Towards a fair and sustainable taxation system: what we achieved so far, and much more still to do

Why taxation needs much more political attention

In 2008 Europe was hit by an unprecedented financial, economic and social crisis. Although neither tax avoidance, nor tax fraud, nor tax havens caused the crisis, their impact on public finances made the recovery vastly more difficult.

• €1 trillion of tax revenue is lost to tax evasion and tax avoidance every year in the EU\(^1\) - that's €2000 a year for every European citizen.
• Another €177 billion\(^2\) in VAT revenues is lost through non-compliance and non-collection.

Losses on this scale dwarf the combined budget deficits of all EU countries. With a clampdown on corporate tax dodging, budgets could have been balanced without the savage austerity which has wrought economic and social havoc in Europe since 2009. And the task of rebuilding Europe now - economically and socially - could get a major boost by harnessing this money for investment in the public good.

The S&D Group has for several years led the fight at EU level for fairer taxation and against tax fraud, tax evasion and tax havens. This is a major issue of social justice and economic efficiency which the Group is determined should stay at the heart of the political agenda.

Taxation in the European Parliament and the EU institutional procedure

EU tax policy takes three forms:

1) 'hard law': legislation requiring unanimity in the Council and consultation of the Parliament; this is mostly on indirect taxation (VAT, energy tax, excise duties on alcohol, tobacco etc.)

2) 'soft law': Commission recommendations, such as on aggressive tax planning or on tax havens, and work in international bodies such as OECD, on Base Erosion and Profit Shifting

3) annual Country-specific recommendations (CSRs), made as part of the European Semester, can include recommendations on tax directed at a single Member State.

\(^1\) http://www.socialistsanddemocrats.eu/sites/default/files/120229_richard_murphy_eu_tax_gap_en.pdf
The Parliament has no legislative powers on direct taxation - but has done a lot to promote the Financial Transactions Tax, the Savings Taxation Directive, the Merger Directive and the Parent Companies and Subsidiaries Directive.

On indirect taxation, the Parliament has done a lot of technical work - such as on VAT rules, excise duties as well as in the area of administrative cooperation.

Main S&D and European Parliament achievements

Common Consolidated Corporate Tax Base (CCCTB)
The CCCTB would tackle tax obstacles for companies operating in more than one member state, offering a single set of rules to compute taxable income. The revenues of the tax would be allocated among the different member states through an apportionment formula based on employment, assets and sales.

NB: corporate tax rates would remain a national competence, but common rules on how to calculate profits, and on where they should be taxed, would remove a major source of corporate tax avoidance.

The European Parliament in its 2012 report achieved two politically important changes to the Commission proposal:
1. The CCCTB to be made compulsory for "European Companies" and "European Cooperative Societies" two years after entry into force of the Regulation, and for all companies other than SMEs after five years.
2. Review clause: Five years after entry into force the COM should prepare a report on the impact on tax revenues and tax collection; the advantages of introducing minimum tax rates; and the possibility of making the system mandatory for SMEs.

Regrettably, the CCCTB has been blocked in Council since 2011 Ireland, Luxembourg and the Baltics are believed to be key obstacles to progress, and currently companies in the member states continue to implement 28 different rulebooks for calculating their taxable profits - which is the source of amongst other high compliance costs, administrative burdens and complex re-adjustments.

Financial transactions Tax (FTT)
An effective FTT would redress the massive tax privileges of the financial sector, which is exempted from VAT. Even at a very low tax rate it could raise €200 billion a year - enough to transform the fiscal position of EU governments. By favouring long-term investment over ultra-high frequency trading and short-term speculation, it would remove a huge source of economic instability and challenge the short-termism of financial markets.

The PES party and the S&D Group launched a Europe-wide campaign for an FTT in 2009, resulting in a first Commission communication on “taxation of the financial sector” in 2010. Only 11 member states* agreed to introduce an EU-FTT via Enhanced Cooperation and with work progressing slowly in Council, adoption is expected for 2016. It is likely that the outcome will fall far short of what is needed.

