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News | 21.06.2016

Member States agree on anti-tax avoidance measures - but at what cost?

A blog from our Tax Justice campaign

If there is one thing that matters in politics, it is accountability towards citizens. If we are to have faith in our representatives, then rhetoric has to be matched by action. So when European leaders tell us, in the wake of each successive scandal, that we must tackle tax avoidance, you would think that that they would deliver on their promises when they get the chance. Well, think again. Because European Finance Ministers have just blown their latest opportunity to secure an ambitious deal on tackling corporate tax avoidance. A deal was originally supposed to be adopted on Friday, but reservations from Belgium and the Czech Republic saw the deadline extended over the weekend. Alas, when the clock struck midnight last night, we could finally see the agreement for what it is. What had been sold to us by the Dutch presidency as a step forward in the fight against tax dodging is in fact nothing but a smokescreen. Some might complain that the Greens always see the glass as half empty. After all, should we not be celebrating the fact that the Council has managed to agree a deal on tax matters in less than six months? But while we recognise both the increased speed in decision-making, and the tenacity of the Netherlands to obtain an agreement under their Presidency, it is regrettable that in this instance haste has taken precedence over quality. It is deeply frustrating to hear EU leaders publicly acknowledge the need for progress on the fight against tax dodging, only to then see them demand exemptions and “flexibility” when it comes to negotiating concrete proposals. Member States agreed, for example, on the need to limit the deduction of interest in companies’ tax bills on loans they contract. This is an important issue, as loans between subsidiaries of the same big companies are a common practice abused by some to indebt subsidiaries in high-tax rate countries in order to pay less tax. But on Friday, Member States also agreed on two major loopholes: loans contracted until December 2018 will not be impacted and Member States will still be allowed to apply their own national rule until 2024 if they wish so. No rush in the fight against corporate tax avoidance it seems! They also severely watered down a provision that would have made sure profits stashed in companies' subsidiaries in tax havens were properly taxed. Adopting a lowest common denominator strategy, the Dutch Presidency agreed to drop one of the six solutions in the anti-tax avoidance package, which would have ensured that funds entering the EU from tax havens were properly taxed before circulating freely in the internal market. The UK led the charge to ensure this would not appear in the final text. In another clear sign of a lack of political will from Finance Ministers to tackle this problem, they collectively agreed to postpone by one year the implementation of all new measures until January 2019. Member States argue that they need more time to perform the necessary national legislative changes. However, this argument is hard to swallow when many elements of what they have agreed to have been under discussion since 2011 at least! Why hurry when corporate tax avoidance costs European countries between EUR 50-70 billion a year in lost tax revenues? More corporate tax reforms will now be necessary in the future if Member States really want to tackle corporate tax avoidance in Europe and beyond. While we regret the missed opportunity today, we hope that Member States will commit to rapidly adopting a Common Consolidated Corporate Tax Base in Europe in order to seriously change how large companies are taxed. The European Parliament and the business community support such reform and the European Commission is due to make a new legislative proposal before the end of 2016. We can only hope that next time action will be equal to the rhetoric.

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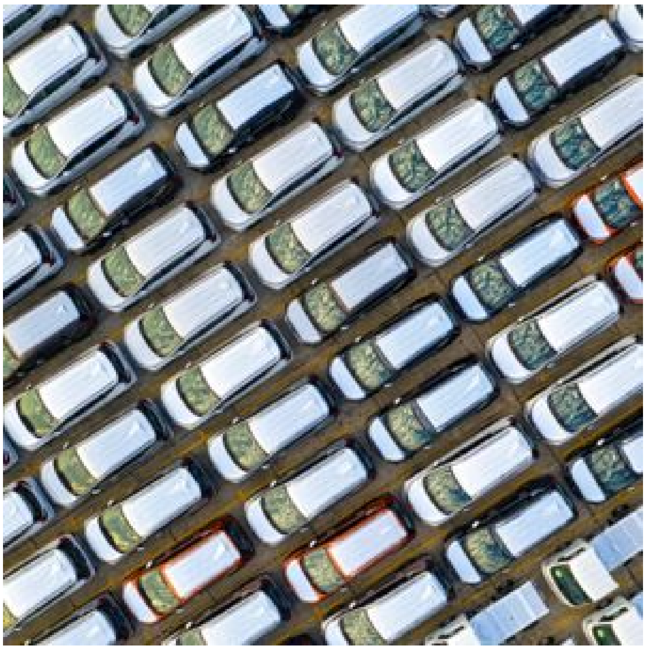

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