tax avoidance and enhancing transparency. By implementing this regime, Australia builds momentum for increased corporate tax transparency worldwide. As more countries adopt similar measures, the collective impact could significantly improve our ability to evaluate and address corporate tax avoidance on a global scale.

This note analyzes the key aspects of the Australian Public CbCR legislation, how it compares to other reporting standards and its potential impact. By examining the scope, required variables, and geographical coverage of the new regulations, we can assess how effective this measure might be in addressing the ongoing challenge of corporate tax avoidance and profit shifting. Finally, the note proposes potential improvements to bring transparency a step further in the future.

2 A puzzle of CbCR requirements

This section examines Australia's newly introduced Country-by-Country Reporting (CbCR) requirements, juxtaposing them against comparable international standards. Our analysis focuses on three critical dimensions: reporting thresholds, mandatory variables, and geographical scope.

Of particular interest is the comparison between the European Union's Public CbCR directive and Australia's CbCR framework. While these two systems have been presented as complementary, especially regarding their geographical coverage [1] ,[2] it is crucial to understand under which aspects they are not fully aligned.

2.1 New Australian Public CbCR requirement

Australia is implementing a new public country-by-country reporting regime to enhance tax transparency for large multinational enterprises, enabling the public and investors to assess whether an entity's economic presence aligns with its tax contributions in each jurisdiction.

These tax transparency measures originated from an election commitment of the current government[3]. They were first announced as part of the Federal Budget 2022–23 in October 2022. Following the announcement, the law was revised after a public consultation with stakeholders and released in February 2024. The federal government then introduced the revised law to the parliament on 5 June 2024. Next, the Senate Economic Legislation Committee will provide its report in August.

Throughout this process, Australia faced intense lobbying[4] that resulted in the weakening of its ambitious transparency measures. The revisions align more closely with the European Union's public CbC reporting standards. These revisions included introducing the AU$10 million revenue threshold, limit-

[1]Second reading June 2024:(Source)

[2]As stated in the Australian government's proposal reading: *"The government will finalise the specified jurisdictions list to be subject to disaggregated country level reporting by legislative instrument, subject to passage of the bill. This list will* ***complement*** *the European Union's directive on public country-by-country reporting."*

[3]Source:Labor's Plan To Ensure Multinationals Pay Their Fair Share Of Tax

[4]For example, "OECD pressed Australia to drop plan to reveal where multinationals pay tax" Financial Times

ing mandatory country-by-country reporting to specified jurisdictions as opposed to full reporting, and removing the obligation to disclose certain financial figures, such as related-party expenses, effective tax rate calculations, and intangible asset information (full description in Appendix A). The revisions aim to strike a balance between improving tax transparency and reducing compliance costs, making the current proposal less ambitious than the original draft.

Under the latest draft of the Australian Public CbCR law, certain large multinational enterprises, defined as CbC reporting parents, are required to publish selected tax information on a CbC basis for specified jurisdictions, and on either a CbC basis or an aggregated basis for the rest of the world. The information must be published on an Australian government website, with publication facilitated by the Commissioner of Taxation.

The law applies to CbC reporting parents who are constitutional corporations, partnerships, or trusts, and members of a CbC reporting group. However, it only applies if the CbC reporting parent's aggregated turnover for the income year includes A$10 million or more of Australian-sourced income. This threshold ensures that multinational groups with genuinely small Australian operations are excluded from the reporting requirements.

The CbC reporting parent must publish general information, such as the names of entities in the group and a description of the group's approach to tax. For Australia and specified jurisdictions determined by the Minister, the CbC reporting parent must publish detailed information on a CbC basis, including revenue, profit, employees, taxes paid and accrued, and tangible assets. For all other jurisdictions, the CbC reporting parent can choose to publish the same detailed information on a CbC basis or an aggregated basis. Currently, there is no final list of jurisdictions, but a proposed list of specified jurisdictions is set out in an accompanying draft determination.[5]

The explanatory statement for the draft determination describes the jurisdictions specified as those that are typically associated with tax incentives, tax secrecy and other matters likely to facilitate profit shifting activities and broadly aligns with the list adopted in the Australian Taxation Office's (ATO) International Dealings Schedule. A total of 41 jurisdictions (for the full list see Appendix B) are currently listed, including Singapore, Switzerland and Hong Kong. Jurisdictions may be added or removed by legislative instrument. Critically, the list excludes jurisdictions in the EU explaining they may be subject to the EU public CbCR reporting regime.

The information must be published within 12 months after the end of the reporting period and must be sourced from audited consolidated financial statements or equivalent data. Penalties apply for non-compliance, with entities liable to an administrative penalty of up to 2,500 penalty units for failing to publish the required information on time.

The law aims to enhance tax transparency by introducing standardized reporting requirements for large businesses, improving comparability and accessibility of tax disclosures. It aligns with global trends and initiatives, such as the Global Reporting Initiative (GRI) 207 and the European Union's public CbC reporting Directive, to promote greater public scrutiny of multinational tax affairs.

[5] Treasury draft list

2.2 Comparison with other CbCR regimes

MULTINATIONALS IN SCOPE

Multinational enterprises become subject to Country-by-Country Reporting regulations based on size thresholds, typically defined by annual consolidated group revenue. These thresholds are often set in national currencies, which can lead to discrepancies in application across jurisdictions. Table 1 compares the thresholds for companies to be subject to CbCR reporting requirements under the OECD private CbCR, EU Public CbCR and Australian Public CbCR both in the original currency and the converted value to the prevailing exchange rate (June 2024). For simplicity, the analysis considers a conversion in euros, US dollars and Japanese Yen but it can be extended to the full set of currencies used to set CbCR thresholds.

The EU Public CbCR threshold is set at EUR 750 million or USD 805 million in consolidated group revenue. In contrast, the Australian Public CbCR has a lower threshold of AUD 1 billion, which translates to approximately EUR 617 million or USD 670 million. This mismatch in thresholds means that some companies may be required to report under one regulation but not the other. Companies with consolidated group revenues between EUR 617 million and EUR 750 million (or USD 670 million and USD 850 million) would be subject to CbCR reporting under Australian Law but not under the EU Public CbCR directive. The situation is similar for Japanese companies, although with a much smaller gap.

TABLE 1
Thresholds for CbCR Reporting Requirements

	Threshold in currency			
Regulation	**AUD** ($)	**EUR** (€)	**USD** ($)	**JPY** (¥)
OECD CbCR	1 000 000 000	750 000 000	850 000 000	100 000 000 000
Australian CbCR	1 000 000 000	617 311 524	669 785 000	104 190 323 000
EU Public CbCR	1 207 875 171	750 000 000	806 088 750	127 302 375 000

Note: Data on OECD CbCR thresholds from OECD Automatic Exchange Portal, the threshold for the Australian CbCR is AUS 1 billion and was converted in euros, dollars and yens respectively as of June 2024.

In addition to this, other requirements differ for companies to qualify as in scope. In the case of the Australian CbCR on top of having consolidated revenues higher than the threshold the multinational is required to register AUD 10 million of revenues in Australia. In the case of the EU directive, the multinational that has medium and large subsidiaries when they exceed at least two of the three criteria, turnover (EUR 8 million), total balance sheet (EUR 4 million) and average number of employees 50.

These discrepancies in the scope of companies covered by different CbCR regulations can result in inconsistencies in the information available for multinational enterprises operating across various jurisdictions, potentially impeding comprehensive transparency and analysis of their tax practices.

