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The effectiveness of voluntary corporate tax disclosures: an Australian case study

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Schedule for 2021 Tax Research Seminars Online

1. **25 February 2021**, A new-knowledge approach to corporate income tax efficiency – Associate Professor Mark Bowler-Smith (Deakin University), discussant Professor John Freebairn (University of Melbourne)

2. **25 March 2021**, The Law and Policy of VAT Tourist Tax Refund Schemes: A Comparative Analysis – Associate Professor Tingting Wang (University of Melbourne/ Southwest University of Political Science and Law, China) and Professor Miranda Stewart (University of Melbourne), discussant Mr Michael Evans (University of Melbourne)

3. **29 April 2021,** MLSTRSO**-**Special Edition: *Rebellion, Rascals, and Revenue.* A discussion with Joel Slemrod (University of Michigan) and Mike Keen (Deputy Director of the Fiscal Affairs Department at the International Monetary Fund) on their new book, *Rebellion, Rascals, and Revenue* (Princeton Press, 2021)

4. **27 May 2021,** History of Tax Reform in Australia. – Mr Paul Tilley (University of Melbourne/ ANU TTPI), discussant Mr Greg Smith (Former Head of Treasury Budget and Revenue Groups)

5. **29 July 2021**, Tax law as political gesture: 2017 US Tax Cuts and Job Act through the lens of political anthropology – Ms Viva Hammer (Melbourne Law School, Visiting Fellow), discussant Associate Professor Lael Weis (Melbourne Law School)

6. **18 August 2021,** The effectiveness of voluntary corporate tax disclosures: an Australian case study - Dr Bronwyn McCredie (QUT), discussant Dr Rodney Brown (University of New South Wales)

7. **30 September 2021,** Taxation of the Commercialised Body – Mr Micah Burch (University of Sydney)

8. **28 October 2021**, The Luxury Car Tax – Dr Kathryn James (Monash University)

9. **25 November 2021,** Excess Profit Tax – Professor Emeritus John Taylor (UNSW)

The effectiveness of voluntary corporate tax disclosures: an Australian case study

Richard Krever,[*] Kerrie Sadiq[**] and Bronwyn McCredie [***]

Abstract

The disclosure of tax information by corporate taxpayers is often thought to be an important tool in the quest by tax administrators to reduce multinational tax avoidance. To date, most initiatives have involved disclosure to revenue authorities. A second limb to disclosure is the provision of tax information to shareholders and the general public. There are very few examples of voluntary public disclosure by corporate taxpayers and many observers are sceptical as to its effectiveness in reducing tax minimisation. Australia provides a prominent example of a public disclosure regime with its Tax Transparency Code reports that have been produced by taxpayers on a voluntary basis since 2016. This article reports on a study that tested the extent to which disclosures under a voluntary code can increase awareness or understanding of the tax behaviour of large corporations and whether the information affects public perceptions and consequent corporate responses. Three different measurements were used to test the potential impact of disclosure: the comprehensibility of the information provided, whether the market viewed information provided as new information, and the volume and accessibility of information. The findings suggest that the disclosure mechanism provides the public with more information than it would otherwise have but does not provide robust, verifiable or comparable information. Further, this information is not well understood. Scores from readability tests indicate somewhat sophisticated reading skills are needed to read and interpret the information in the Tax Transparency Code reports. The reports also appear to have little impact on directly interested readers, those buying and selling shares in the companies releasing reports. The evidence suggests the Australian model of tax transparency is unlikely to have any impact on the level of tax avoidance by large companies. An understanding of the shortcomings of the Australian voluntary disclosure regime may be helpful for advocates of broader tax transparency elsewhere.

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1 Tax transparency

Recognition of the extent of tax avoidance by multinational enterprises has led to a raft of international and national initiatives in recent years, most notably the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) program.[1] An important focus of efforts to contain multinational tax avoidance at both national and multilateral levels has been the concept of transparency or disclosure of tax information by corporate taxpayers.[2]

Three limbs to the transparency initiatives have emerged. The first is the provision of information to local tax authorities and, importantly, subsequent sharing of information among tax authorities internationally.[3] The assumption behind this limb is that once tax authorities are armed with an understanding of what claims a multinational makes in other jurisdictions about its transactions they will be better placed to evaluate the firm's characterisations of transactions in their own country. Tax authorities may have views on the extent to which inter-agency information sharing assists their collection efforts but do not share data on the impact with the public. The extent to which initiatives such as country-by-country reporting work remains, at best, speculation for those outside of tax administrations.[4]

A second tax transparency limb is the release to the general public by the tax authority of information provided to it by taxpayers. Traditionally, information disclosed to tax authorities was treated as confidential to that agency, with exceptions in many jurisdictions for disclosures to selected government law or security agencies. The practice was not universal, however, and there has been a shift to more transparency including release by governments of some details of the tax liability of selected taxpayers in some jurisdictions, including Australia.

The third limb to the transparency initiatives is the provision of tax information to stakeholders in a jurisdiction beyond the revenue authority – shareholders or the general public. The assumption behind the second limb is that greater public knowledge of a company's tax affairs will lead to scrutiny and, as knowledge by suitably qualified analysts disseminates through the community, public reaction will prompt corporations to change the manner in which they approach tax affairs, with an anticipated dampening of tax aggressive tactics. Aware of the potential costs of adverse

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[1] See generally, <https://www.oecd.org/tax/beps/>.

[2] For a discussion on the broader benefits of tax transparency and the interaction with human rights, see: Miranda Stewart, 'Transparency, Tax, and Human Rights' in Philip Alston and Nikki Reisch (eds), *Tax, Inequality, and Human Rights* (Oxford University Press, 2019) 237.

[3] The most important initiative in this respect is the OECD-sponsored country-by-country reporting system initiating from Action 13 of the BEPS Action Plan for Reform. See, generally, Alex Cobham, Petr Janský and Markus Meinzer, 'A Half-Century of Resistance to Corporate Disclosure' (2018) 25(3) *Transnational Corporations* 1; Marta De la Cuesta-González and Eva Pardo, 'Corporate Tax Disclosure on a CSR Basis: A New Reporting Framework in the Post-BEPS Era' (2019) 32(7) *Accounting, Auditing and Accountability Journal* 2167.

[4] For calls for Country-by-Country reporting to be made public, see for example Andrew Johnston and Kerrie Sadiq, 'Beyond Country-by-Country Reporting: A Modest Proposal to Enhance Corporate Accountability' (2017) 27(3) *New Zealand University Law Review* 569; Monique Longhorn, Mia Rahim and Kerrie Sadiq, 'Country-by-Country Reporting: An Assessment of its Objective and Scope' (2016) 14(1) *eJournal of Tax Research* 4; Michael Killey and Stephanie Walton, 'Public Country-by-Country Reporting: Providing Valuable Information to Nonprofessional Investors' (2018) 89 *Tax Notes International* 549.

publicity in the form of boycotts or other consumer protests, or impact on share price if investors perceive tax aggressive strategies to be adverse to a company's short or long term growth prospects, corporate managers may act to restrain tax aggressive tactics.[5]

There is evidence that investors consider risks from tax practices when valuing companies[6] and that companies release only very limited and generic information[7] to avoid in the short term negative responses from investors and consumers from disclosures of tax minimisation[8] and more broadly longer term risks to their reputation.[9] Separately, companies may be concerned about the compliance costs entailed in preparing transparency reports, the undesirable release of sensitive personal information to the public, particularly in the case of privately-owned companies that do not publish accounts,[10] and the risk that reports may reveal information of value to competitors. Also, firms operating in politically sensitive or regulated industries (for example, tobacco products, pharmaceuticals, health care, defence, petroleum and natural gas, telecommunications, and transportation) may be less inclined to disclose tax information for fear of further regulation or penalties for other activities.[11]

In extreme cases, disclosures may prompt consumer action and evidence demonstrates that corporate managers are responsive to public tax shaming, at least when they sell directly to retail clients as is the case, for example, with Starbucks, a coffee shop chain.[12] Apart from the coffee shop case, however, it is difficult to find a case where corporate tax strategies changed because of publicity over tax avoidance. There is no evidence, for example, of consumer reaction or shifts in

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[5] Australian Treasury, *Improving the Transparency of Australia's Business Tax System: Discussion Paper* (April 2013).

[6] RobecoSAM AG, *The Sustainability Yearbook 2015* (2015), <http://www.andi.com.co/Uploads/RobecoSAM_indice%20de%20sostenibilidad-DJSI-2015.pdf>.

[7] Global Reporting Initiative, 'Disclosures on Tax and Payments to Government' (Project Proposal, approved on 24 May 2017), <https://www.globalreporting.org/standards/media/1613/tax-disclosure-project-proposal.pdf>. A UK survey of tax reporting by FTSE100 companies demonstrated that most of the information reported on corporate tax strategies was very generic; see Maya Forstater, 'Publishing Corporate Tax Strategies' (2016) 1320 *Tax Journal* 10.