* France, Germany, Belgium, Austria, Slovenia, Portugal, Greece, Slovakia, Italy, Spain, Estonia

Own initiative report on the fight against tax fraud, tax evasion and tax havens
The S&D Group won a large majority in the Parliament in May 2013 for our own initiative report on "tackling tax fraud, tax evasion and tax havens". The report proposes ambitious measures to fight tax fraud, tax evasion and tax havens and. See Annex II.
Automatic Exchange of Information and Administrative Cooperation Directives
S&D won a battle in the Parliament to support mandatory exchange of tax information and push this to the top of the political agenda, leading to agreement in the Council on the Automatic Exchange of Information Directive in October 2014. The Directive, which will enter into force by 1 January 2017, places an obligation on national tax authorities at EU level to exchange information automatically on interest, dividends and similar incomes and on account balances and the sale proceeds from financial assets, and would seriously undermine bank secrecy.
In addition, Commissioner Moscovici made a commitment on 19 November in the French press to be even more ambitious and legislate to require exchange of information from member states on all tax rulings that they strike with multinational companies. He promises to have a proposal ready by early 2015.

Country-by-Country Reporting
Capital Requirements IV and Accounting and Transparency Directives
CRD IV requires banks and investment firms to report annually, country-by-country, on their trading names, activities, geographical location, turnover, staff numbers, pre-tax profit or loss, tax paid and public subsidies received. The Accounting and Transparency Directive provides for country-by-country reporting in the extractive industries only (e.g. oil, mining, gas, logging sectors). A review clause is foreseen for 2018 on the latter, which includes looking at whether to extend reporting to other sectors. The S&D Group continues to push for a strong country-by-country reporting for all cross-border companies in all sectors and in all countries in which they operate.

Transparency on Beneficial Ownership
(Anti-Money Laundering Directive and Transfer of Funds Regulation) The Parliament is currently in trilogues on these proposals, which are crucial to the fight against money laundering, terrorist financing, corruption, tax crimes, fraud and other financial crimes.
They call for:
1) The establishment of beneficial ownership registers by Member States to ensure the traceability of payments and provide for up-to-date information on the beneficial owner of any legal entity. The registers would include information on the name, number, legal form and status of the entity, proof of incorporation, address of the registered office and principal place of business, the basic regulatory powers (such as the Memorandum and Articles of Association), the list of directors (including nationality and date of birth) and shareholder/beneficial owner information, such as the names, dates of birth, nationality or jurisdiction of incorporation, contact details, number of shares, categories of shares (including the nature of the associated voting rights) and proportion of shareholding or control, if applicable.
2) A central public registry containing the minimum information to identify the company and its beneficial owner, accessible on-line in an open and secure data format. Access would be granted to competent authorities, in particular Financial Intelligence Units and obliged entities (that is any entity covered by the legislation, such as financial institutions, accountants, tax advisers etc.), as well as to the public subject to prior identification of the person wishing to access the information and to the possible payment of a fee. In addition, trustees should declare their status to obliged entities.

The Council is strongly opposed to a central public registry, and is trying to limit the information to be provided to the beneficial ownership registers - allegedly for security reasons.
S&D priorities

To create a fair and sustainable tax system, the EU needs to act in various policy areas, including tax laws, corporate governance, external tax agreements and corporate transparency. The key S&D Group priorities could be summarised as follows:

**Priority 1 - Transparency**
The S&D Group demands legislation to require country-by-country reporting not only for banks and investment firms, but also for cross-border companies in all sectors and in all countries in which they operate. We want registries of the beneficial ownership\(^3\) of any legal entity to be set up by member states and a central public registry with the information needed to identify the company and its beneficial owner, accessible on-line in an open and secure data format. The automatic exchange of information directive must be rigorously implemented.

**Priority 2 - Reform corporate governance to tackle short-termism, instability, misaligned incentives and growing inequality**
The current model of corporate governance has proved deeply damaging to our economy, equating the interests of shareholders with the public interest and giving them powerful incentives to adopt risky and self-serving behaviour at the expense of other stakeholders. The S&D Group demands legislation to reform corporate governance, company law and corporate tax systems, especially for multinationals, to ensure that multinational companies pay their fair share of taxes where economic activities take place and that corporations serve the real economy and the public interest. The S&D Group urges the Commission to put forward a proposal for an EU legislative follow-up on the OECD recommendations on Base Erosion and Profit Shifting, *inter alia making* "wilful blindness" a criminal offence.

**Priority 3 - Tackling tax havens**
The Commission should come forward by mid-2015 with a proposal for tackling tax havens. This proposal should include a definition of tax havens, an EU blacklist and measures to eradicate them. It should establish penalties for operating in or cooperating with tax havens, such as the revoking of bank licences, prohibition on access to public funds, state aid or public procurement at EU, national or sub-national level.