TABLE 2

Required variables across different reporting standards

Variable	Australian CbCR	EU Directive	OECD	GRI
Revenues from third-party sales	✓		✓	✓
Revenues from intra-group transactions	✓		✓	✓
Total Revenues	✓	✓	✓	✓
Profit/loss before tax	✓	✓	✓	✓
Tangible assets	✓		✓	✓
Number of employees	✓	✓	✓	✓
Corporate income tax paid	✓	✓	✓	✓
Corporate income tax accrued	✓	✓	✓	✓
Stated Capital			✓	
Accumulated earnings		✓	✓	

REQUIRED VARIABLES

The specific variables that multinationals must disclose can vary significantly across the reporting standards and regulations mandated by different jurisdictions. Table 2 presents a comparative overview of the variable coverage across different reporting standards, including Australian Public CbCR, the EU Directive, OECD private CbCR, and the GRI 207-4.

The Australian Public CbCR legislation requires disclosure of more granular revenue information compared to the EU directive. Specifically, multinationals should report their revenues from third-party sales and intra-group transactions separately, in addition to their total revenues. In contrast, the EU directive only mandates reporting of total revenues.

Another key difference lies in the disclosure of tangible asset information. While Australian Public CbCR requires multinationals to report tangible assets, the EU directive does not make this a mandatory requirement. Tangible asset reporting can shed light on where real economic activity and investment take place versus where profits are shifted for tax purposes.

Despite these differences, both the Australian and EU standards align in their requirement for disclosing the number of employees and corporate income taxes (both paid and accrued). The OECD standard further expands on these requirements by including stated capital in addition to the variables covered by the EU and Australian standards. This comparison shows that the Australian standard is more comprehensive in terms of required variable disclosures compared to the EU Directive making it more ambitious.

GEOGRAPHICAL COVERAGE

There is significant variability in the geographical coverage and disclosure requirements for various CbCR reporting standards. As summarised in Table 3, the Australian Public CbCR regime targets selected jurisdictions known for tax incentives and secrecy, the EU public CbCR includes EU countries and non-cooperative jurisdictions (full comparison in Appendix B), while the OECD and GRI standards mandate comprehensive global disclosure.

It stands out that even though companies already have to prepare the data on a country-by-country basis for OECD private CbCR, both the EU and Australian requirements limit the disclosure requirements to a set of predefined countries. While an important step further, the disclosure of a limited set of countries could be problematic as it does not allow the comparison between tax havens and non-tax havens. In addition, low tax profit might be also hosted in high-tax countries Hugger et al. (2023). Limited disclosure also hampers the ability to detect tax schemes that might develop in the future.

Although the Australian Public CbCR legislation leaves the option to disclose more information than required, more tax aggressive firms are not likely to be more transparent about their tax activities ((Adams et al., 2022) and (Godar et al., 2024)).

TABLE 3

Comparison of CbCR Reporting Standards

Reporting Standard	Disclosure Requirement
Australian Public CbCR	Selected Jurisdictions[a]
EU Public CbCR	EU Countries and Non-cooperative Jurisdictions
OECD CbCR	Full Disclosure
GRI Standards	Full Disclosure

[a] Draft legislation includes 41 jurisdictions but the final list is to be determined in the future. The full list of jurisdictions is in Appendix B

DISCLOSURE EXCEPTIONS

Public CbCR regimes offer options to delay or avoid disclosure. One of the major flaws of the EU directive is the safeguard clause that will allow for a 5 year delay in the publication of a CbCR.

In the case of Australia, this long publication deferral is not allowed. Instead, what is provided is that the Commissioner may exempt individual entities for a single period from having to publish information of a particular kind. Hopefully, such exemptions are likely to be very rare, and include where the disclosure impacts national security, where the disclosure would result in a breach of law or where the disclosure would "result in substantial ramifications for an entity (by an objective standard) by revealing commercially sensitive information". Having companies not publish information might defeat the purpose of tax transparency.

3 How will Australian Public CbCRs change the transparency landscape?

As Australia implements its Country-by-Country Reporting obligations, it is crucial to examine the potential impact on the global tax transparency landscape. This section provides an approximation based on the best available data. The analysis identifies which multinational companies will likely be affected and to what extent their profit information may be disclosed.

3.1 Which multinationals will be affected?

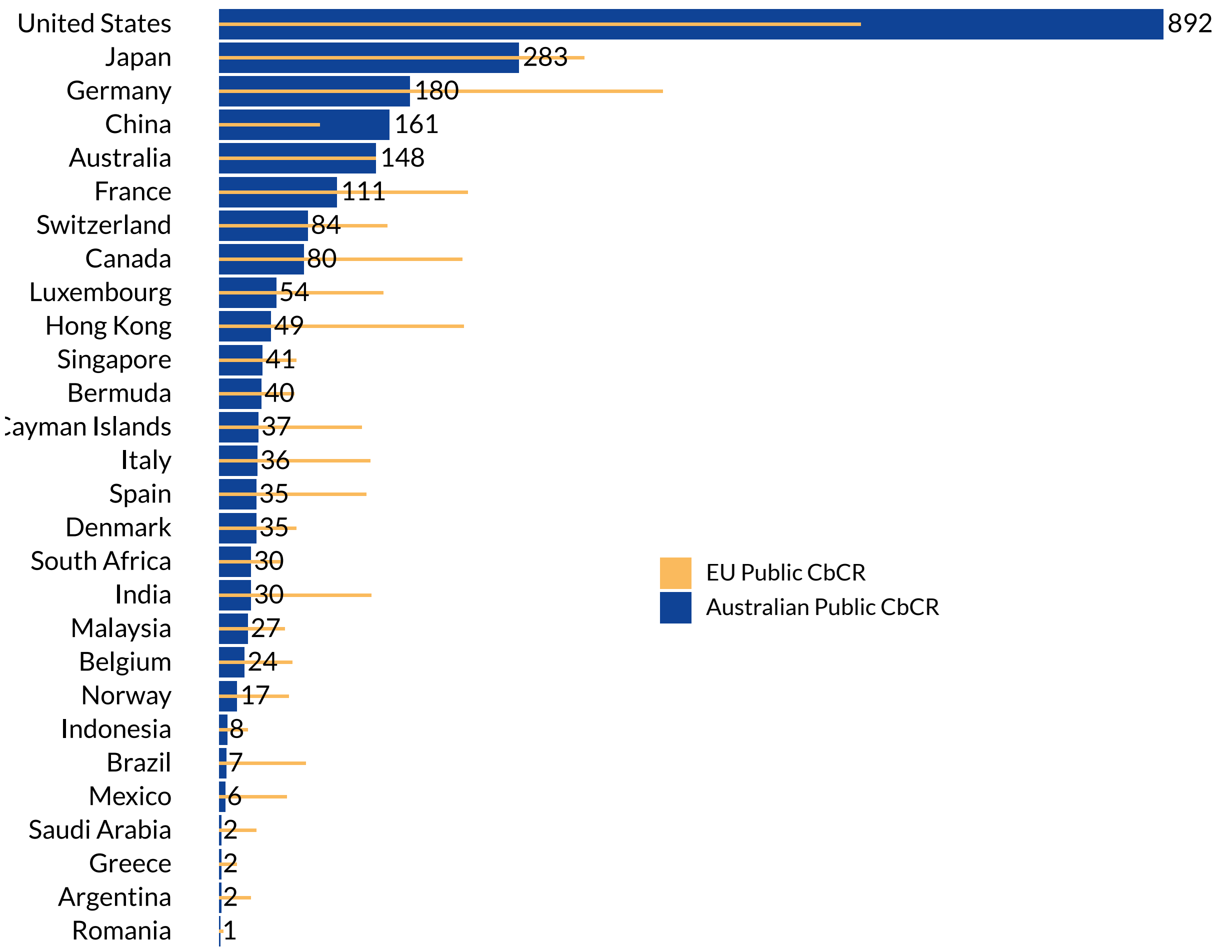
To understand how many multinationals headquartered in different countries may have to comply with Australian Public CbCR, the analysis leverages aggregated OECD CbCR Statistics. We count the number of multinationals headquartered in specific countries that have at least one subsidiary in Australia. While these multinationals meet the consolidated revenue threshold to share private CbCRs in the respective headquarters countries, this might not precisely correspond to the threshold of the Australian CbCR requirements (as seen in Section 2.2). The numbers presented here will thus be a lower bound. Furthermore, due to the aggregated nature of the data, we cannot precisely identify multinationals meeting the minimum size requirement for Australian operations. Instead, we use the average size and the middle 50% of values (interquartile range provided by the OECD) of the Australian subgroup as proxies to estimate which companies might fall within the scope of the legislation.

