G-8 to Fight Tax Evasion

Proposals Call for Changes in Laws to Stop Companies From Shifting Profits Across Borders

By JOHN D. MCKINNON and AINSLEY THOMSON

The Group of Eight leading industrialized nations agreed to proposals to tackle tax avoidance and evasion that call for new laws to stop businesses from shifting profits across borders and urge greater transparency about company ownership.

Tuesday's action reflected growing momentum among the largest economies for joint action to shore up their sometimes-leaky tax systems and shine more light in an often-murky area.

But the agreements were short on specifics and will require lengthy and difficult negotiations to implement, both for G-8 members and other countries as well. Some activists criticized the G-8 for not going further, particularly on multinational businesses that often pay relatively low taxes thanks to porous rules.

The agreement came at the end of a two-day summit meeting at Enniskillen in Northern Ireland, where the issue was one of the main subjects under discussion.

Community Poll

- Vote: Will the G-8 plan to tackle tax avoidance have a lasting effect?

The agreement says tax authorities around the world should automatically share information to "fight the scourge of tax evasion."

In addition, multinational companies should tell tax authorities what tax they pay and where they pay it, the agreement stipulates.

"We've commissioned a new international mechanism that will identify where multinational companies are earning their profits and paying their taxes so we can track and expose those who aren't paying their fair share," U.K. Prime Minister David Cameron said at the end of the meeting. "It may not be the catchiest name in the world, but this international tax tool is going to be a real feature of ensuring we get proper tax payment and proper tax justice in our world."

The agreement also calls for the true owners of companies to be revealed, saying firms should know who really owns them and tax collectors and law enforcers should be able to obtain this information easily.

But Tuesday's declaration was silent on whether a central register of beneficial ownership would be created. The U.K. had been pushing for the other G-8 nations to sign up to such a register, which is designed to stop firms hiding behind opaque shell companies and trusts by providing details of their actual owners.

Earlier Tuesday the U.K. government said it would go ahead with a register in Britain and would hold a public consultation on whether the information should be publicly accessible.

Speaking after the summit ended, French President François Hollande said it was a "big defect" in the agreement to not have a company registry for the exchange of tax information.

Activists campaigning for greater transparency in dealings between companies and governments—especially in developing countries—agreed.

"Anonymous shell companies are the getaway car for crime and corruption," said Gavin Hayman, director of campaigns for Global Witness. "The G-8 hasn't taken away the keys yet, but they are starting to let down the
tires. For the first time, the world's leading economies have made progress towards ending corporate ownership secrecy."

Heather Lowe of Global Financial Integrity, a group that seeks to curb illicit financial flows out of developing countries, said the declaration "really solidifies the progress made to-date on battling international tax evasion and extends it to countries not actively pursuing such initiatives, like Japan and Russia."

**G-8 Leaders Meet in Northern Ireland**

But she said the G-8 leaders "generally failed to grasp the need for public transparency in corporate tax reporting and corporate ownership information."

For their part, U.S. multinationals hope to use the G-8 statements to leverage support for their own effort to overhaul the U.S. tax system. That likely would include lowering the U.S. corporate tax rate—at 35% the developed world's highest. It also could include changing U.S. tax rules that seek to tax multinationals' overseas income—something that most developed countries no longer do.

Issues raised by the G-8 such as profit shifting and shell companies could be addressed as part of such a comprehensive tax rewrite, said Catherine Schultz, vice president for tax policy at the National Foreign Trade Council, a Washington business association. She added that businesses would welcome the Obama administration's involvement.

Some other elements of the G-8 declaration—such as the call for automatic information-sharing between countries—already are well underway in the U.S. Congress has adopted the Foreign Account Tax Compliance Act to compel overseas banks to reveal account information concerning U.S. citizens, and the G-8 declaration underscores growing support for a similar global effort.

But other proposals likely face a rough road in the U.S. A 2010 law required country-by-country reporting for energy companies' tax payments, in part to show how much money is really being paid to resource-rich countries that often are plagued by corruption. But other U.S. businesses would oppose similar requirements.

The G-8 declaration "could be the beginnings of some big steps," particularly on automatic global exchange of tax information, said David Ernick, a principal with PricewaterhouseCoopers in Washington. But many of the initiatives face major challenges in being implemented, he said.

International Monetary Fund Managing Director Christine Lagarde praised Mr. Cameron and the leaders of the other G-8 nations—U.S., Japan, Russia, Germany, Canada, France, Italy—and the European Union for including tax issues on the summit's agenda.

"International tax avoidance and evasion have emerged as major risks to government revenue and as threats to the credibility of tax systems in the eyes of citizens in both advanced and developing countries," Ms. Lagarde said. "At a time when almost all governments need additional revenues, whether to deal with high postcrisis public debts or to finance critical investments in human development, combating tax evasion and addressing tax avoidance should top the list of potential revenue-raising measures."
The heightened public resentment at the seemingly low taxes paid by some large firms during a time of austerity has also led to the public scrutiny, particularly in the U.S. and the U.K., of the tax affairs of companies such as Apple Inc., AAPL -0.05% Google Inc., GOOG +1.62% Starbucks Corp. SBUX +1.61% and Amazon.com Inc. AMZN +1.33%

However, the issue isn't straightforward: At the same time as governments publicly state their intention to crack down on tax avoidance and evasion, many are also trying to attract business by offering low tax rates and deals for companies.

Mr. Cameron addressed these apparent conflicts, saying: “If you want a low tax economy—which I believe is fundamental to growth—you have to collect the taxes that are owed. That is only fair to companies and people who play by the rules and it’s vital for developing economies too.”

The tax agreement also addresses the concerns of developing nations, saying they should have the information and capacity to collect the taxes owed them and stating that other countries have a duty to help them achieve this.

The agreement also says that mining companies should report payments to all governments and that governments should publish the income they receive from miners.

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