

31 May 2013

Principal Adviser Corporate and International Tax Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600  
Email: [beeps@treasury.gov.au](mailto:beeps@treasury.gov.au)

**RE: Implications of the Modern Global Economy for the Taxation of Multinational Enterprises**

We welcome the opportunity to respond to the issues paper on the “Implications of the Modern Global Economy for the Taxation of Multinational Enterprises”. As an investment manager that specialises in ethical and sustainable investment, the issue of fair and efficient taxation of multinational enterprises is of great interest to us.

We have been a pioneer in ethical investment in Australia. Founded over 25 years ago, we manage almost \$700 million on behalf of over 18,000 investors. Our investment process involves a rigorous assessment of ESG (environmental, social and governance) issues along with financial considerations. Investments are weighed against the Australian Ethical Charter, our public statement of principles<sup>1</sup> in the first instance and regularly monitored for developments and other ethical considerations.

We strongly support Treasury’s efforts to better address the challenges our global economy is conveying to tax systems around the world. We are especially keen to highlight our support towards creating more transparent and accountable tax disclosures.

As such we support the Government’s efforts in seeking to better understand how tax base erosion and profit shifting may be occurring in Australia. Under this light it is important that national and international efforts focus on creating ways that will allow governments to treat multinational enterprises accordingly to their complex structures. Multinational enterprises are bound together by centralised management, functional integration and economies of scale. Therefore any changes to global tax systems should focus on ensuring that multinational enterprises pay their taxes where their economic activities and investment are actually located.

If there were any changes to disclosure and reporting requirements the government needs to ensure there is no disadvantages created for companies, and that disclosure and reporting burdens for companies are not unnecessarily increased. While the government should seek to avoid complex, costly and ineffective measures, it also needs to consider the benefits created through increased disclosure. Benefits will not only extend to the Australian government and public, but also have implications on a global scale. Especially developing countries which often suffer under companies avoiding paying their fair share of tax. Under such circumstances it is impossible for those countries to receive the full financial benefits from developing industries such as mining or oil & gas activities for example. Through an improved global taxation regime we may be able to see efforts towards the creation of more stable host countries better succeed - and therefore have higher chances to create countries attractive and sustainable for investment and furthering economic development. Otherwise dependency on aid from OECD countries, including Australia, is likely to be perpetuated.

---

<sup>1</sup> For more information on our investment approach and ethical values see: [www.australianethical.com.au/our-ethical-values](http://www.australianethical.com.au/our-ethical-values)

Finally we'd also like to draw attention to our support for the submission made by Publish What You Pay Australia, which highlights the importance of disclosure for payments made by extractive industries to governments – an issue that is closely related to the concerns highlighted above and in the issues paper.

Publish What You Pay Australia is advocating for the Government to introduce rules that require extractive companies listed or based in Australia to disclose all payments made to governments on a country-by-country and project-by-project basis in line with United States and forthcoming European Union legislation. While Australian Ethical does not generally invest in the extractives industry, we are supportive of increased transparency regarding payments to governments made by Australian companies, given such transparency would help resource-rich developing country governments ensure that they are receiving a fair share of tax for the extraction of their finite natural resources.

Aside from helping tackle tax avoidance and empowering policymakers to ensure that the wealth generated by extractive industries is used to fund sustainable development in resource-rich countries, increased transparency of payments made by extractive companies provides other important benefits: It mitigates risks of corruption and enables populations to hold their governments to account over the exploitation of non-renewable natural resources. It also enables investors to better assess the financial, political and reputational risks to which extractive companies are often exposed, while fostering more stable operating environments that enhance prospects for investment returns. It is important for us, and other investors, to have consistent and comparable reporting on tax and royalties. Therefore the alignment to emerging global standards for payment disclosure is fundamental.

We thank you for the opportunity to respond to the public consultation process on the issues paper.

Kind regards

**Phil Vernon**  
Managing Director  
Australian Ethical Investment Ltd