Despite these caveats, the analysis provides valuable insights into the multinational corporations most significantly affected by Australia's CbCR regime. The United States stands out as the country with the highest number of multinationals that will potentially have to comply (892), followed by Japan (283) and Germany (180). Several other countries also have a notable multinational footprint in Australia, including China (161 subsidiaries), France (111 subsidiaries), and Switzerland (84 subsidiaries). According to these estimates, for US multinationals the coverage will be larger than the one implied by the EU directive where about 600 companies will fall under its scope (Gundert et al., 2024). This will improve tax transparency of US multinationals but also means that for close to 300 of them, the disclosed information will be limited to what is prescribed in the Australian law, and will not include a disclosure of European activities. Coverage of the Australian Public CbCR will also be superior for Chinese multinationals, where only 95 multinationals will be in the scope of the EU Directive. On the other hand, as can be expected, multinationals headquartered in EU member states will be better covered by the EU directive.

Graph 2 provides insights into the percentage of multinational corporations from various countries that will be subject to the Australian CbCR rules. Unsurprisingly, Australia tops the list with 100% of its multinationals meeting the revenue threshold. However, countries like Bermuda (56%), Singapore (56%), Switzerland (53%), and South Africa (52%) also have a substantial proportion of their multinationals that will be affected by the CbCR reporting requirements in Australia. In the case of the United States about half of their large multinationals should be in the scope of Australian Public CbCR.

FIGURE 1

Multinationals potentially covered by Australian Public CbCR and EU Public CbCR

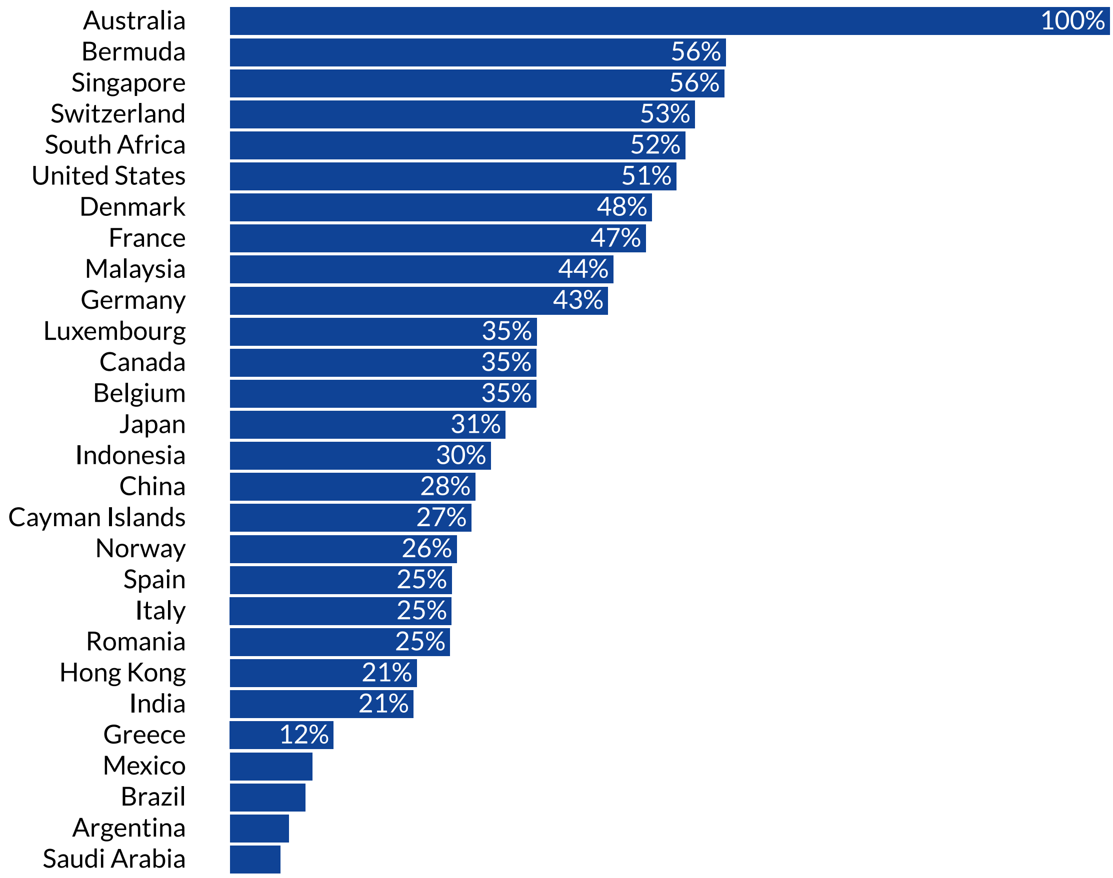


Note: This figure estimates the number of large multinationals that will fall under the scope of Australian Public CbCR and compares it with the number of multinationals in the scope of the EU Public CbCR directive. For example, 892 multinationals headquartered in the United States are expected to be in the Australian CbCR (blue bar) scope, while only 603 of them will be in the EU directive (orange line).

Source: Aggregated OECD CbCR Statistics, Gundert et al. (2024) for covered multinationals in the US, Japan and China by the EU directive.

FIGURE 2

Percentage of large multinationals potentially covered, by headquarter country



Note: This figure estimates the portion of large multinationals that will fall under the scope of Australian CbCR. For example, 56% of large multinationals headquartered in Bermuda have a presence in Australia with total revenues on average larger than the required threshold. Label is not shown for percentages lower than 10%.
Source: 2020 Aggregated OECD CbCR Statistics, own calculations.

3.2 How much information will be disclosed?

Following the identification of the most affected multinational companies, this analysis estimates the extent of additional profit information that will become available. Utilizing Aggregated OECD CbCR data restricted to jurisdictions providing sufficiently detailed data, the study calculates the percentage of profits reported in areas covered by either the EU's public CbCR directive or the Australian Public CbCR. This comparison offers insights into how the Australian CbCR complements or diverges from the EU approach. Given the aggregated nature of the available data, the analysis employs these figures as a proxy, primarily reflecting larger companies likely to fall within the scope of the new requirements.

The focus is on profits reported abroad, excluding domestic profit, to provide a more accurate representation of multinational activities across borders. Figure 3 presents a comparative overview of the distribution of foreign activities on a country-by-country basis for multinational corporations headquartered in various countries. It illustrates the percentages of foreign profit before tax that could be reported as aggregated (combined for multiple countries) or disaggregated (reported separately for each country) depending on the coverage in the EU's public CbCR directive or the Australian CbCR.