[8] Michelle Hanlon and Joel Slemrod, 'What Does Tax Aggressiveness Signal? Evidence from Stock Price Reactions to News About Tax Shelter Involvement' (2009) 93(1-2) *Journal of Public Economics* 93; Jeffrey Hoopes, Leslie Robinson and Joel Slemrod, 'Public Tax-Return Disclosure' (2018) 66(1) *Journal of Accounting and Economics* 142.

[9] John Graham, Michelle Hanlon, Terry Shevlin and Nemit Shroff, 'Incentives for Tax Planning and Avoidance: Evidence from the Field' (2014) 89(3) *Accounting Review* 991; Chelsea Austin and Ryan Wilson, 'An Examination of Reputational Costs and Tax Avoidance: Evidence from Firms with Valuable Consumer Brands' (2017) 39(1) *The Journal of American Taxation Association* 67.

[10] Daniel Hurst, 'Coalition Says Kidnap Risk Means Wealthy Need Tax Reporting Exemptions', *The Guardian* (Australia news section) (5 June 2015) < https://www.theguardian.com/australia-news/2015/jun/05/coalition-says-kidnap-risk-means-wealthy-need-tax-reporting-exemptions >.

[11] Scott Dyreng, Jeffrey Hoopes and Jaron Wilde, 'Public Pressure and Corporate Tax Behavior' (2016) 54(1) *Journal of Accounting Research* 147.

[12] Katherine Campbell and Duane Helleloid, 'Starbucks: Social Responsibility and Tax Avoidance' (2016) 37 *Journal of Accounting Education* 38; Ave-Geidi Jallai, 'Ethical Standards for Tax Planning by Corporations' in Robert van Brederode (ed), *Ethics and Taxation* (Springer, 2020) 207; María Guadalupe Robles, 'Tax Planning in Multinational Corporations after the Discussions Referred to Immorality of Base Erosion and Profit Shifting (BEPS): With Focus on Starbucks Corporation' (UASM Discussion Paper Series, No 7/2018, University of Applied Sciences Mainz, 2018).

tactics by the 'Silicon Six' – Amazon, Facebook, Microsoft, Google, Netflix, and Apple – following revelations of their aggressive, but legal, tax avoidance behaviour.[13]

The findings of studies that examine the impact of known tax avoidance on the share price of companies when the public becomes aware of tax avoidance by company announcements of disputes with tax authorities as required under corporate securities regulations or when revealed by publicised cases in the courts are, at best, ambiguous. They do suggest, however, that corporate managers need not be overly concerned about long term effects on share prices from publicity regarding their companies' tax minimisation efforts.[14] There is even an argument put forth that corporate tax privacy has a revenue positive angle as other companies are not able to engage in benchmarking and reverse engineering tax arrangements used by more aggressive players.[15]

Tax administration experts are sceptical that further legislated transparency or disclosure measures will be effective in addressing concerns about unacceptable tax avoidance,[16] but there is little in the way of empirical evidence to support or rebut the scepticism.[17] Studies of links between disclosures by way of financial reporting and impacts on changes in tax avoidance behaviour have yielded mixed results.[18] Isolated and *ad hoc* well-publicised disclosures of tax avoidance, often released by public interest groups, have yielded public responses by targeted corporations but no evidence of changes in actual behaviour. Yet to be studied in detail are the cases of organised government initiated or sponsored disclosures of corporate tax behaviour generally. These can take different forms. The first is the annual release to the public by the revenue authority of selected tax information for large taxpayers. In some cases, tax administrations release data each year of the reported profits and tax liability of the largest taxpayers in the jurisdiction. The second is revenue authority sponsored (for example, by way of hosting on a tax administration website)

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[13] See, for example, Erik Sherman, 'A New Report Claims Big Tech Companies Used Legal Loopholes to Avoid Over $100 Billion in Taxes: What Does That Mean for the Industry's Future?', *Fortune* (7 December 2019), <https://fortune.com/2019/12/06/big-tech-taxes-google-facebook-amazon-apple-netflix-microsoft/>.

[14] See, for example, the review of literature in Blaufus and co-authors who found studies showed a negative reaction to revelations of illegal evasion but confirmed with their own study that revelation of legal tax avoidance has a neutral or even positive effect on returns: Kay Blaufus, Axel Möhlmann and Alexander N Schwäbe, 'Stock Price Reactions to News About Corporate Tax Avoidance and Evasion' (2019) 72 *Journal of Economic Psychology* 278.

[15] Joshua Blank, 'Reconsidering Corporate Tax Privacy' (2014) 11(1) *New York University Journal of Law and Business* 31.

[16] See, for example, Lynne Oats and Penelope Tuck, 'Corporate Tax Avoidance: Is Tax Transparency the Solution?' (2019) 49(5) *Accounting and Business Research* 565.

[17] Prior research that investigates the Pakistani system of public disclosure of tax information and social recognition of top taxpayers has found that such programs elicit a positive compliance response: Joel Slemrod, Obeid Ur Rehman and Mazhar Waseem, 'How Do Taxpayers Respond to Public Disclosure and Social Recognition Programs? Evidence from Pakistan' (2020) *Review of Economics and Statistics* advance online.

[18] As Kerr points out, studies are mixed in terms of the association between financial reporting transparency and tax avoidance, although his study finds evidence that greater transparency results in lower levels of tax avoidance: Jon Kerr, 'Transparency, Information Shocks, and Tax Avoidance' (2019) 36(2) *Contemporary Accounting Research* 1146. Similarly, Stiglingh and co-authors find that firms which are more transparent in the disclosure of their tax affairs have higher effective tax rates and cash effective tax rates: Madeleine Stiglingh, Anna-Retha Smit and Anri Smit, 'The Relationship between Tax Transparency and Tax Avoidance' (2020) *South African Journal of Accounting Research* advance online.

voluntary corporate disclosures of their tax compliance status. At least one jurisdiction, Australia, has adopted both of these types of public disclosure.[19]

In the absence of information held only by the company and, to a much more limited extent, the revenue authority, it remains impossible to judge definitively the impact of public disclosure programs on tax aggressiveness. It is possible, however, to investigate the mechanics of the programs and reach reasoned judgments on the likelihood of such programs affecting corporate tax behaviour. A recent study by Brown is an excellent example of an investigation into the effect of voluntary disclosure mechanisms on corporate behaviour.[20] In that study, Brown investigates: (1) the probability of disclosure based on firm size, and (2) whether those corporate taxpayers that publish a voluntary tax disclosure report subsequently change their level of tax avoidance. His study concludes that the voluntary tax code merely acts as a confirmatory mechanism for corporates already paying higher taxes but does not subsequently alter behaviour. Further, he found that non-disclosing corporates did decrease their level of tax avoidance.

Consistent with Brown's study, this article also uses the prominent example of the Australian voluntary Tax Transparency Code reports to explore how a public disclosure regime can work in practice. However, it adopts a stakeholder perspective rather than a corporate perspective as taken by Brown and considers the features that might help or hinder the aim of illuminating for the general public the tax behaviour of large corporate taxpayers. To this end, our study builds on the prior work of Brown by adopting a stakeholder perspective and providing an analysis of the quality and quantity of information provided by corporate disclosers.[21]

The investigation of the Australian Tax Transparency Code undertaken in this study suggests the disclosure mechanism provides the public with more information than it would otherwise have but does not provide robust, verifiable or comparable information. Further, this information is not well understood. Scores from readability tests indicate somewhat sophisticated reading skills are needed to read and interpret the information in the Tax Transparency Code reports. The reports also appear to have little impact on directly interested readers, those buying and selling shares in the companies releasing reports. Overall, the evidence suggests the Australian model of tax transparency is unlikely to have any impact on the level of tax avoidance by large companies. An understanding of the shortcomings of the Australian voluntary disclosure regime may be helpful for advocates of broader tax transparency elsewhere.

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[19] There have also been calls for Australia to adopt mandatory taxpayer information disclosure regimes to strengthen the anti-avoidance income tax rules. See, for example, Nicole Wilson-Rogers and Dale Pinto, 'A Mandatory Information Disclosure Regime to Strengthen Australia's Anti-Avoidance Income Tax Rules' (2015) 44(4) *Australian Tax Review* 24.

[20] Rodney Brown, 'Voluntary Tax Disclosures and Corporate Tax Avoidance: Evidence from Australia' (2020) 35(3) *Australian Tax Forum* 391.

[21] Brown notes that his article does not attempt to undertake this task. See ibid 425.

2 Australia's tax transparency programs

Australia has followed two parallel paths to tax transparency over the past decade. On the international front, it supported the exchange of information between tax authorities and on the domestic front it adopted two forms of tax information disclosure, the first at the revenue authority level and the second at the taxpayer level.

