

Task Force – Financial Integrity & Economic Development
Panel 3 – Country-by-Country Reporting
September 16, 2009

PwC Perspective

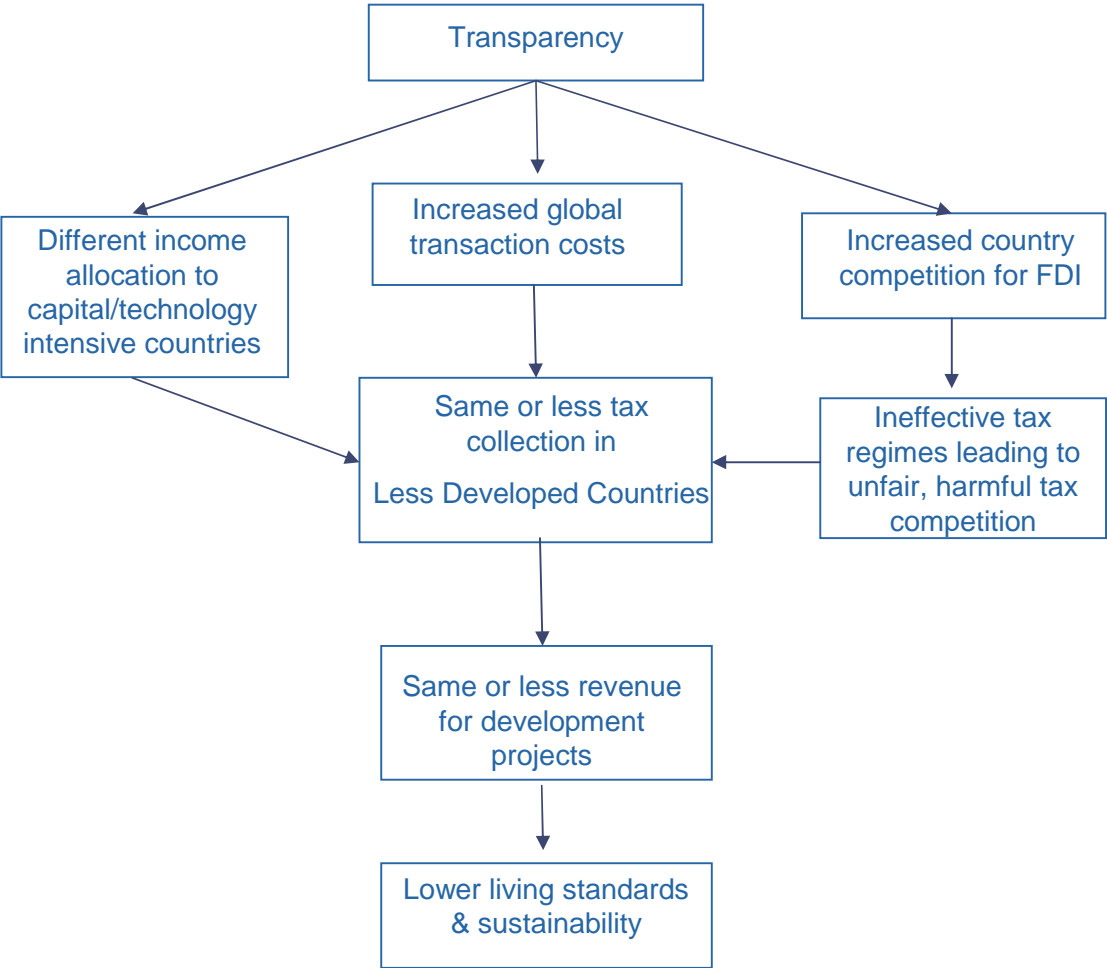
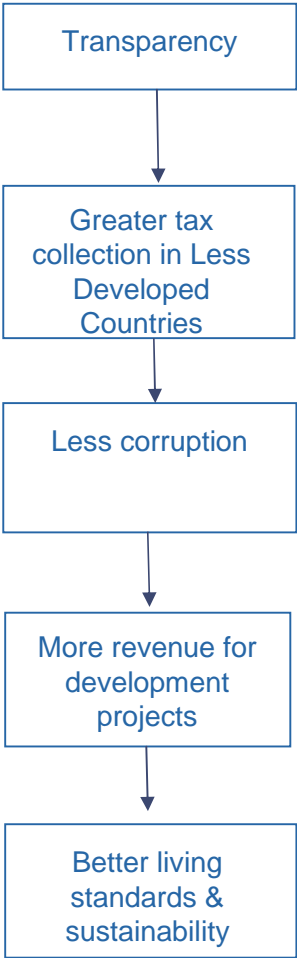
- PwC provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders.
- More than 155,000 people in 153 countries sharing their experience across the PwC network shapes our global perspective.
 - PwC provided services for 425 of the companies in the Fortune Global 500 and 420 of the companies in the FT Global 500.
 - Some 50,000 of our professional live and work in the emerging markets, providing a wide range of services to private industry, government, NGOs and multi-lateral donors.
- Our future obviously depends on that of our communities.
 - We cannot succeed in societies that fail.
- Our commitment to Corporate Responsibility is both broad based and collaborative. It is reflected in the number of projects we perform pro-bono for the international financial institutions (i.e., World Bank and the Inter-American Development Bank), regional development banks (i.e., BCIE), and the bilateral funding agencies such as DFID, and CIDA as well as the UN and others.