The data reveals that the Australian Public CbCR law will require the disaggregation of a higher portion of foreign profit compared to the EU Public CbCR directive. For countries such as China, the United States, and India, a significant portion of foreign activities (ranging from 58% for China to 25% for India) will be disaggregated under the Australian law (in blue), while only a smaller portion (ranging from 9% to 20%) is covered by the EU directive (in orange). The substantial effect for China is attributed to the inclusion of the British Virgin Islands, where Chinese multinationals report large shares of their profit. In the case of US multinationals, large amounts are in jurisdictions like Singapore, Switzerland or the Cayman Islands. [6] Conversely, European countries such as France, Italy, Luxembourg, Spain, and Germany have a relatively higher percentage of foreign activities covered by the EU public CbCR directive, ranging from 56% to 19%.

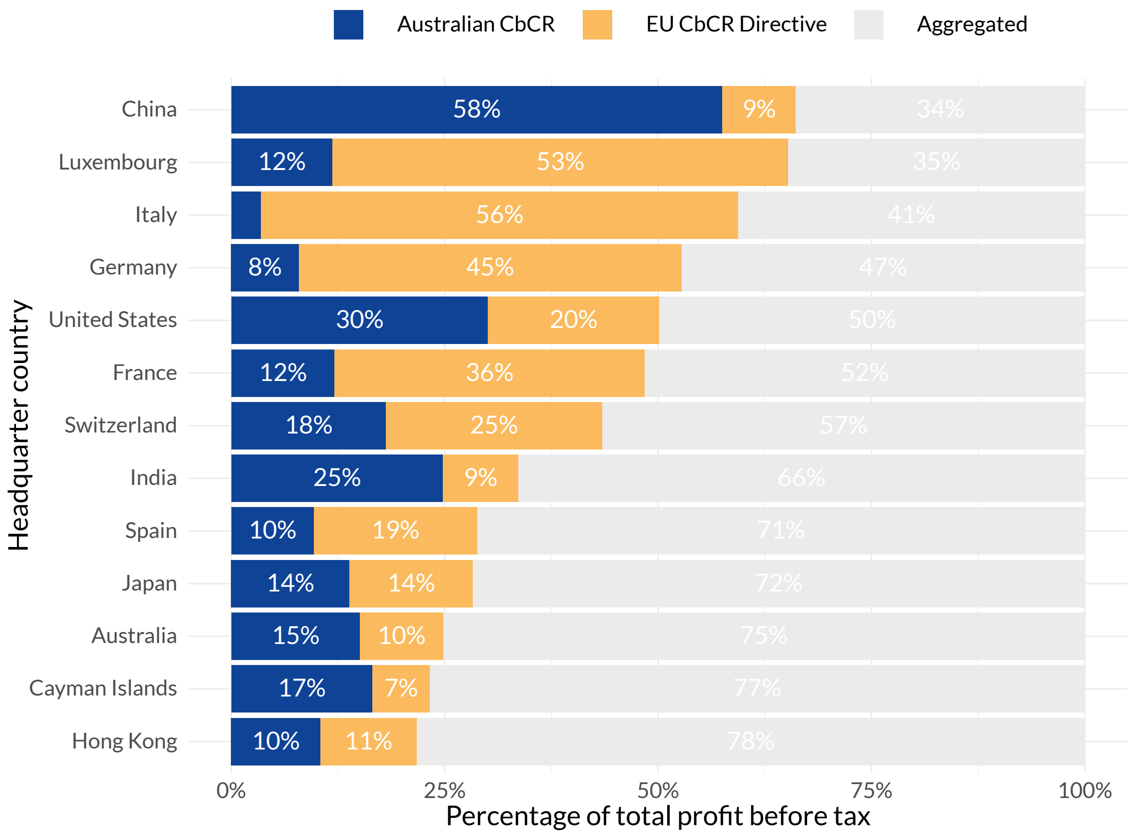
Figure 4 provides a comprehensive overview of the distribution of total activities, including domestic operations. For countries like Australia, Luxembourg, and Italy, a significant portion of their total profit (75% to 78%) will be reported at the country level under their respective CbCR laws, largely due to substantial profit being booked domestically. This effect extends to Switzerland, Hong Kong, and the Cayman Islands, as these multinationals will also include activities in their headquarters country.

The comparison between the Australian CbCR law and the EU public CbCR directive demonstrates that the Australian law will significantly contribute to increasing the transparency of multinationals. This enhanced reporting granularity is expected to provide greater insights into the operational structures, profitability, and tax implications of multinational corporations, fostering improved transparency and accountability in the global business landscape.

[6] The data can be explored with this interactive app: CbCR Explorer.

FIGURE 3

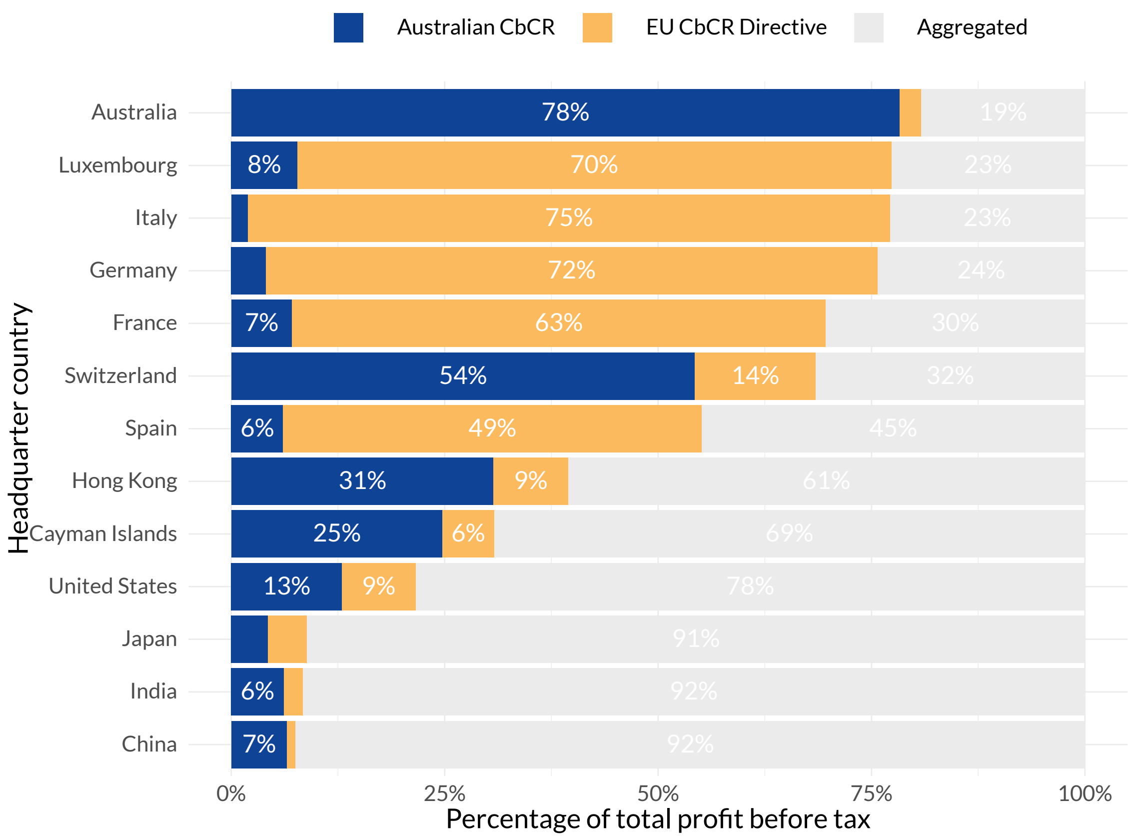
Percentage of foreign profits disclosed on a country-by-country basis



Note: This figure estimates the portion of foreign profit that multinationals will disclose on a country-by-country basis (as opposed to aggregated) with the implementation of the EU CbCR directive and the Australian CbCR. For example, 58% of profits reported by Chinese multinationals will have to be disclosed on a country-by-country basis with the implementation of the Australian Public CbCR, 9% thanks to the EU Directive and the remaining 34% will be aggregated in a single category. Information for headquarters countries is included if more than 95% of profit is disclosed on a country-by-country basis and more than 100 companies are included.
Source: Aggregated OECD CbCR Statistics, own calculations.