At the international level, Australia moved quickly from being a follower of OECD initiatives for international exchanges of information to a leader. While it did not sign the original Multilateral Convention on Mutual Administrative Assistance in Tax Matters and only signed the revised Convention in 2011, a year and a half after it opened for signature, Australia was part of the initial signing ceremony for the Multilateral Competent Authority Agreement on the Automatic Exchange of Country–by-Country Reports in January, 2016 and joined the initial signing ceremony in June 2017 for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (commonly referred to as the Multilateral Instrument or MLI).

At the domestic level, Australia has been particularly proactive over the last decade in introducing transparency measures. Australia's domestic transparency rules have two limbs, the first being enhanced information provided by a taxpayer to the revenue authority and the second being the release of information to the public by the tax authority and, more recently, by companies themselves through Tax Transparency Code reports.

The first step to enhanced information provided by a taxpayer to the revenue authority came in 2011 when a 'reportable tax position schedule' was added to the company income tax return. Specified companies – public companies and foreign-owned companies with a turnover exceeding the report schedule threshold or that are part of an economic group with a turnover exceeding the group report schedule threshold – were required to attach a completed schedule to their returns. Although the data collection was not specifically authorised by statute or regulation it was previously agreed that the Australian Taxation Office (ATO), the Australian national revenue agency, was authorised to design tax returns and the schedule fell within that authority. However, in 2019 the ATO decided the notification was inconsistent with the self-assessment regime for companies and announced the notification process would not be continued.

Separately, in late 2015 legislation was adopted to require a company that is a 'significant global entity' (defined as a member of a group that has consolidated revenue of AUD 1 billion or more annually),[22] to provide the ATO from 2016 a general purpose financial statement that is copied to the Australian Securities and Investments Commission (ASIC), the national securities law agency in Australia.[23] The information held by ASIC is available online to the public.

[22] *Income Tax Assessment Act 1997* (Cth) s 960-555.
[23] *Taxation Administration Act 1953* (Cth) s 3CA.

The Government has also been considering since 2016, when it released a Discussion Paper on the topic,[24] the introduction of a Mandatory Disclosure Regime for tax schemes consistent with Action 12 of the OECD's BEPS Action Plan. The regime, if implemented, will require tax advisers and taxpayers to make early disclosures of aggressive tax arrangements by providing the Australian Taxation Office with timely information on arrangements that have the potential to undermine the integrity of the tax system.[25] There has been no indication when measures might be adopted to implement the regime.

Australia's second step towards transparency, the revenue authority's public disclosure program, commenced in 2013 when legislation was adopted that obliged the ATO to publish annually information on the resource rent tax obligations of offshore petroleum resource rent tax taxpayers (offshore oil in Australia belongs to the federal government which imposes a resource rent tax in lieu of royalties for extraction of offshore oil and gas).[26] A broader disclosure regime was adopted from the following year, with the ATO required to release annually a 'Report of entity tax information' setting out the gross income, taxable income and tax payable of public companies and foreign-owned companies with an annual turnover equal to or exceeding AUD 100 million and domestic private companies with an annual turnover equal to or exceeding AUD 200 million.

The reports reveal differences between gross revenue, taxable income and tax payable but there is no way for readers to determine whether the deductions giving rise to the difference are legitimate business expenses or exaggerated expenses for transfer pricing purposes. Similarly, the data does not reveal whether low tax liabilities are the result of avoidance or wholly legitimate factors such as allowed tax credits (in Australia, these include imputation credits for inter-corporate dividends) or carried forward tax losses.

The most unique reform adopted by Australia, however, is the establishment of a voluntary Tax Transparency Code, a program that encourages large corporations to voluntarily release information about their level of tax compliance.

3 The Tax Transparency Code

The idea for a Tax Transparency Code that would govern voluntary disclosure of tax compliance by large enterprises originated with the Board of Taxation, a non-statutory body established (and funded) by the federal government in August 2000 to review and advise the ATO. The genesis of the Board was the report of a Review of Business Taxation commissioned by the conservative coalition government in 1999. In a country that had had a number of Royal Commissions on

[24] Australian Treasury, *OECD Proposals for Mandatory Disclosure of Tax Information: Discussion Paper* (May 2016).

[25] For a review of the Australian proposals, see Tessa Richardson, 'An Analysis of the Proposed Mandatory Disclosure Regime in Australia' (2017) 1 *Western Australian Student Law Review* 81.

[26] *Taxation Administration Act 1953* (Cth) s 3C. Note, PRRT also applied to onshore oil and gas from 2012-2019.

taxation,[27] two reviews committees headed by a former judge[28] and judge respectively, two independent committees headed by parliamentarians,[29] two internal Treasury (the Australian equivalent to the Ministry of Finance) reviews,[30] and a committee chaired by an academic,[31] the Review of Business Taxation stood out as a unique initiative.[32]

The Review was headed by three leading business figures and, not surprisingly, its sweeping vision for an overhaul of the Australian tax system was business and investor friendly. Among the review's recommendations accepted by the government was a halving of the tax imposed on capital gains derived by individuals, a small business tax regime with generous exemptions and deferral concessions, a host of corporate rollovers, and a significant reduction in the company tax rate. A further recommendation accepted by the government was the appointment of a Board of Taxation that could advise the government and ATO on operational aspects of the tax system and tax administration. The Board is comprised equally of representatives for the corporate sector and tax advisor firms, with three *ex officio* government members.

In May 2015, in response to widespread press publicity about aggressive tax avoidance practices employed by high profile companies, the Treasurer commissioned the Board of Taxation to develop a voluntary code on increased public disclosure of tax information by companies, 'particularly large multinationals'.[33] Importantly, the object of disclosure was not to identify miscreants but rather to highlight companies that, in the words of the Treasury, 'are paying their fair share' of tax while, at the same time, encouraging companies to refrain from aggressive tax avoidance. In December, 2015, following extensive public and confidential meetings, the Board released a consultation paper on the Tax Transparency Code, which was followed in February, 2016, by a report to the Treasurer which outlined a set of principles and minimum standards to guide the disclosure of tax information by businesses in a form that directly interested users such as social justice groups, media, analysts, shareholders and the general public, were better able to use to understand an entity's tax position.[34] These disclosures included reconciliations of

[27] See *Royal Commission on Taxation* (First to Fifth Reports, 10 September 1920 to 13 June 1923) (William Warren Kerr, chair); *Royal Commission on Taxation* (First to Fourth Reports, 6 October 1932 to 28 November 1934) (Sir David Ferguson, chair).
[28] Commonwealth Committee on Taxation (Sir George Ligertwood, chair), *Report of the Commonwealth Committee on Taxation* (1961).
[29] Commonwealth Committee on Taxation (Hon Eric Spooner, chair), *Report on Self Assessment* (1952). The Committee became a standing committee to which the Treasurer referred particular matters (there were over 50 such referrals) on income tax over the period 1950 to 1954; Commonwealth Committee on Rates of Depreciation (Sir Alan Hulme, chair), *Report of the Commonwealth Committee on Rates of Depreciation* (1955).
[30] Australian Treasury, *Reform of the Australian Tax System (Draft White Paper)* (1985); Australia's Future Tax System Review Panel (Dr Ken Henry, chair), *Australia's Future Tax System: Report to the Treasurer* (December 2009).
[31] Committee of Inquiry into Inflation and Taxation (Russell Mathews, chair), *Inflation and Taxation* (1975).
[32] Review of Business Taxation (John Ralph, chair), *A Tax System Redesigned* (1999).
[33] Board of Taxation, Development of the Voluntary Tax Transparency Code https://taxboard.gov.au/consultation/voluntary-tax-transparency-code.
[34] Board of Taxation, 'Invitation to Comment: Draft Appendix to the Tax Transparency Code' (2016), <https://cdn.tspace.gov.au/uploads/sites/74/2016/08/DRAFT-voluntary-TTC-AASB-draft-guidance-material.pdf>. Note: The Draft Appendix to the Tax Transparency Code is based on the work of the Australian Accounting

accounting to taxable incomes, a summary of corporate taxes paid, information about related party dealings, an effective company tax rate for Australian and global operations, and the entity's tax strategy and governance. Endorsed by the Australian Government in its 2016-17 Budget, businesses were encouraged to adopt the Tax Transparency Code by the end of that financial year.[35] At this time, the Tax Transparency Code was touted as 'the most advanced and comprehensive tax transparency measure in the world'.[36]

While the Tax Transparency Code imposes no conditions on how companies design their reports or what further information they choose to include, there are minimum requirements. All companies with a turnover of AUD 100 million or more are expected to provide information set out in Part A of the Code, starting with their effective tax rate calculated by dividing current income tax expense by total profit both for Australian and global profits, using Australian accounting standards (which are based on International Accounting Standards Board standards). They are also required to identify reasons for material temporary and non-temporary differences between taxable income and accounting profits (but are not required to reveal taxable income).

