Nations agree corporate tax avoidance crackdown

Deal to abolish 'treaty shopping' hailed as a turning point

Vanessa Houlder

Some 70 countries will sign a pact on Wednesday to crack down on international tax avoidance, with changes that backers say will increase the worldwide corporate tax take by up to 10 per cent.

Countries including the EU's 28 members, India, China and Australia — but not the US — will sign a pioneering agreement in Paris that will make changes to thousands of treaties to halt abuse by companies and improve dispute resolution.

The accord is part of an initiative launched by the G20 group of leading nations to tackle "base erosion and profit shifting" — tax avoidance strategies that shift profits to low or no-tax jurisdictions — in the wake of a public backlash over avoidance by companies such as Amazon, Apple and Google.

"The treaty changes are a big deal," said Bill Dodwell, head of tax policy at Deloitte, the professional services group. "Countries are demonstrating that they are adopting the

minimum standards." He added that overall the changes were likely to result in tax rises for companies averaging about 8-10 per cent, with US tech titans set to be affected.

The accord is intended to put a stop to "treaty shopping" — the practice of routing income to countries with attractive tax treaties via "brass plate" companies with little presence on the ground beyond a mailing address.

It is likely to have a particular impact on countries such as Luxembourg and the Netherlands, where treaty shopping has raised the stock of foreign direct investment far beyond the size of the countries' economies.

But Mauritius, another such country, made a last minute announcement on Tuesday that it would delay signing until it had assessed the impact of the treaty abuse provisions on its economy.

The Paris-based Organisation for Economic Co-operation and Development, a champion of the accord, hailed what it said was "a turning point in tax treaty history". Once ratified by its signatories — a process that may take until 2019 — the agreement will result in the simultaneous revision of 2000 treaties, saving governments decades of negotiations.

"Treaty shopping will be killed," said Pascal Saint-Amans, director of the OECD Centre for Tax Policy and Administration.

The US's decision not to sign the deal is in line with Washington's longstanding reservations about multilateral accords and the difficulties of ratification in the Senate. But the OECD argues that US tax treaties are in any case robust, so the fallout from the country's absence from the agreement may be limited.

Alex Cobham, chief executive of Tax Justice Network, a campaign group, added that the agreement would benefit developing countries forced to sign unfair treaties that often meant companies paid tax elsewhere. The UN has estimated that poorer countries lose as much as $100bn a year in taxable profits diverted to other states.

"While the OECD are somewhat over-optimistic in claiming this will end treaty shopping, it certainly tilts the balance back towards lower-income countries," Mr Cobham said.

The treaty changes are also set to improve dispute resolution, addressing concerns by tax authorities and businesses about the growing number of disagreements between countries over taxing rights.