PwC Perspective (Cont.)

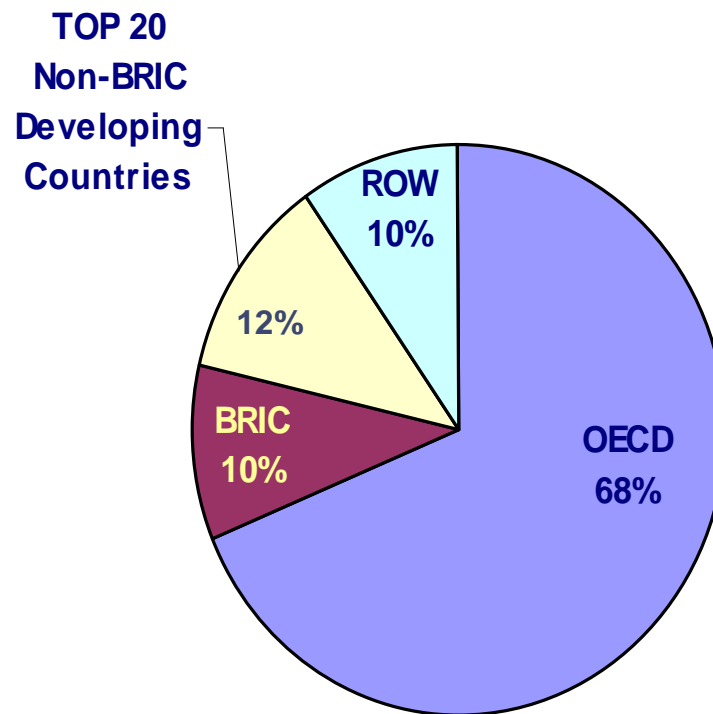
- PwC is often selected for some of the most challenging international development projects:
 - Monitoring Agent for World Bank's Afghanistan Reconstruction Trust Fund to ensure proper fiduciary management of funds dedicated to the benefit of the Afghan people.
 - Largest Local Fund Agent for the Global Fund to Fight Aids, Tuberculosis and Malaria: Public-private partnership established in 2001 to administer the funds the UN Secretary-General called upon the world to channel towards fighting these three major diseases of poverty.
- PwC brings a broad perspective, respectful of each party's position and of the importance of accountability, transparency, economic feasibility, and entrepreneurship in developing countries.
- We are committed to *sustainability*, i.e., the process of improving the quality of life of all people while living within our planet's environmental limits.

Country-by-Country Reporting: Other Possible Outcomes

Proposed Thesis



Composition of FDI Inflows



Source: *FDISTAT*, www.un.org, 2007.

General Observations:

- Fully support greater tax transparency at a level which assists society understand the full contribution of business (total tax).
- Promote an evidence-based research dialogue.
- No evidence to suggest that greater transparency of the profits and tax paid at a country level will alleviate underdevelopment.
- We recognize that while fair market value and the arm's length standard is not perfect, it remains the best available approach to price transactions while promoting global trade and development.
- Alternatives to the Arm's Length Standard are likely to promote unfair, harmful, beggar thee neighbor tax competition.
- Dangerous to consider only one aspect of corporate performance.