In addition, large businesses (those with a turnover of AUD 500 million or more) are expected to provide information set out in Part B of the Code, which recommends companies explain their approach to tax strategy and governance, provide a contribution summary for corporate tax paid in Australia, and provide information regarding their international related party dealings.

There is no prescribed template or format for disclosures made under the Code, only a suggestion that businesses present the information in a user-friendly format by including explanations of technical concepts, diagrams and pie charts, and provide comparative data to demonstrate long term trends of tax payments. Further, disclosures can be published in the general financial statements, in a separate report or in another document such as a corporate governance or corporate social responsibility report. These disclosures have no prescribed timing for their release, nor a requirement to be audited and there are no direct penalties for providing misleading information.

The ATO has been assigned responsibility for organising access to disclosures made under the Tax Transparency Code by providing on the web a centralised list of published reports with links to the actual documents.[37] The ATO does not review or provide any assurance of the accuracy of the information contained in the disclosures.

Standards Board (AASB). The AASB is undertaking further work to progress the draft Appendix with the aim of finishing the Guidance in the second half of 2020.

[35] The Treasurer also stated that if there was not wide adoption of the code by large businesses within 12 months, the Government would review and take action.

[36] Board of Taxation, *A Tax Transparency Code: A Report to the Treasurer* (February 2016), <https://cdn.tspace.gov.au/uploads/sites/70/2016/05/BoT_TransparencyCode_Final-report.pdf>.

[37] See <https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Voluntary-Tax-Transparency-Code/>.

4 Testing the impact of voluntary transparency

As noted, when he commissioned the creation of the Tax Transparency Code, the Treasurer envisaged an opportunity for large companies to demonstrate they were paying their fair share of tax while, at the same time, encouraging companies not to engage in aggressive tax avoidance. The stated goal incorporated in the Code itself is somewhat different, to increase 'the tax transparency of both large and medium sized businesses, so as to enable users such as social justice groups, media, analysts, shareholders and the general public to better understand an entity's tax situation'.[38] The fact that corporate taxpayers have adopted and published reports suggests that they see some merit in the exercise, though it may be that their aim accords with neither of the Treasurer's stated objectives but rather that they view the transparency reports as an opportunity to present themselves as good corporate citizens through the release of selective information while masking their actual tax behaviour.[39]

To test the likelihood of the Tax Transparency Code giving rise to increased awareness or understanding of the tax behaviour of large corporations, this study looked at three different aspects of reports prepared as a consequence of the Code.

The first of these was the comprehensibility of information provided in Tax Transparency Code reports. It was presumed for the purpose of this test that the reports potentially contained information that would further the goals of transparency if the material could be understood by a wide audience and the goal was simply to see whether the material was intelligible to readers. The measurement of comprehensibility used six conventional and widely applied tests to determine the 'readability' or 'understandability' of the text in the reports.

The second and third tests looked to see if the reports voluntarily released by companies actually contained any revealing information that might contribute to pressure to reduce avoidance activities or whether it was merely window dressing to obscure any tax minimisation activities in which the companies might be involved. The quality of information contained in the Tax Transparency Reports was tested both quantitatively and qualitatively. The second test used a quantitative measurement, investigating whether the market thought any new information was being released in Tax Transparency Code reports. This test was based on a traditional 'event study' methodology[40] that looked at how the sharemarket reacted to the release of Tax Transparency Code reports. This methodology is consistent with the efficient market hypothesis

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[38] Board of Taxation (n 34).

[39] Prior studies have considered the effect of disclosure on individual taxpayers with conflicting results. For example, Blaufus and co-authors conclude that public disclosure may lead to more evasion instead of less when supporting a crowding-out of the tax morale: Kay Blaufus, Jonathan Bob, Philipp E Otto and Nadja Wolf, 'The Effect of Tax Privacy on Tax Compliance – An Experimental Investigation' (2017) 26(3) *European Accounting Review* 561. On the other hand, Alm and co-authors find strong support for public disclosure acting as an additional deterrent to tax evaders: James Alm, Michele Bernasconi, Susan Laury, Daniel J Lee and Sally Wallace, 'Culture, Compliance, and Confidentiality: Taxpayer Behavior in the United States and Italy' (2017) 140 *Journal of Economic Behavior & Organization* 176.

[40] Eugene F Fama, Lawrence Fisher, Michael C Jensen and Richard Roll, 'The Adjustment of Stock Prices to New Information' (1969) 10(1) *International Economic Review* 1.

which suggests market prices should only react to new information,[41] a hypothesis that is consistent with studies of the impact on share prices of mandatory public tax disclosures.[42] The tests separate the abnormal return attributable to disclosure from generic price fluctuations in the whole market return.[43]

The third test used a mixed methodology comprised of qualitative and quantitative analysis of the volume and accessibility of the information provided by companies in their Tax Transparency Code reports, investigating what information was available and how easy it was for stakeholders to find and isolate the information.

The data set for the study comprised all publicly available reports as at May 2019, 253 reports covering four fiscal years. The starting point for data collection was the Tax Transparency Code site hosted on the ATO website. A number of the hyperlinks to the published reports either did not work (14%) or were not direct links (10%), requiring additional manual steps to retrieve all requisite information for a complete report.[44] In addition, many corporate tax transparency reports were misclassified, that is, listed in the incorrect financial year. In light of the difficulties with the ATO site, a manual web search was also undertaken, looking for all companies that had pledged with the Board of Taxation to produce Tax Transparency Code reports, revealing some reports that had not been listed on the ATO website.

4.1 Readability: how understandable are the reports?

To determine whether voluntary disclosures via the corporate tax transparency reports enable general and interested users to understand an entity's tax position, this study analysed these reports using six common readability tests: the Flesch Kincaid Reading Ease, the Flesch-Kincaid Grade Level, the SMOG Index, the Coleman-Liau Index, the Gunning Fog Score, and the Automated Readability Index tests.

The Flesch Reading Ease test measures how difficult a passage of text is to understand based on two core measures, word and sentence length. The test assigns a score ranging from 0 to 100 and then correlates the result with an education level ranging from primary school through to university graduate.

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[41] Eugene F Fama, 'Efficient Capital Markets: A Review of Theory and Empirical Work' (1970) 25(2) *The Journal of Finance* 383.

[42] Chen used a contemporary event study approach (regression analysis) to determine the impact of the first Report of Entity Tax Information (the public release of limited tax information by the Australian Taxation Office) released in December 2017. The study reported a significant and negative market reaction to the disclosure of tax information that suggests that this mandatory tax disclosure conveys incremental information to market participants. See Shannon Chen, *Do Investors Value Corporate Tax Return Information? Evidence from Australia* (Doctoral Thesis, University of Texas at Austin, 2017). A similar impact was observed in Hoopes, Robinson and Slemrod (n 8).

[43] The significant and negative response reported in this research suggests that these disclosures increase tax transparency by conveying incremental information to market participants.

[44] The authors passed this information on to the Board of Taxation and the failed hyperlinks were subsequently repaired.

The Flesch-Kincaid Grade Level formula is similar but rather than providing a number that can be traced to a particular grade level, it determines a grade level (based on the United States schooling system) in the formula itself.

Similar to the Flesch-Kincaid Grade Level, the SMOG Index is a readability test that suggests a grade level required to understand a selected piece of writing but uses slightly different criteria including the number of polysyllables (words with three or more syllables) in the writing.

The Coleman-Liau Index is a readability test that relies on the analysis of characters, rather than the number of syllables per word and sentence length. As with several of the other tests, it estimates the level of education needed for a reader to comprehend the text.

The Gunning Fog Index uses the number of polysyllables and sentence lengths to estimate the grade level required to understand a piece of text on the first reading. The index classifies text on the basis of accessibility by universal, wide or narrow audiences.

The Automated Readability Index uses a somewhat complex analysis of the number of letters, numbers, words and sentences in the text to estimate the education level needed to comprehend the text.

The results of the tests indicate the transparency reports are comprehensible, but to a relatively sophisticated audience with two of the tests suggesting they are understandable to readers with a senior high school or university degree and four suggesting a university degree is needed.

Table 1: Results of readability tests for corporate tax transparency reports

Readability Test	**Education Level**
Flesch Kincaid Reading Ease	College/University
Flesch Kincaid Grade Level	College/University
SMOG Index	College/University
Gunning Fog score	College/University
Coleman-Liau Index	Senior High School – College/University
Automated Readability Index	Senior High School – College/University

The reports are thus probably understandable for directly interested users such as social justice groups, media, analysts, and shareholders but may be less accessible to some members of the general public. What the tests fail to capture, however, is the comprehensibility of the subject matter itself. The reasons that can explain why a notional tax based on net accounting profits is greater than the tax actually levied on a lower taxable income are inherently technical in nature – timing differences, measures such as intercorporate rollovers to remove tax from intra-group transactions, and so on. However simple the language may be, the subject matter itself may require a somewhat specialised knowledge by readers to follow the explanations.