FIGURE 4

Disclosure of total activities on a country-by-country basis (including parent)



Note: This figure estimates the amount of total that multinationals will disclose on a country-by-country basis (as opposed to aggregated) with the implementation of the EU CbCR directive and the Australian CbCR. Countries with less than 5% of aggregated information and more than 100 companies are included.

Source: Aggregated OECD CbCR Statistics, own calculations.

3.3 How does the Australian CbCR compare to voluntary disclosures?

While only a minority of large multinational corporations currently publish country-by-country reports voluntarily, these disclosures provide valuable insights into potential reporting practices. Among the companies that would fall within the scope of Australian CbCR requirements, six Australian and 23 foreign multinationals released their country-by-country reports between 2016 and 2021 (Public CbCR Database, see Aliprandi et al. (2023) for details). Notable Australian-headquartered companies publishing CbCR include mining giant BHP, conglomerate Wesfarmers, and biopharmaceutical firm CSL.[7]

We use their tax publications as a benchmark to evaluate whether the Australian requirements are ambitious enough to push companies beyond their current disclosure practices. We analyze two key aspects: the geographical disaggregation requirements and the mandated reporting variables.

We conducted a simulation exercise calculating transparency scores as in Appendix D that would result if these corporations were to comply with the new law's minimum requirements for geographical disaggregation and reporting of specific variables. The result is that the Australian CbCR is ambitious in terms of variables disclosed but less so in terms of geographical disaggregation. As compared to voluntary disclosures the geographical disaggregation is very low, but it improves the availability of disclosed variables.

Table 4 presents the summary statistics of transparency scores for Australian and non-Australian multinational corporations under three different scenarios: changes in variables reported, geographical disaggregation, and a combination of both factors.

For our sample including 86 large multinational-year observations (14 Australia-based and 72 non - Australia-based) the baseline transparency score for Australian multinational corporations is 80, while for non-Australian multinationals, it is 75, indicating a higher level of transparency for domestic firms. When considering only the change in variables reported (Total Score AUS VAR), both Australian and non- Australian multinationals experience no or very small changes in their transparency scores, reaching 80 and 78, respectively. This scenario suggests that the variables requested by Australian Public CbCR align with current practices of multinational publishing voluntarily.

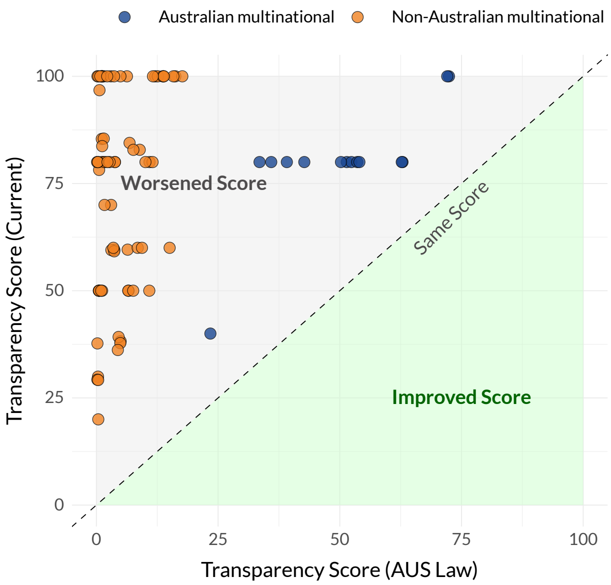
Focusing solely on the geographical disaggregation of reported data (Total Score AUS GEO), the impact on transparency scores is more pronounced for non-Australian multinationals, with a score dropping to 5, compared to Australian multinationals with a score dropping to 52. These scores highlight how current reporting practices are more granular than the minimum standard proposed in Australian law.

When both factors – changes in variables reported and geographical disaggregation – are combined (Total Score AUS GEO VAR), the transparency scores reach an average of 50 for Australian multinationals and 5 for non-Australian multinationals. This scenario represents the most comprehensive implementation of the public CbCR regulation. Compared to the current reporting practices, the law, if applied to its minimum standard will not be particularly ambitious, especially for what concerns geographical disaggregation.

[7] Their data can be explored with our new interactive website at taxplorer.eu where The Public CbCR Database is available for visualization and download see Appendix C.

FIGURE 5

Transparency score: current practices vs simulated law



Note: Data is from the public CbCR database. MNEs with a worsened simulated transparency score after applying the minimum standard of the Australian Public CbCR law are in the grey zone. Those with an improved simulated transparency score are in the green zone.
Source: Public CbCR Database, own calculations.

TABLE 4

Summary Statistics of Transparency Scores

Group	Australian multinational	Non-Australian multinational	Total
Count	14	72	86
Total Score Standard	80	75	76
Total Score AUS_VAR	80	78	78
Total Score AUS_GEO	52	5	12
Total Score AUS_GEO_VAR	50	5	12

Note: The table presents the average transparency score for current reporting practices (standard) and three different scenarios of implementation of the Australian Public CbCR, in AUS_VAR only the required variables are changes, in AUS_GEO the geographical disaggregation is the minimum standard required and in AUS_GEO_VAR both the geographical disaggregation and the variables are kept as in the minimum standard required.
Source: Public CbCR Database, own calculations.

4 Bringing transparency a step forward

While the Australian Public CbCR legislation significantly advances transparency in multinational corporations' tax practices, there remains scope for further improvement. This section outlines key areas where the legislation could be strengthened to enhance its effectiveness further.

JURIDICTIONS TO BE DISCLOSED

Ideally, full country-by-country reporting without jurisdiction exclusions would provide optimal transparency, minimizing potential disclosure loopholes. An alternative approach could involve setting a profit threshold to ensure reporting of at least 90% of each multinational's profits on a country-by-country basis.

Given the current framework's requirement for selecting specific jurisdictions, two key considerations should guide this selection:

1. Non-complementarity with EU Directive: Our analysis reveals limited alignment between the EU Public CbCR directive and the Australian Public CbCR in terms of thresholds, multinational coverage, and required information. The Australian CbCR surpasses the EU directive in several aspects, particularly in its coverage of US multinationals and the variables required for reporting. Consequently, relying on the EU directive to address European tax havens may be insufficient.