Total contribution of a corporation should be the focus

- Current need of streamlining and simplifying current reporting.

PwC's Approach to Increasing Tax Transparency

- PwC has contributed to creating a reasonable and efficient framework for more disclosure and increasing tax transparency.
- The **Total Tax Contribution** (“TTC”) is a standardized framework for measuring and reporting all taxes that a company pays within a country, including federal, state, and local taxes.
 - It provides a way for businesses to measure and communicate their tax contribution in a consistent and easily understandable manner – with a view to meeting the needs of various stakeholders and improving transparency.
 - It encompasses income taxes as well as “above the-line” taxes that typically have little visibility in financial reporting, including property, payroll, customs duties, and excise taxes.
 - It also measures the cost incurred to comply with a company’s tax payment obligations.
 - It has been successfully implemented in Australia, Belgium, Canada, South Africa, the UK, and the United States, and surveys are underway in about a dozen other countries.
 - In addition, the TTC framework has been adopted by the World Bank to compare tax burdens across 181 countries in its annual Doing Business report.

Total Tax Contribution: An Example

- An increasing number of companies are using PwC's Total Tax Contribution framework to report on all business taxes paid and collected. Here is an example how Anglo American discloses their TTC.

Taxes paid directly to governments by managed operations, by country* (\$ million)			
	Borne	Collected	Total
South Africa	1,055	558	1613
Chile	755	30	785
Australia	552	101	653
United Kingdom	241	345	586
Brazil	198	42	240
France	40	39	79
Poland	11	21	32
Canada	76	14	30
Ireland	20	10	30
Namibia	23	4	27
Others	75	31	106
Total	2,986	1195	4,181
* Unaudited amounts as a result of Anglo American operations [borne] and employee taxes and net value -added tax [collected].			

Source: Anglo American plc – Report to Society 2007 – Pages 20-21

Beyond taxes

- Country-by-country reporting diverts public attention from the real cause of poverty such as infrastructural deficiencies, regulatory and legal impediments, macroeconomic instability and economic barriers and is depleting valuable resources for the solutions.
- MNCs play a wider role in developing countries than just contributing to tax revenues:
 - **Wealth creation** (profits, dividends and interest).
 - Environmental impact (energy, standards on emissions, water).
 - Evidence of **high complementarities** between domestic and foreign operations of MNCs, stimulating jobs and investment in both the host developing countries along with the parent country (Desai and Hines, 2005).
 - Evidence of “**local linkage effects**” through which significant knowledge and technology is transferred to developing countries (Lall (1980), Altenburg (2000)).
 - Impact on the local communities (education, infrastructure).
- Presence of deeper developmental bottlenecks impede developmental efforts as much if not more than scarcity of resources:
 - According to a WEF's report (2008) **corruption** is the single greatest obstacle to economic and social development.
 - Importance of developing robust institutions in improving productive economic activity (North and Thomas (1970), Shirley (2005)).
 - Importance of transparency, rule of law, democracy, smaller government consumption and literacy found to have greatest impact on achieving developmental outcomes (Barro (1991), Barro and Salai-i-Martin (1995)).

Closing remarks

- PwC is playing an active role in increasing tax transparency, developing institutions, training human resources and fostering respect for rule of law:
- PwC has substantial experience assisting with accountability, transparency, and in turn functioning of markets.
- PwC partners around the world have helped develop the accounting, audit and ethical standards, develop and strengthen oversight of the profession and conduct conferences and symposia to foster discussion on critical matters.
- Examples:
 - Accounting reform in Russia to comply with International Accounting Standard (“IAS”).
 - Activities in professional standard-settings.
 - Activities in strengthening regulation and oversight.
 - Activities in leadership in professional organizations.
 - Development of the TTC.
- PwC recognizes that our efforts should focus on the main causes of underdevelopment and does not believe that a narrow or single sided view of the issues will be the answer to the problems faced by the less than developed countries.