The reality is that any language short of explicit admission that a company was engaged in tax avoidance is unlikely to enable lay readers to conclude that a company is or is not engaged in aggressive tax minimisation practices. Companies are clearly not going to insert into disclosure reports red flags such as describing transactions with related parties in tax havens or details of the financial arrangements they have routed through low tax jurisdictions. The clarity or opacity of text in tax transparency reports is therefore unlikely to make any difference to their ability to raise public awareness of corporate tax practices.

4.2 Market impact: do reports reveal anything new?

One way to investigate the usefulness of Tax Transparency Code reports in terms of providing new information about market behaviour is to test market reaction. Previous studies have suggested there is evidence that markets do react, albeit not always in a consistent manner, to disclosures of previously undocumented tax avoidance and it could be expected that there will be some market response to Tax Transparency Code reports if they revealed new information.

The conventional means of testing the impact of specific events is to measure changes in the value of publicly listed shares over a period and observe if there is a larger change that coincides with the target event, in this case the release of the Tax Transparency Code. Changes in value are measured in terms as relative differences in value across an event period – market value at close of business the day before the event, the day of the event, and the day after the event – rather than in absolute terms. A one dollar decline in value of a share costing $10 is a dramatic 10% negative return while a one dollar decline in value of a share costing $100 is a mere 1% negative return.

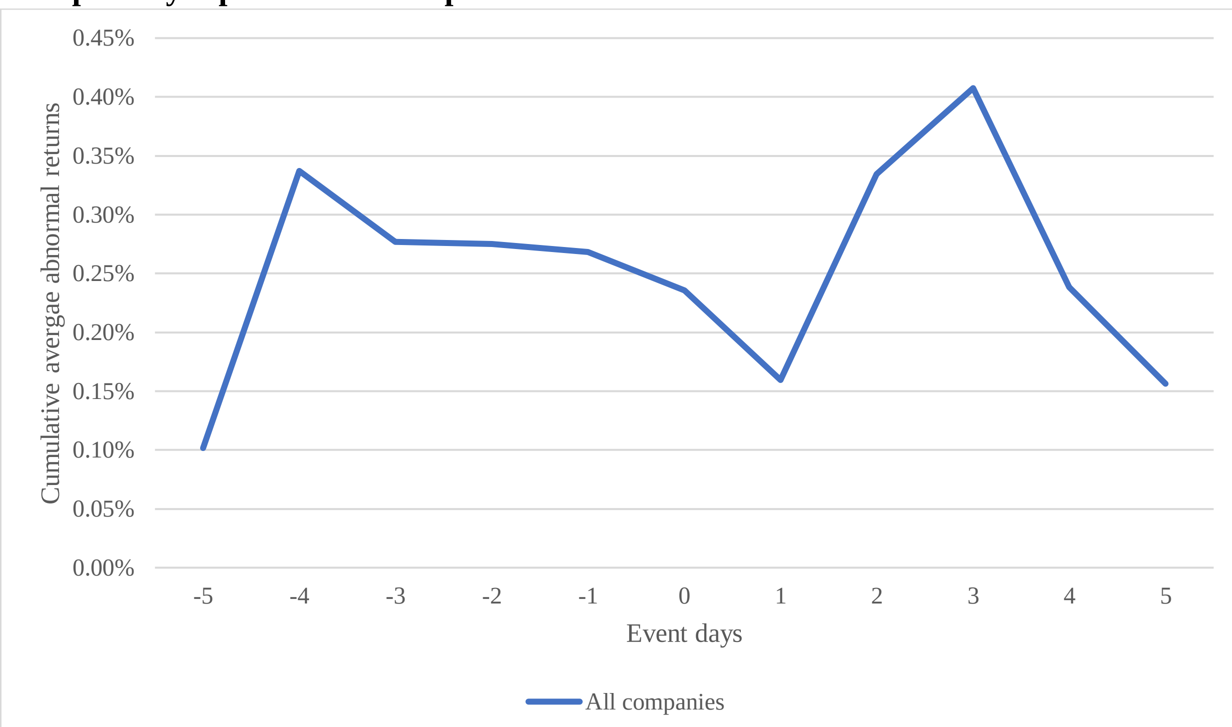
The challenge in conducting such studies is to separate changes in value that might be attributable to the target event from other factors that may have played a role in market valuation. The starting point was to segregate standalone transparency reports from those included in other documents such as annual reports, where other information in the report may have influenced market valuation. This narrowed the sample from 253 reports to 75 events based on corporate tax transparency report releases by 41 companies. All 75 reports contained both Part A information, which would have been available to the market through other sources, and Part B information, which had not been provided previously to the market. It was recognised that where there was more than one report by a company in the 75 report sample, it is likely that the report would have been based on the template used previously and thus be as informative or obscure as the preceding report. This possible repetition did not bias the findings, however, as the study looked at the totality of information available to the public and whether the market believed new information was being released in Tax Transparency Code reports, not the nature of the information provided by particular companies.

Daily total return data was then collected and calculated for these companies and for the Australian market (ASX all ordinaries) across an event window of 11 days: five days before, the day of, and five days after the release of the report. Total returns include both changes in share value and dividends, which are assumed to be immediately reinvested for the purpose calculation of returns on the shares. This calculation removes the impact of distributions on share prices; an investor entitled to a dividend equal to the difference in value between cum div and ex div shares would thus have no return from the day on which the dividends are declared to the next day.

Event studies may be presented in two formats: showing the cumulative effect of increases and decreases in value over the study period and in terms of daily changes. Since returns are calculated as proportional changes in value from the previous day, the first day of the reporting period shown in Figure 1 already reveals a value for both methods.

The test operates on an aggregate level – that is, abnormal returns are measured for shares of companies for all 75 events and then averaged. Some returns may be positive, and some returns may be negative; some may be very large and others may be trivial. The result, therefore, reflects overall trends, not the reaction to any given report.

Figure 1: Cumulative average abnormal returns on the release of standalone corporate tax transparency reports for all companies



The findings indicate there was a correlation between the release of tax transparency reports and a small, and extremely short-term, cumulative decline in the value of companies that release a tax transparency report. However, the decline was quickly reversed and was not as significant as two declines four and five days after the release. On average, a shareholder who held shares in a reporting entity for the entire 11 days would have held shares worth 0.16% more at the end of the period than the day before the period.

The result, as noted, is an average of 75 events. By definition, an average could reflect a general aggregation near the mean or could reflect the mid-point between vastly different outcomes in particular cases.

In the case of voluntary tax disclosures, the average shows truly small market reactions to the information while the actual effect is spread relatively evenly between increases and decreases from minimal to somewhat significant, as plotting every result separately reveals.

Figure 2: Abnormal returns on the release of standalone corporate tax transparency reports for all companies, day 1 after the release of report