**Priority 4 - Halve the tax gap by 2020**
EU Member States lose €1 trillion a year to aggressive tax planning, tax avoidance, tax evasion and tax fraud. We want the EU to set a target of halving this tax gap (including the VAT gap) by 2020, *inter alia by* adoption of the measures proposed in the European Parliament’s 2013 report on tax fraud, tax evasion and tax havens (KLEVA Report).

**Priority 5 - Unblocking key legislation in Council**
Member State governments which are unanimous in their denunciation of tax dodging are in fact the biggest obstacle to effective action. We call for a high-profile name-and-shame campaign, led by the European Commission, targeting those governments which are blocking progress on a compulsory Common Consolidated Corporate Tax Base, an ambitious FTT and the Energy Taxation Directive.

**Other - see annex II**
The S&D group has many other issues lined up for urgent action - such as providing adequate human resources in tax administrations, advancing on energy and environmental taxation, facing the challenges of the digital market. Details on these issues and others can be found in annex II.

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\(^3\) See chapter on "Anti-Money Laundering Directive and Transfer of Funds Regulation" for details of demands
European Commission commitments

Commission President, Jean-Claude Juncker's key statements on taxation issues

Jean-Claude Juncker’s EP plenary statement on 12 November
• Juncker instructed Moscovici to prepare a proposal that would require member states to share information on all tax rulings that they strike with multinational companies

Jean-Claude Juncker’s press statement at the G20 in Brisbane on 15 November 2014
• Commits to lend strong support to the OECD Base Erosion and Profit Shifting Action Plan
• Pushed in this regard for a commitment in the Brisbane conclusions, on the automatic exchanging of tax information, particularly on tax rulings
• Emphasises need to step up our fight against tax evasion

Jean-Claude Juncker’s EP plenary statement on 24 November 2014
• Juncker asked the Council Presidency to set up a high level working group on taxation at the same level as the economic and financial committee

Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici’s key commitments taxation issues

ECON hearing of Commissioner Pierre Moscovici and key commitments on 2 October 2014
• Fight against tax fraud and tax evasion to continue to be a top priority
• Regarding corporate tax systems, progress is needed and harmonisation is the key word
• Supports a global standard for automatic exchange of information
• Work at the EU level on tax havens underway
• High priority to advance on the CCCTB and curbing tax base evasion via the BEPS
• Supports enhanced cooperation on the FTT and stated that some derivatives have to be subject to taxation
• For increased convergence of the EU tax system
• Taxation should be better integrated into the European Semester and increased harmonisation is necessary
• Supports stronger action in the area of VAT fraud
• Supports the implementation of the Union customs code to protect citizens

Pierre Moscovici interview with "Les Echos" on 19 November 2014
• Commits to put forward a proposal to add exchange of information from member states on all tax rulings that they strike with multinational companies into EU legislation by early 2015

Stine Larsen
### ANNEX I: Overview of tax matters 2009 - 2014 & and key on-going files

