Financial Times (Jan. 29, 2016)

Europe sets out plans to curb corporate tax avoidance

Jim Brunsden

Pierre Moscovici

Europe has launched an assault on tax avoidance by multinational companies, pledging on Thursday to close regulatory loopholes revealed by the LuxLeaks scandal and to give EU countries more powers to claw back profits that businesses seek to shift abroad.

The European Commission plans would curb businesses' use of complex corporate structures to reduce their tax burden. The plans, revealed by the Financial Times, also contain a provision for all countries to apply an "exit tax" on intellectual property assets, such as patents, that are moved to other jurisdictions.

They come against the backdrop of a public backlash in Europe over the tax affairs of big US technology groups including Apple and Google. US executives and politicians, in turn, have argued that European authorities are discriminating against American multinationals.

Brussels' proposals are one of the biggest steps the EU has taken to tackle aggressive corporate tax avoidance, which the commission estimates costs EU governments as much as €70bn a year. They will now be discussed by member states in the Council of Ministers, becoming law only when unanimous agreement is reached — something that has formed a formidable barrier in the past.

Pierre Moscovici, the EU tax commissioner, said the proposals meant "the days are numbered for companies that avoid paying tax at the expense of others".

"I am convinced that we will make decisive progress, even within the first half of this year," he said.

The push was a "major step towards creating a level playing field for all our businesses, for fair and effective taxation for all Europeans", he said, and would address a status quo where small companies in Europe had an overall tax burden 30 per cent higher than that of multinationals.

But the initiative was criticised as insufficient by campaigners and some members of the European Parliament, and is <u>likely to face opposition from large multinationals</u>.

BusinessEurope, a lobby group for EU companies, said the EU should not be a "lone frontrunner" in tackling tax avoidance or pursue measures that "undermine the competitiveness of EU industry". American Innovation Matters, a coalition of US technology companies including Apple and Facebook, said the plans would be a potentially "significant and costly blow". They were the latest "aggressive" move by Europe to tax more US earnings and "use them to pad the coffers of foreign governments", it said.

The European Network on Debt and Development described it as "woefully inadequate", saying the plans would not tackle many of the practices exposed by LuxLeaks — the name given to revelations in 2014 that up to 340 multinational companies, ranging from Ikea to Pepsi, funnelled profits through Luxembourg to lower their tax bills in some instances to as little as 1 per cent. "The system needs real reform, not piecemeal solutions," it said.

Fabio De Masi, a German member of the European Parliament who has campaigned on tax issues, said the plans were "disappointing". Many of the measures focused on companies trying to lower their tax bills by moving money and assets out of the EU and did not tackle such profit shifting within the bloc, he said. "The tax havens within the EU — which are some of the largest in the world — do not have to fear many repercussions," he added.

<u>The commission said the plans were part of a sustained campaign to address tax avoidance that would also include pushing ahead with proposals for a harmonised European system for calculating taxable profits and possibly further requirements for companies to publicly disclose the taxes they paid to individual countries.</u>

The plans include an effort to limit the extent to which a multinational company could cut its tax bill by financing some parts of its business through debt owed to overseas subsidiaries. They would limit the amount of interest a company can claim as tax-deductible each year, setting an upper limit measured as a percentage of operating profits.

The measures would also make it easier for countries to tax companies on profits parked in a subsidiary based elsewhere. This power would be triggered if the effective tax rate was less than 40 per cent of that applied where the parent company was based.

Many of the measures, which also include plans for an EU blacklist of tax havens based outside the 28-nation bloc, reflected the commission's commitment to apply agreements reached at international level by the Organisation for Economic Co-operation and Development, Mr Moscovici said.

But Bill Dodwell, head of tax policy at Deloitte UK, said the plans did not "match up" to the OECD agreements. "We think the EU should focus on the agreed minimum standards," he said.

The initiative comes as the Scottish National party pushes for the commission to investigate a £130m tax deal struck by Google and the UK government, which has come under attack for being too lenient on the US technology company.

Mr Moscovici said one goal of the EU's tax policy agenda was to prevent a "patchwork approach" by nations in their dealings with multinational companies. When asked about the UK case, he declined to comment directly but echoed comments by Margrethe Vestager, the EU's competition chief, that officials would examine any complaints about the deal.