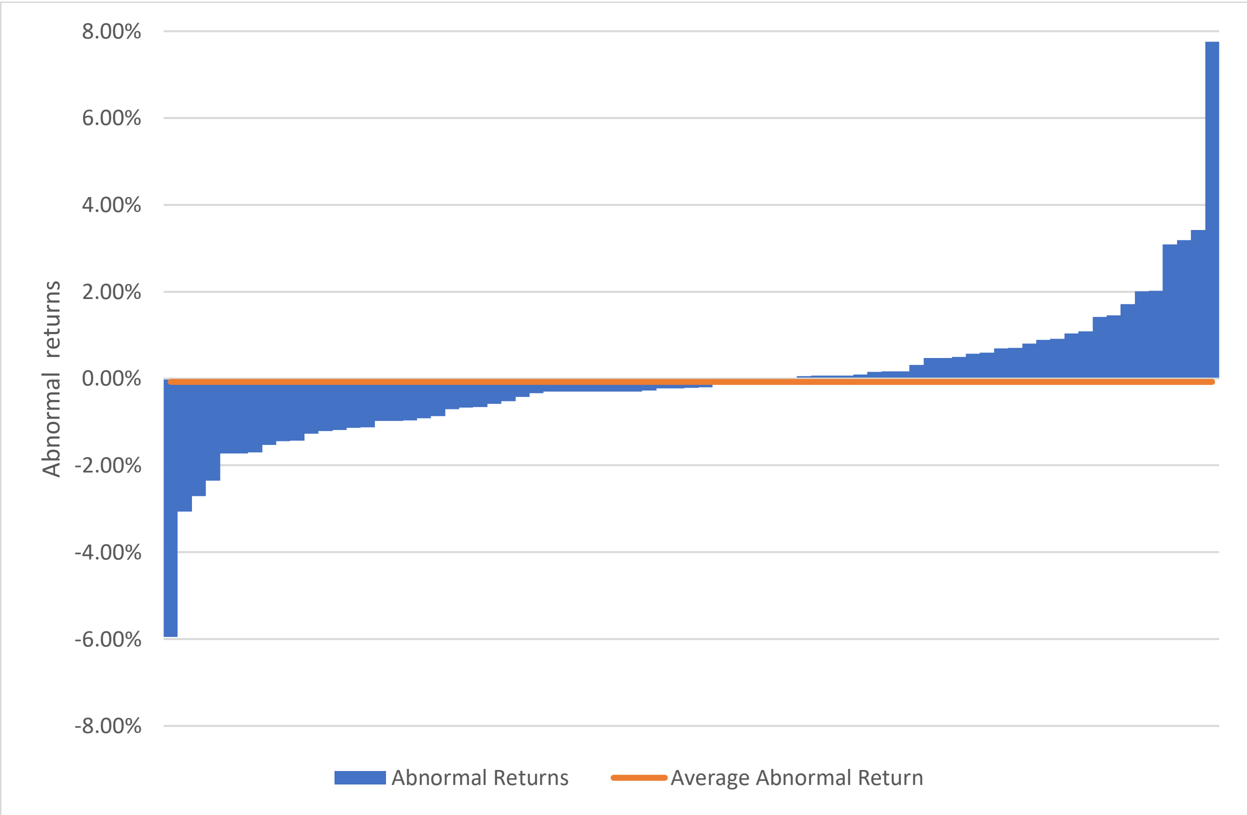


Figure 3: Abnormal returns on the release of standalone corporate tax transparency reports for all companies, day 3 after the release of report

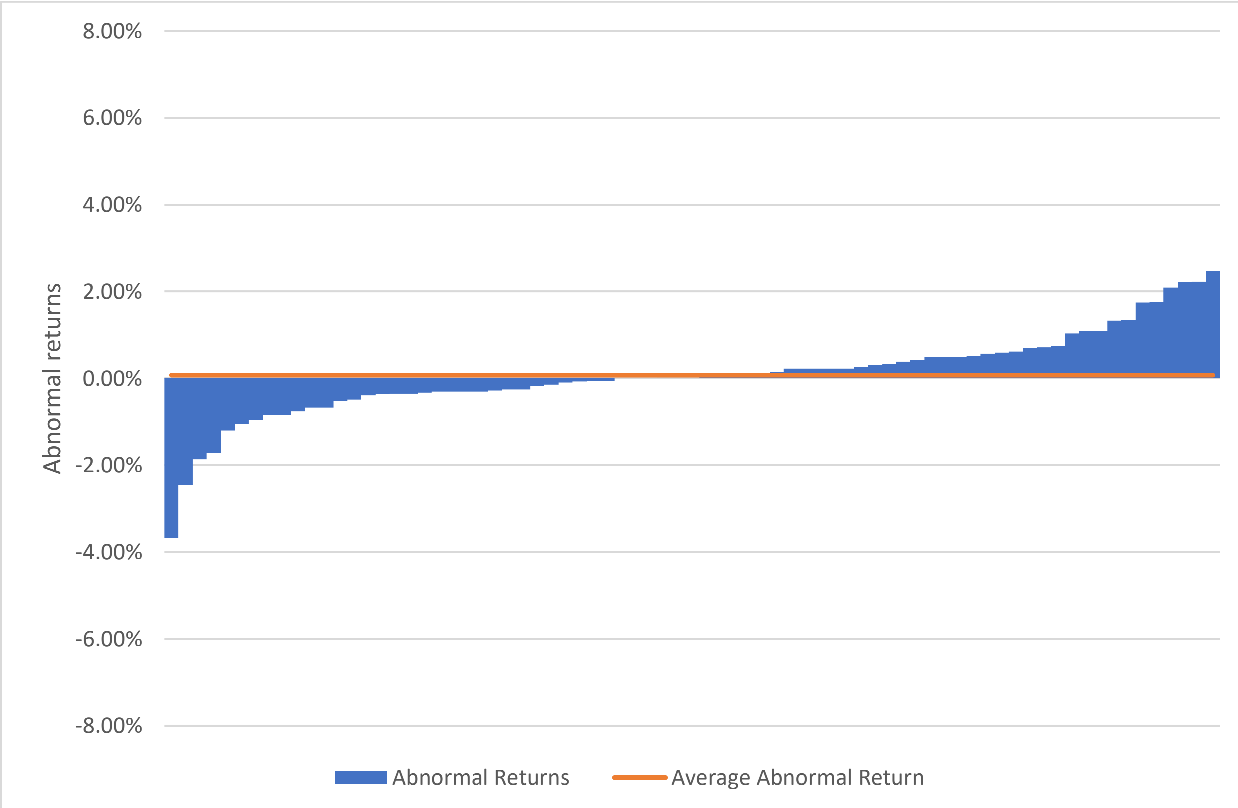
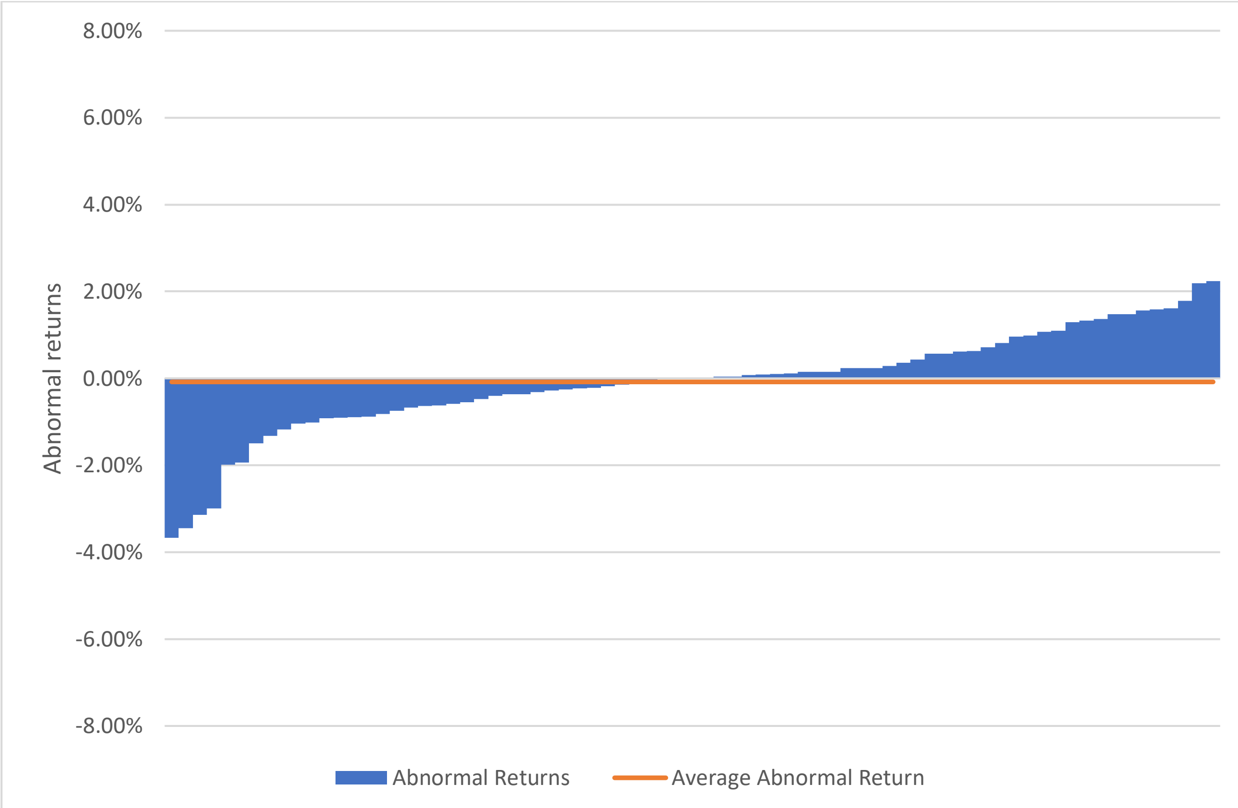


Figure 4: Abnormal returns on the release of standalone corporate tax transparency reports for all companies, day 5 after the release of report



