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Europeans issue warning to Trump on tax overhaul

UK, France and Germany lead accusations bill would flout global agreements

Anne-Sylvaine Chassany in Paris and Chris Giles in London

The finance ministers from Europe's five largest economies have warned the Trump administration that Republican tax cut plans would flout international agreements and undermine trade, threatening to turn a Washington policy battle into a transatlantic row.

In a letter to the White House and US Treasury department, the ministers — including Philip Hammond of the UK, Peter Altmaier of Germany and Bruno Le Maire of France — raised the possibility of retaliating if the legislation becomes law.

The letter highlights concerns in Europe that the Trump administration will use tax reform as a route to promote "America first" trade discrimination, escalating tensions that have already risen in other policy areas like the environment and Middle East peace.

The ministers insisted they were not seeking to intervene in a domestic tax debate, which they called one of "the essential pillars of a state's sovereignty". Nevertheless, the letter warned Steven Mnuchin, US Treasury secretary, that Washington should not start a trade dispute under the guise of anti-avoidance measures in taxation.

"We have strong concerns if [US action to protect its tax base] is done via measures that are not targeted on abusive arrangements as this would impact on genuine business activities," they wrote

.In addition to Mr Mnuchin, the letter, which was also signed by Pier Carlo Padoan of Italy and Cristóbal Montoro of Spain, was sent to Gary Cohn, the top White House economic adviser, and heads of the congressional committees locked in negotiations to marry different versions of the tax bill passed by the Senate and House of Representatives. The committee heads' goal is to have final legislation on the president's desk by the end of the year.

"We appreciate the views of the finance ministers," said a US Treasury spokesperson. "We are closely working with Congress as they finalise the legislation."RecommendedUS Treasury predicts extra $1.8tn revenue from tax cutsForeign-owned banks to be hit by US tax rulesRushed US tax reform set to provide loopholes to big groups

All of the measures that have angered European governments would treat US operations differently than those from overseas groups, provisions that the finance ministers said violate international tax norms. For example, an "excise tax" in the House bill would impose a 20 per cent levy on US company purchases from their foreign subsidiaries which would not apply to similar domestic transactions. The letter said this "could discriminate in a manner that would be at odds with international rules embodied" in the World Trade Organization.

The other two elements are the Senate bill, including a provision that would tax US exporters more favourably when they make profits from brands and other intangible assets. The letter argues the measure could "face challenges as an illegal export subsidy", a thinly-veiled threat of European retaliation.

Other Senate measures would tax transfers within international banks and insurance companies on the total amount sent between US and European operations regardless of the balance between transatlantic flows. Some of the European criticisms have been shared by a group of US tax academics, who published a recent analysis that said both the excise tax and financial flows measure "likely violates WTO obligations and presents tax treaty concerns"

.A French finance ministry official said the letter was "a way to weigh in to the debate, to ensure they take our concerns on board" and was organised quickly because "more informal things haven't really worked". Mr Altmaier, the acting German finance minister, said: "The US is our ally and it has the right to shape its tax system as it sees fit. But it must be in compliance with the international rules that are in effect." Responding to comments on the "base erosion and anti-abuse tax" (BEAT) provision in the Senate bill, a spokeswoman for the Senate finance committee said: "The BEAT applies equally to domestic and foreign companies that are subject to US tax and is modelled after the long-standing corporate minimum tax. It has been studied, vetted, and is consistent with international standards, including WTO agreements."

The European letter is only the latest in a series of disputes between Europe and the US over tax issues that date back to the Obama administration. Then-President Barack Obama publicly complained about European Commission actions targeting American tech groups for "sweetheart" tax agreements with several low-tax EU countries. The most high-profile case has come against Apple, which has been ordered by Brussels to pay €13bn in back taxes to Ireland, but the commission has also opened similar cases against Amazon in Luxembourg and Starbucks in the Netherlands.