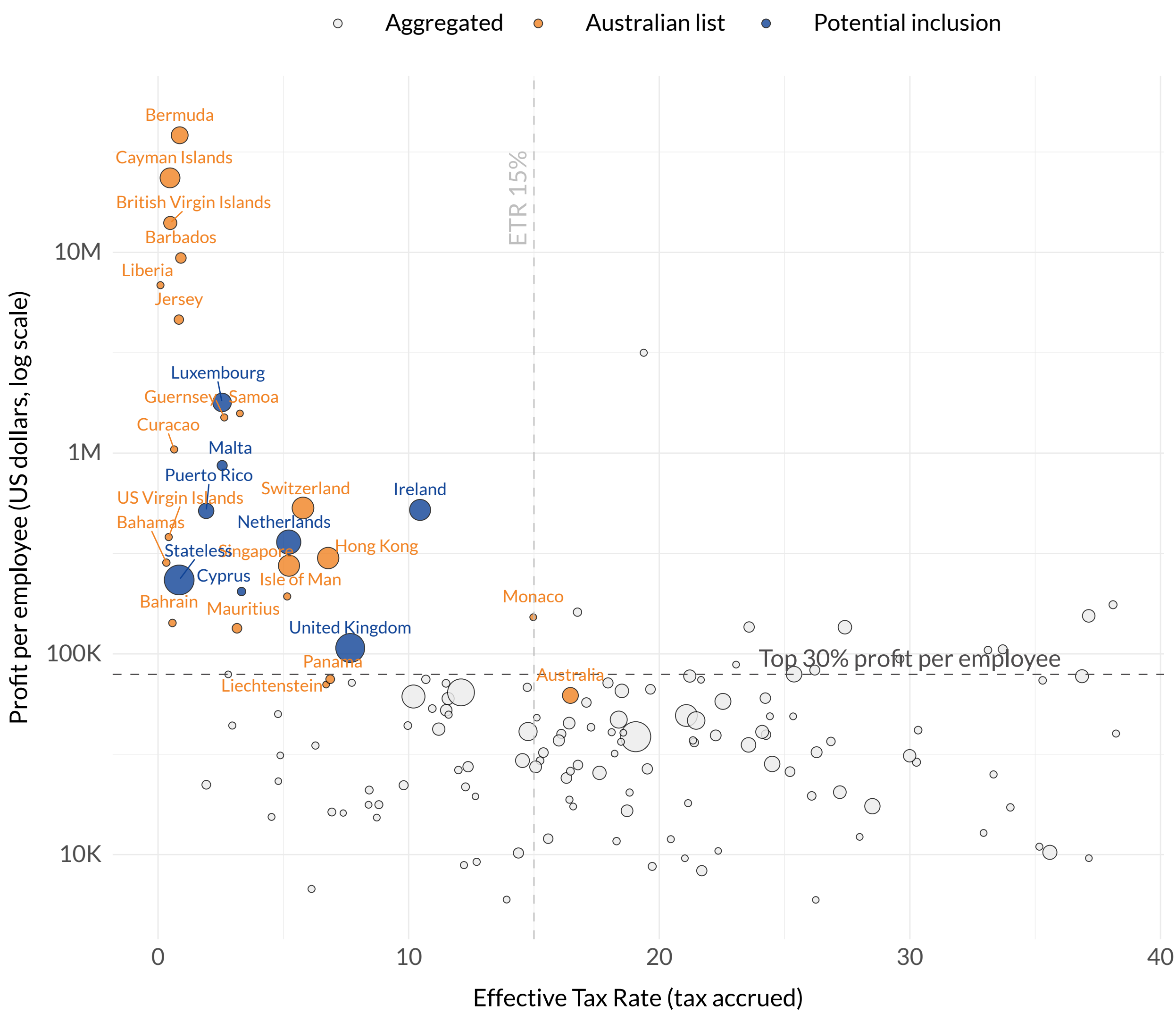
2. Empirical Evidence on Tax Havens: It is imperative to assess whether the countries included in the disclosure list effectively capture jurisdictions associated with tax incentives, secrecy, and profit shifting activities. Our empirical analysis of aggregated OECD CbCR data indicates that while the Australian requirements cover many high-risk jurisdictions, several key areas are notably absent.

Figure 6 presents a scatterplot analysis aimed at identifying potential jurisdictions that should be considered for inclusion in the Australian Public CbCR legislation. This analysis is based on Aggregated OECD CbCR Statistics and leverages two key indicators: the effective tax rate and the profit per employee for foreign jurisdictions. The scatterplot displays the weighted average of profit per employee on the y-axis and the effective tax rate (based on tax accrued) on the x-axis for all jurisdictions available in the data. The vertical dashed line represents the effective tax rate of 15%, indicating a relatively low tax rate as compared to the Pillar II minimum tax agreement. The horizontal dashed line marks the top 30% of jurisdictions regarding profit per employee.

Jurisdictions above the horizontal dashed line and to the left of the vertical dashed line are considered potential risk areas, as they exhibit a combination of high profit per employee and low effective tax rates. These jurisdictions may warrant closer scrutiny and inclusion in the Australian CbCR legislation to ensure transparency and prevent potential tax avoidance practices. Many of these jurisdictions are already included in the draft list (in orange) but based on the scatterplot, jurisdictions such as Luxembourg, Malta, Puerto Rico, Netherlands, Ireland Cyprus and the United Kingdom are missing and should be included (in blue). These jurisdictions are explicitly labelled and clustered in the top-left quadrant, indicating their relatively high profit per employee and low effective tax rates. These jurisdictions are often listed as tax havens in several academic studies (see for example Tørsløv et al. (2022), Laffitte (2024), Menkhoff and Miethe). Considering the objectives of enhancing transparency and mitigating potential tax avoidance risks, it is recommended that the Australian public CbCR legislation should prioritize their inclusion.

FIGURE 6

Risky jurisdictions to be disaggregated in Australian Public CbCR



Note: The scatterplot shows the weighted average of profit per employee and the effective tax rate for foreign jurisdictions. The vertical dashed line indicates an effective tax rate of 15%, while the horizontal dashed line represents the 0.70 quantile of the distribution of profit per employee. Jurisdictions above this line are in the top 30% for profit per employee in the sample. Orange indicates jurisdictions included in the Australian list, blue indicates jurisdictions that will be aggregated but should be considered for inclusion, and grey indicates jurisdictions that will be aggregated.
Source: 2017-2020, Profit making subgroups, Aggregated OECD CbCR Statistics, own calculations.

OTHER IMPROVEMENTS

Separate reporting for parent country: Separate reporting for a multinational's headquarters country should be mandated, rather than allowing this crucial jurisdiction to be aggregated with others. Disaggregating the parent country data provides clearer invaluable insights into where profits are officially booked and taxed especially as usually a large portion of the activities of multinationals are registered there.

Complete country-by-country reporting: The current geographical disaggregation proposed by the directive seems to be insufficient to fully understand the global footprint of multinationals. The requirement should be changed to have full country-by-country disclosure. This will also level the playing field between foreign and European multinationals (Gundert et al., 2024).

Inclusion of additional variables: The current directive falls short of several variables. The information needs to be expanded to include as a minimum the variables required by the OECD standard. In addition, considering the evolution of the minimum tax agreement it will be crucial to include additional information on wages, destination-based sales and subsidies received by governments (see also Delpeuch et al. (2019)).

Learning from Past Mistakes: The legislation should clearly define and provide guidance on reporting thorny areas that have caused inconsistencies in previous reporting standards, such as the treatment of intra-company dividends, the positive/negative sign conventions for tax variables, the inclusion or exclusion of equity-accounted units (Aliprandi and von Zedlitz, 2023), and separating "stateless" income that cannot be attributed to a specific jurisdiction.

Inclusion of Additional Variables: Beyond the core financial variables like revenues, profits, and taxes, the reporting requirements could be expanded to include other meaningful variables that shed light on the real economic activities occurring in each jurisdiction. Examples are employee compensation, payments to governments beyond income taxes, grants and subsidies, and intangible assets.

By implementing these measures, the Australian public CbCR rules can learn from the limitations of previous CbCR regimes and reporting practices. Bringing heightened transparency through expansive country-level disaggregation and well-defined variable requirements will equip stakeholders with more powerful insights. This can foster improved risk assessment, evidence-based policymaking, and more effective scrutiny of multinational tax strategies. Ultimately, these steps can help ensure corporations are paying their fair share of taxes commensurate with their real economic activities in each jurisdiction.

5 Conclusion

The Australian Public Country-by-Country Reporting legislation marks a significant advancement in enhancing tax transparency for large multinational enterprises. This analysis reveals that the Australian CbCR requirements are more comprehensive in some aspects compared to the EU Public CbCR directive, particularly in terms of revenue breakdown and tangible asset reporting. The Australian law is expected to cover a substantial number of multinational corporations, including approximately 50% of large US companies and a significant portion of multinationals from countries like China, Japan, and Germany.