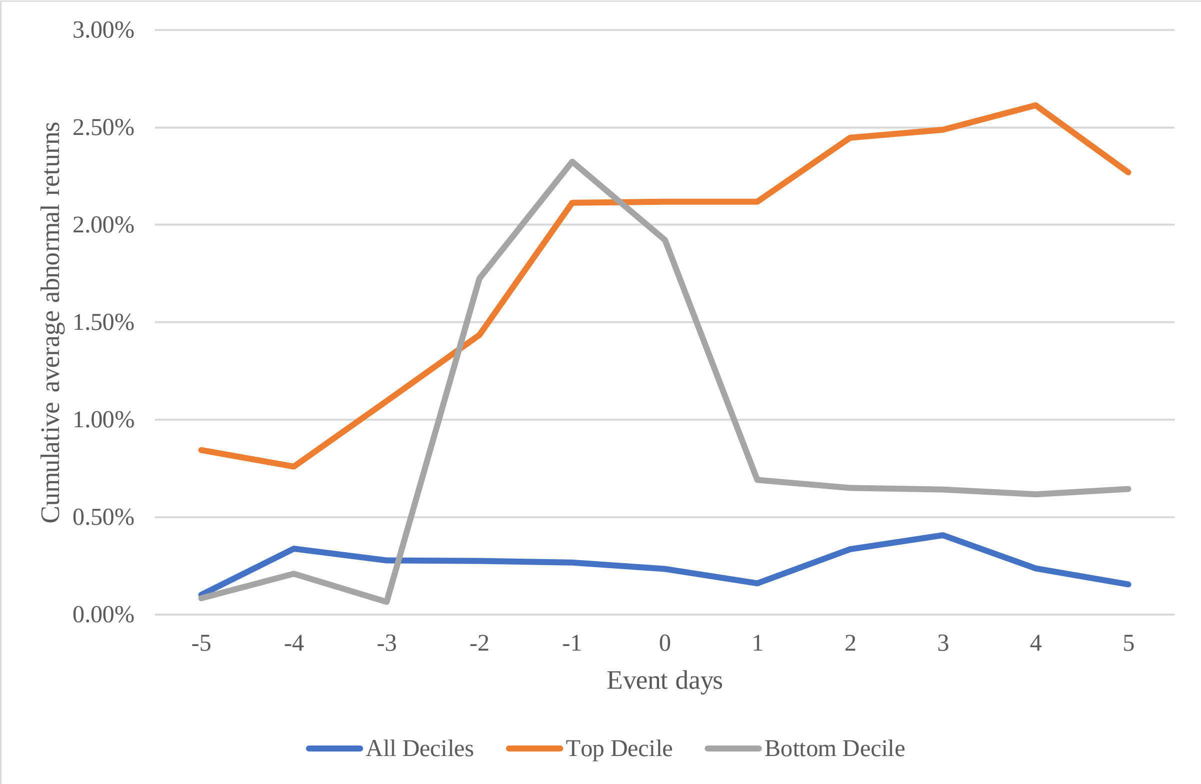
To see how indicative the average market reaction was of the total number of reactions, the companies involved were ranked in terms of their effective tax rates and the daily average abnormal returns for companies in the top decile and bottom decile of effective tax rates were compared to the average of all companies issuing tax transparency reports used in this part of the study.[45] The results are set out in Figure 5.

The effective tax rates were used merely as a tool to separate out two groups of companies on either end of a spectrum to see if particular groups of companies might differ significantly from the average of all reporting companies. It is not indicative of tax behaviour. Effective tax rates are calculated by dividing the current tax expense by accounting profits, but the latter is determined after tax avoidance activities – accounting, for example, accepts inflated transfer prices and profit diversions as legitimate outgoings to be deducted in the determination of accounting profits. Where the effective tax rate is low, meaning taxable income is much lower than accounting income, the taxpayer is likely to have taken advantage of legitimate and even encouraged tax

[45] Whether a company's effective tax rate is considered low or high will depend on the statutory rate in the jurisdiction; even if the effective tax rate aligns completely with the statutory rate, it will be low in a low tax jurisdiction. In the present study, rates might be considered low or high relative to the Australian statutory rate as only Australian tax liabilities are considered and effective tax rates are derived directly from the companies' tax reports.

reducing behaviour such as making investments the government is promoting by way of accelerated depreciation.

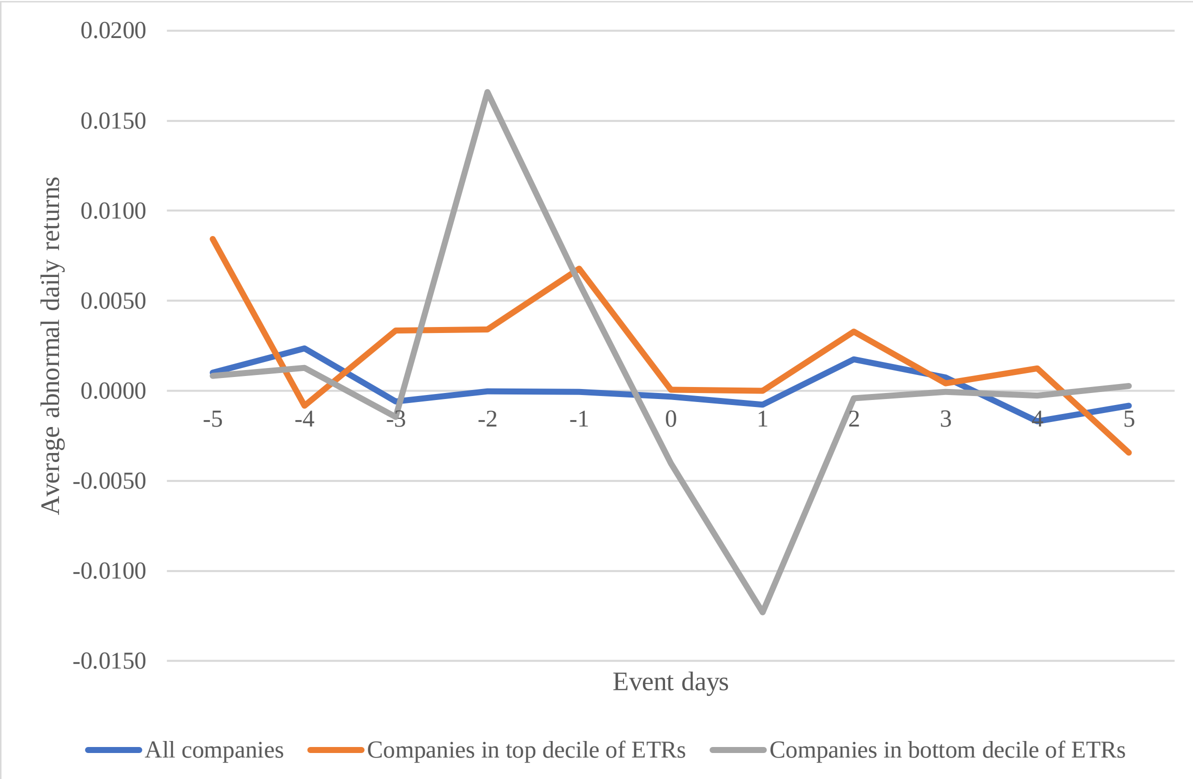
Figure 5: Cumulative average abnormal returns for the top decile effective tax rate, bottom decile effective tax rate and all decile companies



While the average return for all reporting companies was a modest 0.16% return over the study period, both the bottom decile effective tax rate and top decile effective tax rate companies had higher returns with shares in the top decile effective tax rate group enjoying greater than a 2% return over the period.

The difference between the abnormal loss suffered by shares of companies in the bottom decile effective tax rate companies immediately following the release of voluntary tax disclosures and the tiny gain enjoyed by top decile ETR companies (0.01%) and the modest loss for all companies is more graphically revealed if daily returns rather than cumulative returns are plotted for the three groups, as shown in Figure 6.

Figure 6: Average abnormal daily returns on the release of standalone corporate tax transparency reports for all companies and companies in the top and bottom deciles of ETRs



The results of segregation of companies in the top and bottom deciles of effective tax rates are revealing. The release of the reports had only a small discernible impact on the abnormal returns for investors in companies in the top decile effective tax rate taxpayers but had a significant effect on the abnormal returns for investors in companies in the bottom decile effective tax rate taxpayers. Two days prior to the release of the reports, companies in the bottom decile saw significant positive abnormal returns followed by a sharp decline resulting in significant abnormal negative returns immediately after the release of the report. However, this was short-lived, with the gain being almost completely offset by the decline and a return to the average by day two post release of the report.

Since there was only a modest decline overall immediately after the release of the reports and there was no decline evident in returns for the top decile while the decline was significant for the bottom decile, it can be assumed that there were a number of enterprises in the other eight deciles with modest gains that offset the decline in the bottom decile.

It was noted in respect of the cumulative value of returns (the total return over the study period) that the average gain over the study period was a 0.16% gain, close to the starting point. There were, however, differences between groups. The top decile group enjoyed a return of 2.3% over the 11-day period while the bottom decile group had a return of 0.6%. The middle 80% group had a return of -0.14%.