**Overview of all tax-related reports of the past mandate 2009 - 2014 and key ongoing files**

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Rapporteur</th>
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<tbody>
<tr>
<td>Optional and temporary application of the reverse charge mechanism in</td>
<td>CASA S&amp;D shadow: LUDVIGSSON</td>
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<td>relation to supplies of certain goods and services susceptible to fraud</td>
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<td>Own initiative report on Promoting Good Governance in tax Matters</td>
<td>DOMENICI (S&amp;D)</td>
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<td>Administrative cooperation in the field of taxation</td>
<td>Alvarez (S&amp;D)</td>
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<td>Mutual assistance for the recovery of claims relating to taxes, duties</td>
<td>STOLOJAN S&amp;D shadow: HOANG NGOC</td>
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<td>and other measures</td>
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<td>VAT e-invoicing</td>
<td>CASA S&amp;D shadow: THALER</td>
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<td>VAT administrative cooperation in order to better combat fraud (Eurofisc)</td>
<td>GARCIA MARGALLO S&amp;D shadow: STIHLER</td>
<td>May 2010</td>
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<td>Refund of VAT to taxable persons not established in the Member State</td>
<td>BOWLES S&amp;D shadow: BULLMANN</td>
<td>Sept 2010</td>
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<td>of refund but established in another Member</td>
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<td>Minimum standard VAT rate</td>
<td>CASA S&amp;D shadow: THALER</td>
<td>Nov 2010</td>
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<td>Tax and development - Cooperating with developing countries on</td>
<td>JOLY (DEVE) S&amp;D shadow: GUERRERO</td>
<td>March 2011</td>
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<td>promoting good governance in tax matters</td>
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<td>Own initiative report on Innovative financing at a global and European</td>
<td>PODIMATA (S&amp;D)</td>
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<td>Green Paper VAT</td>
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<td>BULLMANN</td>
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<td>Common Consolidated Corporate Tax Base (CCCTB)</td>
<td>THYSSEN</td>
<td>HOANG NGOC</td>
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<td>Taxation of energy products and electricity: restructuring the</td>
<td>LULLING</td>
<td>HOANG NGOC</td>
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<td>MFF 2014-2020</td>
<td>PODIMATA (S&amp;D)</td>
<td>May 2012</td>
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<tr>
<td>Common system of financial transaction tax (FTT)</td>
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<td>Corporate taxation: common system of taxation applicable to interest</td>
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<td>HOANG NGOC</td>
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<td>Common system of value added tax (VAT): quick reaction mechanism</td>
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<td>LUDVIGSSON</td>
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<td>against VAT fraud</td>
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<td>Common system of value added tax (VAT): treatment of vouchers</td>
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<td>KLEVA</td>
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<td>KARAS</td>
<td>BULLMANN</td>
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<tr>
<td>Delegated act: Capital Requirements Directive / CRD IV, CRR</td>
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<td>2nd Annual Tax Report</td>
<td>GÁLL-PELCZ</td>
<td>LUDVIGSSON</td>
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<td>Own initiative report on tax fraud</td>
<td>KLEVA KEKUŠ</td>
<td>(S&amp;D)</td>
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<td>MFF 2014-2020</td>
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<td>HOANG NGOC</td>
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<td>Accounting and Transparency Directive (JURI)</td>
<td>MC CARThY (S&amp;D)</td>
<td>June 2013</td>
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<tr>
<td>Enhanced cooperation in the area of financial transaction tax</td>
<td>PODIMATA (S&amp;D)</td>
<td>(July 2013)</td>
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<td>Mandatory automatic exchange of information in the field of taxation</td>
<td>CUTAŞ (S&amp;D)</td>
<td>(Dec 2013)</td>
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<td>Resolution on the call for concrete ways to combat tax fraud</td>
<td>S&amp;D (Anni Podimata, Mojka Kleva Kekus et Elisa Ferreira), ALDE (Sylvie Goulard) et PPE (Jean-Paul Gauzès)</td>
<td>Dec 2013</td>
</tr>
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<td>Common system of value added tax as regards a standard VAT return</td>
<td>STREJCEK S&amp;D shadow: KLEVA</td>
<td>(Feb 2014)</td>
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<td>Convention (1990) on the elimination of double taxation in connection with the adjustment of profits of associated enterprises: accession of Croatia</td>
<td>NITRAS S&amp;D shadow: LUDVIGSSON</td>
<td>April II 2014</td>
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<td>Common system of taxation applicable in the case of parent companies and subsidiaries of different Member States</td>
<td>KLEVA KEKUŞ (S&amp;D/SI)</td>
<td>2 April 2014</td>
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<td>Information accompanying transfer of funds (TFR)</td>
<td>SIMON (S&amp;D ECON) KIRKHOPE (ECR LIBE) S&amp;D LIBE shadow: GOMES</td>
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<td>Prevention of the use of the financial system for the purpose of money laundering and terrorist financing (AMLD)</td>
<td>KARINS (EPP ECON) S&amp;D ECON shadow: SIMON SARGENTINI (GREENS LIBE) S&amp;D LIBE shadow: GOMES</td>
<td>Trilogues ongoing</td>
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S&D Group key demands in tackling tax fraud, tax avoidance, tax evasion, aggressive tax planning and tax havens

Priority 1 - Transparency

1. Establishment of beneficial ownership registers of up-to-date information on the beneficial owner of any legal entity such as legal persons, trusts, foundations, companies, holdings and all other similar existing or future legal arrangements created in their territories in all EU member states, with information on name, number, legal form and status of the entity, proof of incorporation, address of the registered office (and of the principal place of business if different from the registered office), the basic regulatory powers (such as those contained in the Memorandum and Articles of Association), the list of directors (including their nationality and date of birth) and shareholder/beneficial owner information, such as the names, dates of birth, nationality or jurisdiction of incorporation, contact details, number of shares, categories of shares (including the nature of the associated voting rights) and proportion of shareholding or control, if applicable