However, the analysis also identifies potential areas for improvement. The list of jurisdictions required for disaggregated reporting omits several key tax havens, including Luxembourg, Malta, Puerto Rico, Netherlands, Ireland, Cyprus, and the United Kingdom. While full country by country would be the best option, including these jurisdictions would significantly enhance the effectiveness of the legislation in addressing profit shifting activities. Furthermore, the geographical disaggregation requirements of the

Australian CbCR law are less ambitious than current voluntary disclosure practices of some multinational corporations. This suggests that there is room for more stringent reporting standards without imposing undue burden on companies.

To further strengthen the impact of the Australian Public CbCR, several recommendations are proposed. These include expanding the list of jurisdictions for disaggregated reporting to include identified high-risk areas, mandating separate reporting for the parent country to provide clearer insights into profit booking and taxation, providing clear guidance on reporting conventions for complex financial items to ensure consistency and comparability, and considering the inclusion of additional variables that shed light on real economic activities in each jurisdiction.

By implementing these measures, Australia can establish a robust CbCR regime that significantly contributes to global efforts in combating tax avoidance and enhancing corporate transparency. This would not only improve the effectiveness of the Australian tax system but also set a valuable precedent for other countries considering similar legislation. As the global landscape of corporate taxation continues to evolve, such comprehensive and well-designed transparency measures will play a crucial role in ensuring fair and equitable taxation practices worldwide.

A Changes to the original law

	Initial policy setting	Revised policy setting
Threshold	None.	Entities will only be subject to public CbC reporting in Australia if they have $10 million or more of Australian sourced income (aggregated turnover basis). It ensures that multinationals with a small Australian presence are not subject to the rules.
Disaggregation	CbC disclosures applied to all jurisdictions an entity operated in.	Entities will only need to publish tax disclosures on a country-by-country basis for specified jurisdictions, as determined by the Treasurer. Entities will have the option to voluntarily publish disclosures for other jurisdictions in which they operate, or on an aggregate (rest of world) basis. This responds to stakeholder feedback to better align with the EU public CbCR regime.
Variables	Tax disclosures in line with the Global Reporting Initiative (207 tax standard), with 4 additional data labels (related party expenses, effective tax rate, and the listing and valuing of intangible assets).	The revised legislation removes data disclosures on: • related party expenses, • effective tax rate calculation, • the listing of intangible assets, and • the valuing of intangible assets This responds to stakeholder feedback to better align with the EU public CbCR regime.
State date	1 July 2023.	1 July 2024. This responds to stakeholder feedback to better align with the EU public CbCR regime.

B List of disclosed countries

This table compares jurisdictions covered in the EU CbCR directive, the draft Australian CbCR law and tax haven lists from academic papers. The academic list of tax havens combines Hines and Rice (1994) and Tørsløv et al. (2022).

TABLE 5

Jurisdictions covered in the first draft of the Australian CbCR and EU Public CbCR

Jurisdiction	Code	EU CbCR	Australian List	Academic List
Andorra	AND		✓	✓
Anguilla	AIA	✓	✓	✓
Antigua and Barbuda	ATG	✓	✓	✓
Aruba	ABW		✓	✓
Bahamas	BHS		✓	✓
Bahrain	BHR		✓	✓
Barbados	BRB		✓	✓
Belgium	BEL	✓		✓
Belize	BLZ		✓	✓
Bermuda	BMU		✓	✓
British Virgin Islands	VGB		✓	✓
Cayman Islands	CYM		✓	✓
Cook Islands	COK		✓	✓
Curacao	CUW		✓	
Cyprus	CYP	✓		✓
Dominica	DMA		✓	✓
Gibraltar	GIB		✓	✓
Grenada	GRD		✓	✓
Guernsey	GGY		✓	✓
Hong Kong	HKG		✓	✓
Ireland	IRL	✓		✓
Isle of Man	IMN		✓	✓
Jersey	JEY		✓	✓
Jordan	JOR			✓
Lebanon	LBN	✓	✓	✓
Liberia	LBR	✓	✓	✓
Liechtenstein	LIE		✓	✓
Luxembourg	LUX	✓		✓
Macao	MAC			✓
Maldives	MDV		✓	✓
Malta	MLT	✓		✓

TABLE 5

Jurisdictions covered in the first draft of the Australian CbCR and EU Public CbCR (continued)

Jurisdiction	Code	EU CbCR	Australian List	Academic List
Marshall Islands	MHL		✓	✓
Mauritius	MUS		✓	✓
Monaco	MCO		✓	✓
Montserrat	MSR		✓	✓
Nauru	NRU		✓	
Netherlands	NLD	✓		✓
Netherlands Antilles	ANT		✓	✓
Niue	NIU		✓	
Panama	PAN	✓	✓	✓
Puerto Rico	PRI			✓
Samoa	WSM	✓	✓	✓
San Marino	SMR		✓	
Seychelles	SYC		✓	✓
Singapore	SGP		✓	✓
St. Kitts and Nevis	KNA		✓	✓
St. Lucia	LCA		✓	✓
St. Maarten (Dutch Part)	SXM		✓	
St. Martin	MAF		✓	✓
St. Vincent & Grenadines	VCT		✓	✓
Switzerland	CHE		✓	✓
Turks and Caicos Islands	TCA		✓	✓
US Virgin Islands	VIR	✓	✓	
Vanuatu	VUT	✓	✓	✓

Note: Jurisdictions in bold are included in both the EU Public CbCR directive and the draft list for Australian Public CbCR.