Overall, the study indicates there was on average a very small decline in returns associated with the release of the report but the decline is swamped by declines long after the release, suggesting in the grand scheme of things tax transparency reports tell investors very little compared to what they learn from other events that correlate with larger declines in returns. In the very short term, it appears that companies with low effective tax rates are perceived to be tax aggressive or poor bad corporate citizens that may be liable to audit and therefore are punished, while companies with high effective tax rates are perceived to be good corporate citizens and are rewarded briefly.

Market reaction studies inevitably come with a slew of caveats. However sophisticated the analysis may be, there is always a risk that other unanticipated factors could explain market movements. On top of these, there is the possible impact of ongoing market analysis – market players may anticipate the release of a report and may anticipate the possible or probable information some days before the event. This is particularly true in the case of a series of reports. The dataset used in this study comprised 75 releases of reports but only 41 companies were involved so 34 reports were second or third reports by known players and the market may have reacted quite differently to the second or third report than it did to the first. It might be argued, for example, that after the first report the market knows as much as it wishes to about a company's tax behaviour unless there is reason to believe the company has changed course significantly after release of the initial report.

4.3 Volume and accessibility of the information

To ascertain what businesses were disclosing via corporate tax transparency reports and whether this equates to greater information disclosure, 253 reports and accompanying information available from public ATO sources were subject to comprehensive qualitative and quantitative analysis. The data resulting from this exercise includes the financial year, name, size, origin of the ultimate parent company, disclosure type and report URL along with data on the reporting company's industry classification, type (public/private/consolidated), Tax Transparency Code commitment date, report publication date if available, the location of the report (standalone, included in the company's annual report, included in a broader corporate social responsibility report or published directly on the company website), the number of steps required to access the report from the URL provided, the number of pages in the report, whether the report was audited, and whether the report was available through the Tax Transparency Code link on the ATO website or was found by means of a manual web search.

The dataset showed that businesses which have provided corporate tax transparency reports are typically large (turnover of AUD 500 million or more) Australian public companies. Notably absent from the list were multinational enterprises operating in Australia through subsidiaries or permanent establishments, the entities most commonly associated with tax minimisation arrangements. Also absent were large Australian private companies, consistent with the fact that many are also exempt from filing accounts with the Australian Securities and Investments

Commission due to the grandfathering exemption dating from 1995.[46] Reporting companies were largely based in the Financial (32%), Basic Material (15%) and Industrial (12%) sectors.

Table 2: Descriptors of businesses providing Tax Transparency Code reports

Size	**#**	**%**	**Industry**	**#**	**%**
Large	219	86.56%	Energy	23	9.09%
Medium	32	12.65%	Basic Materials	39	15.42%
Other	2	0.79%	Industrials	30	11.86%
Company type			Consumer Cyclicals	18	7.11%
Public	224	88.54%	Consumer Non-cyclicals	20	7.91%
Private	4	1.58%	Financials	82	32.41%
Member Owned	14	5.53%	Healthcare	12	4.74%
Australian Government Owned	11	4.35%	Technology	5	1.98%
Ultimate parent			Telecommunications	4	1.58%
Australian	211	83.40%	Utilities	12	4.74%
Foreign	35	13.83%	Government agency	8	3.16%
Dual-listed	7	2.77%			

Enthusiasm for the Tax Transparency Code has been limited. The public disclosure document released by the ATO, covering all public companies and foreign-owned companies with an annual turnover equal to or exceeding AUD 100 million and domestic private companies with an annual turnover equal to or exceeding AUD 200 million contains 2,160 corporations. In contrast, the Tax Transparency Code had 153 new adopters in 2016, 73 in 2017, and 14 in 2018. Some early adopters lost enthusiasm for the initiative and the number of reports dropped from 117 in 2017 to just 53 in 2018.

The information provided in corporate tax transparency reports predominantly satisfies both Part A minimum standards, applicable to both medium and large companies, and Part B minimum standards, applicable to large companies, of the Tax Transparency Code. Medium sized businesses were 100% compliant, with 34% meeting both Part A and B minimum standards, while large businesses were 97% compliant with six businesses satisfying the Part A minimum standards only. Two large company reports did not provide a reconciliation of accounting profits to income tax payable as no tax was due by these firms. Effective tax rates (income tax divided by accounting profit) were provided by all but one report, and material temporary and non-temporary differences were identified in 98% of the reports. To satisfy Part B minimum standards, 92% of reports included an approach to tax strategy and governance, a tax contribution summary for corporate taxes paid, and information about related party dealings. Of those reports that did not include these

[46] This exemption protects approximately 1,500 large Australian private companies from having to file records that are available to the public. There have been several attempts by the Federal opposition party to remove this grandfathered exemption to increase transparency: Ben Butler, '"Cloak of Invisibility": Push to End Loophole that Keeps Financial Affairs of Australia's Richest Private', *The Guardian* (Australia news section) (21 June 2020).

items, five were expected to as they were large businesses, and 14 medium businesses, not required to provide Part B information, did not address the Part B issues.

The basis of calculations, the methods employed, and the information provided in corporate tax transparency reports varied widely. For example, 30% of the reports included reconciliations of accounting profit to income tax paid based on global figures,[47] 52% included reconciliations based on Australian figures, and 18% included reconciliations on both global and Australian figures. One unexpected difference was in respect of the effective tax rate calculation. Of the 253 reports, 214 came from companies that had some foreign operations. It was expected that these companies would prefer to report on the effective tax rate on Australian income, which might be anticipated to be close to the statutory rate if some profits were diverted to lower tax jurisdictions by way of transfer pricing. However, only 38% of the 214 reports from companies with foreign operations limited their effective tax rate disclosure to Australian tax on Australian income. The other 62% also provided effective tax rates for global income. The variations in information reported made it impossible to compare the reports or rank outcomes.

The reports had varying degrees of detail, provided inconsistent levels of assurance, and were reported in different and/or multiple locations. They varied in detail and size from approximately half a page (OZ Minerals Limited, 2018) to 36 pages (Anglo American Australia Limited, 2017). Most reports were less than 10 pages and the average length was seven pages. Only 8% of the reports were accompanied by an auditor's assurance. There is, thus, no way to evaluate the accuracy or robustness of more than 90% of corporate tax transparency reports. While most companies (74%) issue transparent stand-alone reports, others incorporate the information in an Annual Report (10%), a Corporate Social Responsibility report (4%), or post it on the company's website (2%) or in multiple locations (10%).

These findings suggest that the vast majority of companies regard these reports as something akin to advertising or public relations materials rather than transparent disclosures of tax policies.

5 Limitations and conclusion

As with all empirical studies, the results of this study must be read subject to many caveats and recognition of the limitations of the factors studied. Significantly, the article did not seek to evaluate the possibility of a relationship between the release of voluntary tax transparency reports or the content or style of those reports and tax aggressiveness by firms agreeing to release or not releasing reports. It is, of course, impossible to test definitively the relationship between any independent indicator and the level of tax aggressiveness as the dependent variable in this test – the level of tax aggressiveness – is known only to the taxpayer itself. There have been studies proposing a relationship between a wide range of proxies and the level of tax aggressiveness, but none have been tested against actual aggressive behaviour.

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[47] Australia's accounting standards require an entity that controls one or more other entities (subsidiaries) to present consolidated financial statements. See AASB 10: Consolidated Financial Statements.

The article also did not seek to evaluate the connections between particular voluntary tax disclosure reports and any of the three factors considered in the article, instead looking more broadly at the reports. This level of detail is worthy of exploration as a future study when more longitudinal data is available.

Also worthy of exploration when more longitudinal data is available is the identity of reporting and non-reporting entities over time – whether there are patterns to the identification of firms that report or do not relative to the general population of firms that could report and whether there are patterns to those that report after a time or stop reporting after a time. Brown's study goes towards achieving this based on the initial release of corporate transparency report with future studies possible once there is greater data for empirical analysis.[48]

The goals of the Tax Transparency Code, to increase 'the tax transparency of both large and medium sized businesses, so as to enable users such as social justice groups, media, analysts, shareholders and the general public to better understand an entity's tax situation', are laudable. However, the impact of the Tax Transparency Code has been constrained by reporting and administrative issues that are largely attributable to its voluntary nature and, consequentially, its flexibility. There is no reason to assume that the Tax Transparency Code will make a significant difference to the tax behaviour of corporations. The reports do provide the public with more information than it would otherwise have but they do not provide robust, verifiable or comparable information. Further, even when the public avails themselves of these reports, the information contained within the documents is not well understood. Scores from readability tests indicate somewhat sophisticated reading skills are needed to read and interpret the information in the Tax Transparency Code reports. The reports also appear to have little impact on directly interested readers, those buying and selling shares in the companies releasing reports. The evidence suggests the Australian model of tax transparency is unlikely to have any impact on the level of tax avoidance by large companies. An understanding of its shortcomings may be helpful for administrators seeking to broaden tax transparency elsewhere.

[48] Brown (n 20).