2. Establishment of a central public registry which would contain the minimum information to clearly identify the company and its beneficial owner, and which is accessible on-line and in an open and secure data format. Access to such the registry should be granted to competent authorities, in particular Financial Intelligence Units and obliged entities, as well as to the public subject to prior identification of the person wishing to access the information and to the possible payment of a fee. In addition, trustees should declare their status to obliged entities

3. Under country by country reporting, multinationals would have to break their information down by country of operation – including in each tax haven – so that citizens and authorities can see what the corporations are doing in their countries. Calls therefore on the Commission to introduce as a next step country by country reporting for cross-border companies in all sectors and in all the countries in which they operate, including non-cooperate jurisdictions and tax havens so as to ensure taxation of multinational companies

Priority 2 - Corporate governance to play a greater role and multinationals to contribute to the real economy

4. S&D Group urges the Commission to put forward a proposal on legislative follow-up at the EU level on the OECD BEPS recommendations (Base Erosion and Profit Shifting)

5. Making ‘wilful blindness’ a criminal offence: we can bring hard penalties against the pinstripe intermediaries who help the tax evaders. The IMF and other bodies dealing with money-laundering must officially make tax evasion a money-laundering offence

6. Competent authorities should suspend or revoke the banking licences of financial institutions and financial advisers if they assist in tax fraud

7. The Commission and member states need to implement stronger sanctions so as to prevent companies breaching EU tax standards: Commission should refrain from granting EU funding and the
member states should refrain from giving access to state aid or to public procurement to these companies.

8. Calls for a review of the mandate of the Code of Conduct Group in order to improve its effectiveness and provide ambitious results for example by setting up the obligation to publish tax breaks and subsidies for corporations.

9. The creation of an EU Tax Authority, with its own human resources, which would cooperate with national administrations in prosecution of cross-border fiscal crimes.

10. Urges the member states to agree on a common anti-abuse rule.

Priority 3 - Tackling tax havens

11. The Commission should adopt a clear definition and common set of criteria to identify tax havens. Whereas the current list from the OECD is empty, this clearly does not mean we do not have any tax havens. This definition could be based on the existing OECD definition and the 1997 EU Code of Conduct.

12. In parallel, the Commission should compile and create a public European blacklist of tax havens.

13. Many bilateral tax agreements are being made between EU member states and third countries (with only sub-optimal results). But the EU should unite with one voice and thereby be even stronger in international fora such as the OECD, G20, G8..., and solely the Commission ought to negotiate on tax agreements with third countries on behalf of the EU.

14. The EU, in its fight against tax havens, should offer cooperation and assistance to developing third countries which are not tax havens, helping them effectively tackle tax fraud and tax avoidance.

15. Welcomes the recent agreement on the Automatic Exchange of Information and asks for thorough supervision of the implementation; calls for tax agreements to be concluded also with third countries such as Switzerland, Liechtenstein, Andorra, Monaco, San Marino before 31st December 2014 in order to ensure a coherent tax framework in Europe.

16. Insists on rapid follow-up to the Moscovici commitment to add exchange of information from member states on all tax rulings that they strike with multinational companies into EU legislation - this could be via a review of the existing administrative cooperation directive.

Priority 4 - Halve the tax gap by 2020

17. Member states should halve their tax gaps by 2020 (this is a realistic target if the right measures are taken!)

18. Commission and member states to enhance the use of the European Semester by integrating the EU tax gap strategy into the annual national stability and growth programmes and national reform programmes.
19. The EU VAT system provides for a significant part of public revenues – 21% in 2009 – but is also the cause of unnecessary compliance costs and tax avoidance, indeed, since the introduction of VAT, the model has never been updated. We are concerned that €177 billion in VAT revenues was lost due to non-compliance or non-collection in 2012 (16% of total expected VAT revenue of 26 MSs). Commission to put forward concrete proposals to tackle the VAT gap and to evaluate proposals on an alternative VAT system by Spring 2015

Priority 5 - unblocking key legislation in Council

20. Calls for unblocking of the introduction of a compulsory (vs. voluntary) CCCTB, an ambitious FTT (which does not penalise the real economy by taxing shares only, but also taxes derivatives) and the Energy taxation Directive

Other demands

21. Shifting taxation from labour to capital as a counter cyclical fiscal policy that encourage fair redistribution of wealth and promote equality in our societies - we have to shift the burden from labour to capital, and in effect increase the levels of available disposable income allowing for a greater consumption propensity

22. Linked to the above, the S&D Group should also push for pursuing environmental taxes (see also point 20. On the Energy Taxation Directive) so as to use energy taxes to their full extent in climate and energy policy to mitigate the overall cost of the policy

