



July 5, 2016

Mr. Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File No. S7-06-16, Business and Financial Disclosure Required by Regulation S-K

Dear Mr. Fields:

On behalf of the Main Street Alliance, I appreciate the opportunity to comment on the Securities and Exchange Commission's (SEC) recent concept release on disclosures, required by Regulation S-K. The Main Street Alliance is a national network of small businesses working to build a new voice for small businesses on important public policy issues that work for business owners, their employees, and the communities they serve. Promoting a more equitable, transparent tax system is central to this mission.

My comments below will focus on two key recommendations concerning international corporate tax disclosure:

- The need for country-by-country reporting
- Full disclosure of all corporate subsidiaries, rather than just "significant" ones

### **Current International Tax System Yields an Unlevel Playing Field for Small Businesses**

It has been well documented that small businesses are the engine of our economy. They are a primary driver of job growth and wealth creation, producing more than half the jobs in the country and 70 percent of net new jobs. However, despite their critical importance, the current tax code contains numerous tax loopholes that disproportionately favor multinational corporations over small businesses.

For instance, increasingly numbers of multinational corporations are relying on offshore tax strategies to avoid paying taxes. Public policy decisions in the past 10 to 15 years have created incentives that benefit the largest and most complex corporate entities at the expense of small business owners. As a result, a recent report by Americans for Tax Fairness found that offshore

earnings held by U.S. corporations had risen \$200 billion from 2014 to 2015, to an astonishing \$2.4 trillion.<sup>1</sup>

International corporate tax avoidance strategies disadvantage small businesses and undermine fair market competition in several ways. First, the small businesses in the Main Street Alliance are deeply imbedded in their local community. They cannot simply move their headquarters offshore to a tax haven to reduce their tax liability. Nor can they afford armies of high-priced tax attorneys to exploit other tax loopholes. Consequently, small businesses--already operating on small margins-- end up paying their full tax liability while their corporate competitors enjoy lower effective tax rates. Small business owners are left with a competitive disadvantage, forced to operate on an already unfair playing field.

Second, when multinational corporations fail to pay their taxes, local communities--and the small businesses that reside within them--struggle to provide needed services. A 2016 academic study, for instance, estimated that offshore profit shifting likely cost U.S. taxpayers between \$77 and \$111 billion in corporate tax revenues from 1983 to 2012, with tax revenue losses increasing substantially in recent years.<sup>2</sup> The astonishing erosion of the tax base translates into fewer services that small businesses rely on to be successful. These include funds for badly needed infrastructure, such as road and building repairs and new construction; municipal services, such as the education system, or first responders; or programs that directly support small business development, such as technical assistance, loan guarantees, or credit supports. To make up budget shortfalls, small business owners and local residents are left to shoulder the burden in the form of higher taxes and a greater share of the national debt.

### **SEC Should Require Country-by-Country Reporting**

Without information, there can be no integrity in the tax system. Small businesses are concerned that without proper information, public policy debates have devolved into potentially inaccurate rhetorical arguments that benefit the loudest, largest and best-connected. With fewer resources than multinationals, small businesses currently account for their operations where they operate. Multinationals should do no less. If they are large enough to have revenues in multiple countries, to divide themselves into numerous entities, then they are large enough to report on those various divisions. Proposals to report revenues, profits, taxes paid and future tax liabilities are not suggesting a complete and separate report for each entity. The reporting can and should be

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<sup>1</sup> *Offshore Corporate Taxes, Profits & the Competitiveness of the U.S. Tax System*, Americans for Tax Fairness, May 2016, available at <http://www.americansfortaxfairness.org/files/ATF-Chartbook-Offshore-Corporate-Taxes-Corporate-Profits-Competitiveness-of-US-Tax-System-May-2016-5-5-16-1.pdf>; see also Citizens for Tax Justice, *Fortune 500 Companies Hold a Record \$2.4 Trillion Offshore*, Mar. 3, 2016, available at <http://ctj.org/pdf/pre0316.pdf>.

**2**

Kimberly Clausing, "The Effect of Profit Shifting on the Corporate Tax Base in the United States and Beyond," Jan. 11, 2016, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2685442](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2685442).

added to the existing filings. Unfortunately, current SEC reporting by US companies is wholly inadequate to determine a company's tax practices, actual and projected tax liabilities, and potential tax problems. The piecemeal disclosures provide insufficient information to detect corporate profit shifting or other strategies--legal or illegal--that erode the tax base and disadvantage small businesses.

However, the SEC has the opportunity to help begin to level the playing field through issuing improved reporting requirements. **Specifically, the SEC should revise its international tax disclosure framework to specifically require multinational corporations to disclose, on an annual, country-by-country basis:**

- profit or loss before taxes;
- income tax accrued for the current year;
- revenues from unrelated parties, related parties, and in total;
- income tax paid (on a cash basis);
- effective tax rate;
- stated capital;
- accumulated earnings;
- number of employees; and
- tangible assets other than cash or cash equivalents.

### **Disclosure of International Subsidiaries**

A second recommendation concerns corporate subsidiaries. Reg S-K currently requires companies to disclose a list of subsidiaries of the registrant.<sup>3</sup> However, that list currently only needs to include subsidiaries that are "significant," as defined by Regulation S-X. Though the use of corporate subsidiaries advantage large companies, and is ubiquitous among Fortune 500 companies,<sup>4</sup> we have no way of really knowing how many subsidiaries there are, or the risks associated with them. One recent study by Citizens for Tax Justice found that, for 27 firms regulated by the SEC and Federal Reserve Board of Governors, they reported 7 times more subsidiaries to the Federal Reserve than in their SEC filings.<sup>5</sup>

**Therefore, we recommend that the SEC require public companies to disclose all of their subsidiaries, rather than just "significant" ones, providing the name, location, Legal Entity Identifier number, and relation to the parent entity.** This information is critical to understand how companies are structured and operate, including whether they are operating in high risk

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<sup>3</sup> Reg S-K, Item 601(b)(21).

<sup>4</sup> *Offshore Shell Games: The Use of Offshore Tax Havens by Fortune 500 Companies*, U.S. Public Interest Research Group and Citizens for Tax Justice, 1, Oct. 2015, available at <http://ctj.org/pdf/offshoreshell2015.pdf>.

<sup>5</sup> Citizens for Tax Justice, *Lax SEC Reporting Requirements Allow Companies to Omit Over 85 Percent of Their Tax Haven Subsidiaries*, June 30, 2016, available at [http://ctj.org/ctjreports/2016/06/lax\\_sec\\_reporting\\_requirements\\_allow\\_companies\\_to\\_omit\\_over\\_85\\_percent\\_of\\_their\\_tax\\_haven\\_subsidiari.php#.V3V7PTkrLjA](http://ctj.org/ctjreports/2016/06/lax_sec_reporting_requirements_allow_companies_to_omit_over_85_percent_of_their_tax_haven_subsidiari.php#.V3V7PTkrLjA).

jurisdictions, may have actual or potential tax liabilities, or may be engaged in other types of unknown or ill-understood corporate activities.

Thank you again for the opportunity to comment on this important concept release on disclosures. The Main Street Alliance looks forward to working with you to help create a more transparent marketplace. Transparency will improve the markets and provide small businesses with a fairer, more level playing in which they can honestly compete. If you have any questions, please contact Michelle Sternthal at [REDACTED].

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Ballantyne', with a long horizontal flourish extending to the right.

Amanda Ballantyne  
National Director  
Main Street Alliance