EUROPOLITICS

Corporate taxation

Commission and OECD join forces

By Tanguy Verhoosel | Tuesday 12 February 2013

The European Commission and the Organisation for Economic Cooperation and Development (OECD) are on the same page. Two months after the EU executive, the OECD followed suit and called, on 12 February, for international cooperation in the field of corporate taxation to be stepped up. The G20 commissioned an OECD study on corporate taxation – 'Addressing base erosion and profit shifting (BEPS)' – which foreshadows the launch of an action plan by June 2013. The aim is to estimate the loss of income for states and to establish a calendar for resolving what has been described as a serious problem.

The conclusions in the OECD report are the same as those in the action plan to step up the fight against tax fraud and tax evasion – including the recommendations on "aggressive tax planning" and "recommendations regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters," which the Commission published on 6 December 2012. In a nutshell: coordinated solutions are necessary at international level to stop multinational companies from shamelessly abusing the differences between national tax systems to lower their tax base. Starbucks, Google and Amazon were recently taken to task over this. The OECD study notes that certain multinational companies resort to tax planning strategies that result in them paying as little as 5% in corporate taxes when smaller businesses are paying up to 30%. OECD research also shows that some small jurisdictions act as conduits, receiving disproportionately large amounts of foreign direct investment (FDI) compared to large industrialised countries and investing disproportionately large amounts in major developed and emerging economies. This has given the multinational companies and "unfair competitive advantage". Six "pressure areas" have been identified: transfer pricing, convertible bonds, intra-group financial transactions, outdated anti-abuse clauses, the digital economy, and tax exemption schemes.

In particular, the OECD research noted anomalies in the field of FDI: small jurisdictions act as conduits, "receiving disproportionately large" amounts of FDI compared to large industrialised countries and investing similarly "disproportionately large amounts in major developed and emerging economies". The study noted that many of the existing rules, which protect multinational corporations from paying double taxation, too often allow them to pay no taxes at all. "These rules do not properly reflect today's economic integration across borders, the value of intellectual property or new communications technologies."

Enterprises based in countries with high-tax regimes create numerous offshore subsidiaries or shell companies, each time taking advantage of the tax breaks allowed in that jurisdiction. They also claim expenses and losses in high-tax countries and declare profits in jurisdictions with low or no tax rate, the OECD report found.

"These strategies, though technically legal, erode the tax base of many countries and threaten the stability of the international tax system," OECD Secretary-General Angel Gurría said in a press release. "As governments and their citizens are struggling to make ends meet, it is critical that all tax

payers – private and corporate – pay their fair amount of taxes and trust the international tax system is transparent."

With this in mind, in December 2012, the Commission proposed adopting a series of concrete measures: inserting various clauses – including the general anti-abuse clause – in double taxation conventions to make sure that income is always taxed, or drawing up blacklists sanctioning jurisdictions not based in the EU that do not cooperate in the field of taxation.

The OECD report is available at www.oecd.org/fr/ctp/erosiondelabasedimposition ettransfertdebenefices.htm

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