23. Adequate staff resources is key to ensure efficient tax collection and enforcement, regrets that national reforms in the public sector have resulted in inadequate staffing and resource allocation in tax administrations and tax audit authorities

24. The Commission should provide more budgetary resources and staff to DG TAXUD to help it develop EU policies and proposals concerning double non-taxation, tax evasion and fraud

25. The Commission should develop appropriate EU standards or proposals as appropriate, in cooperation with the OECD, to address the challenges of taxation of the digital economy
Luxleaks briefing

- 340 companies involved in the Luxleaks scandal
- 548 tax rulings in Luxembourg from 2002 to 2010
- Some firms have enjoyed effective tax rates of less than 1% on the profits they have shuffled into Luxembourg
- G20 leaders agreed on an automatic exchange of information by 2017 or end-2018
- Pierre Moscovici promised a directive on the automatic exchange of information to be ready early-2015

What happened?

The scandal erupted on 5 November 2014, when the International Consortium of Investigative Journalists (ICIJ) published articles based on a review of nearly 28,000 pages of confidential documents, which reveal that around 340 international companies appear to have channelled hundreds of billions of dollars through Luxembourg to save billions of euros in taxes.

PwC, one of the Big Four auditors, has helped multinational companies obtain at least 548 tax rulings in Luxembourg from 2002 to 2010. PwC revealed how companies reduced their tax to as little as 1% through complicated corporate structures registered in Luxembourg. A tax ruling is a written statement sought by a taxpayer from the tax authorities about the tax implications of a transaction. These legal secret deals feature complex financial structures designed to create drastic tax reductions. The rulings provide written assurance that companies’ tax-saving plans will be viewed favourably by Luxembourg authorities.

What are the costs for Member States?

About 340 companies, including Pepsi, IKEA, AIG, Deutsche Bank, Apple and Amazon, have secured secret deals from Luxembourg that allowed many of them to slash their global tax bills.

The total for those deals was roughly $215 billion (approximately €170 billion) between 2002 and 2010. The figure would likely grow to several hundred billion dollars if projected investments in other deals in the leaked PwC documents were included. And the overall figure for money shuffled through Luxembourg as the result of confidential tax agreements would grow even larger if tax deals arranged through other accounting firms were included.

In many cases Luxembourg subsidiaries handling hundreds of millions of dollars in business maintain little presence and conduct little economic activity in Luxembourg. One popular address – 5, rue Guillaume Kroll – is home to more than 1,600 companies.
More than 170 of the Fortune 500 companies have a Luxembourg branch, according to Citizens for Tax Justice. A total of €75 billion in profits from American corporations’ overseas operations flowed through Luxembourg in 2012, the most current statistics from the U.S. Bureau of Economic Analysis show. On those profits, corporations paid under €82 million in taxes to Luxembourg – just 1.1%.

Other ‘tax havens’, Ireland for example, openly advertise rock-bottom corporate tax rates of 12.5%. Luxembourg instead maintains a statutory tax rate of 29%, but the leaked files show that the duchy has routinely approved tax rulings that whittle down what counts as taxable income to practically nothing. This can drop Luxembourg’s effective tax rate deep into single digits.

**What does the Commission propose? The G20?**

The question of tax evasion came up in the agenda of the G20 summit in Brisbane on 15 and 16 of November. The G20 leaders agreed on some tax transparency measures. In the Brisbane conference's final communiqué, the G20 leaders stated that they “are taking actions to ensure the fairness of the international tax system and to secure countries’ revenue bases”. The G20 also committed to finalising its plan of action against Base Erosion and Profit Shifting (BEPS) in 2015, in cooperation with the OECD, and the G20 leaders agreed that they will begin to exchange information automatically with each other and with other countries by 2017 or end-2018, subject to completing necessary legislative procedures.

The G20 leaders established the Anti-Corruption Working Group (ACWG) at the Toronto Summit in 2010 in recognition of the significant negative impact of corruption on economic growth, trade and development. At the G20 Brisbane, this working group detailed a 2015-2016 Anti-Corruption Action Plan, addressing *beneficial ownership transparency, bribery, high-risk sectors, public and private sector transparency and integrity* as well as *international cooperation*.

The Commissioner for taxation Pierre Moscovici also has committed to a European directive on the automatic exchange of information to be ready "early 2015". The scope of the directive will be as large as possible, including tax authorities, companies and financial services firms.