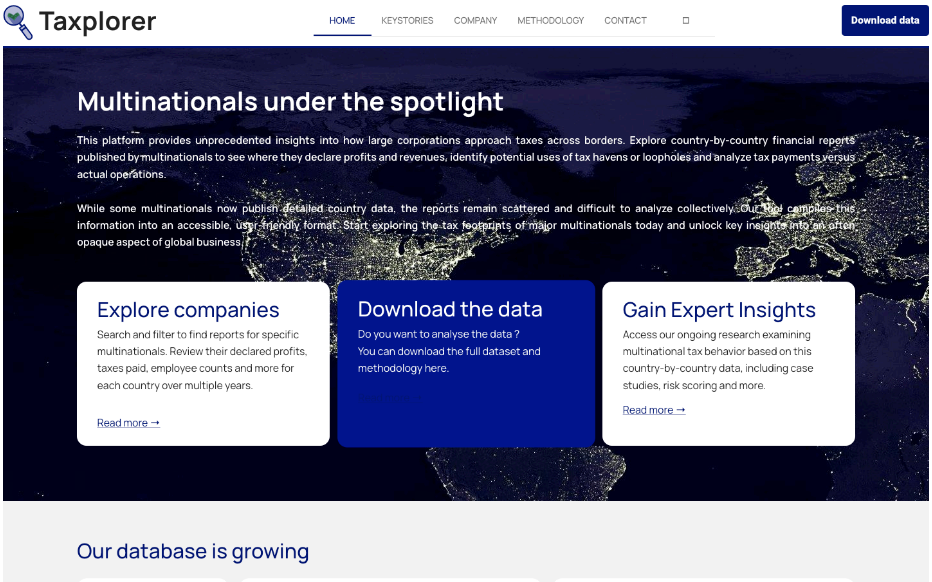
C Taxplorer

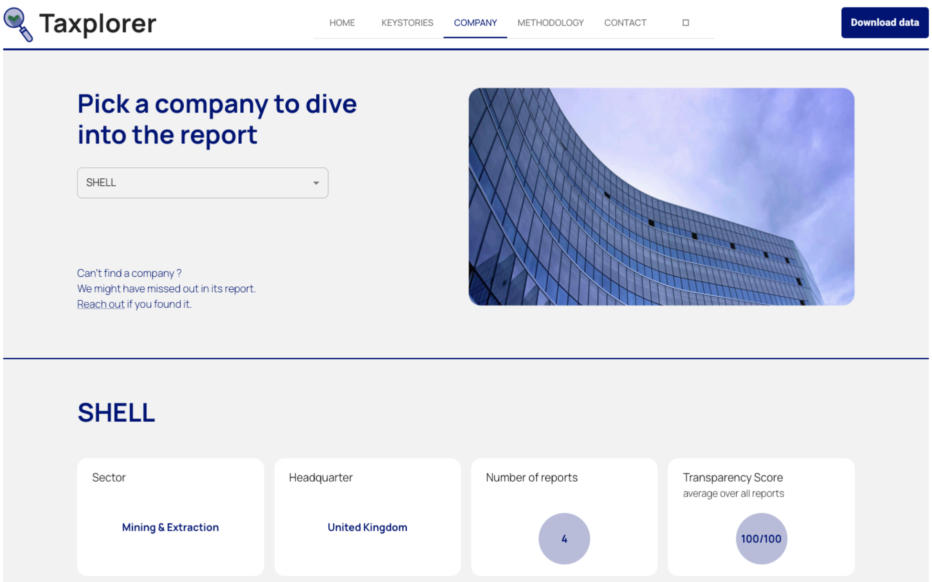
TAXPLORER: NEW TOOL TO VISUALISE CBCR DATA

Together with the talented volunteers of Data for Good we have designed and built “Taxplorer” a new website to track and visualise Public CbCRs of multinationals.

Data For Good is a non-profit organization bringing together a community of 5000+ tech volunteers to engage for the common good.

Data For Good





D Transparency score

D.1 Methodology to calculate the Transparency Score

This appendix outlines the methodology used to calculate the transparency score of multinationals' public country-by-country reports, designed to measure the extent to which multinationals disclose financial information across different jurisdictions.

The transparency score is calculated based on the disclosure of a set of predefined financial variables across different jurisdictions with higher scores indicating greater transparency (0 is the lowest score and 100 is the highest). The transparency score calculation follows the general formula:

$$\text{Transparency Score} = \sum_{i=1}^{n} w_i \times \frac{\sum_{j \in J_i} |x_{ij}|}{\sum_j |x_{ij}|} \times 100 \tag{1}$$

Where:

- n is the number of financial variables
- w_i is the weight assigned to the i-th financial variable (in this case, all variables are equally weighted, with $w_i = 1/n$)
- J_i is the set of jurisdictions for which the i-th financial variable is disclosed (excluding the aggregated categories)
- x_{ij} is the value of the i-th financial variable for jurisdiction j

D.2 Variants of transparency score calculation

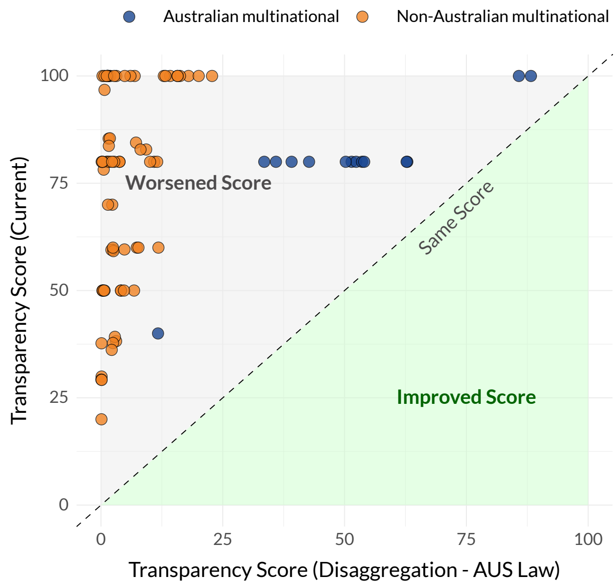
Several variants of the transparency score calculation are considered to assess the potential impact of the Australian Public CbCR law:

1. Standard Transparency Score: This score is calculated using the OECD financial variables and the current level of geographical disaggregation reported by multinationals.
2. Transparency Score with AUS Variables: This score is calculated assuming that out of the 10 OECD variables, multinationals will disclose only the financial variables specified in Australian Public CbCR while maintaining the current level of geographical disaggregation reported.
3. Transparency Score with AUS Geographical Disaggregation: This score is calculated using the current disclosure of financial variables but with the minimum geographical disaggregation required by Australian Public CbCR. Specifically, 41 jurisdictions listed in the first draft are considered separately, while all other jurisdictions are aggregated into one single category.
4. Transparency Score with Australian Variables and Geographical Disaggregation: This score is calculated assuming that multinationals will disclose only the financial variables specified in the Australian Public CbCR and the minimum geographical disaggregation.

D.3 Estimates of variables and geographical disaggregation

FIGURE 7

Change in disclosure of foreign activities on a country-by-country basis



Note: Transparency score simulation applying the minimum geographical disaggregation and keeping other factors equal.
Source: Public CbCR Database, own calculations.

FIGURE 8

Change in disclosure of foreign activities on a country-by-country basis

Note: Transparency score simulation applying the minimum variable requirements and keeping other factors equal.
Source: Public CbCR Database, own calculations.

References

J. Adams, E. Demers, and K. J. Klassen. Tax Aggressive Behavior and Voluntary Tax Disclosures in Corporate Sustainability Reporting. *SSRN*, 2022.

G. Aliprandi and K. Borders. Advancing tax transparency. *EU Tax Observatory Report*, 2024.

G. Aliprandi and G. von Zedlitz. Benchmarking country-by-country reports. *TRR 266 Accounting for Transparency Working Paper Series*, (122), 2023.

G. Aliprandi, K. Borders, F. Gabriel, and G. von Zedlitz. Public Country-by-Country Reports: a new database. *EU Tax Observatory*, 2023.

A. Alstadsæter, S. Godar, P. Nicolaides, and G. Zucman. Global Tax Evasion Report 2024. 2023.

S. Delpeuch, S. Laffitte, M. Parenti, H. Paris, B. Souillard, and F. Toubal. Quel reporting pays par pays pour les futures réformes ? *CAE*, 2019.

S. Godar, G. Aliprandi, T. Faccio, P. Janský, and K. Toledo Ruiz. The long way to tax transparency: lessons from the early publishers of country-by-country reports. *International Tax and Public Finance*, 31(4): 593–634, April 2024. doi: 10.1007/s10797-023-09818-5.

H. Gundert, C. Spengel, and S. Weck. Leveling the playing field? a qualitative and quantitative examination of the EU directive on public country-by-country reporting, 2024. URL https://papers.ssrn.com/abstract=4796069.

J. Hines and E. Rice. Foreign Tax Havens and American Business. *The Quarterly Journal of Economics*, 1994.

F. Hugger, A. C. G. Cabral, and P. O'Reilly. Effective tax rates of MNEs: New evidence on global low-taxed profit. Oecd taxation working papers, 2023. URL https://ideas.repec.org/p/oec/ctpaaa/67-en.html.

S. Laffitte. The Market for Tax Havens. Working papers, 2024.

L. Menkhoff and J. Miethe. Tax evasion in new disguise? examining tax havens' international bank deposits. *Journal of Public Economics*.

T. Tørsløv, L. Wier, and G. Zucman. The Missing Profits of Nations. *Review of Economic Studies*, 2022.

Co-funded by
the European Union