Who will foot the bill?

By Eva Joly | 12.22.2020

Global tax havens are still siphoning off vast sums of money. As Covid-19 continues to wreak havoc, the EU needs to step up

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Did anyone really think that the club of rich countries, the Organization for Economic Cooperation and Development (OECD), would come up with solutions to the tax abuses of multinational companies? Seven years after the G20 – the 20 leading global economies – tasked the OECD with revising the international tax system, it finally issued a series of proposals. They are as complex as they are disappointing.

At the beginning of the year, optimism reigned. For the first time, countries had agreed that companies should pay tax where their customers, production sites and employees are – and not in tax havens where they merely rent a letterbox. But as the negotiations came to a close, it all seemed to have come to nothing. That shouldn't surprise anyone though.

The OECD tried to back up its claim to speak for everyone by including developing countries in an 'inclusive framework'. Nevertheless, of the 137 nations with a seat at the negotiating table only the G7 countries – home to the big multinationals and their lobbyists – had a voice.

As a result, notwithstanding the OECD's proposals, tax havens continue to absorb financial flows almost unchecked. The meagre tax revenues that can be retrieved largely benefit rich countries.

It's time for the EU to step up

This situation was already scandalous. But as the corona pandemic continues to wreak havoc worldwide, it has simply become intolerable. After decades of financial austerity, government institutions are finding it hard to get on top of the situation. According to the report 'The State of Tax Justice 2020', recently published by the Tax Justice Network, Public Services International and the Global Alliance for Tax Justice, states are losing more than USD 427bn to tax havens every year.

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Besides estimating financial losses resulting from tax abuses by companies and private persons country by country, the report also considers the appalling effects on healthcare spending. Worldwide, the tax revenues siphoned off in this way amount to 9.2 per cent of health care budgets. This would pay the wages of 34 million nurses and carers. Even more destructive are the effects in developing countries, where the shortfall represents 52.4 per cent of healthcare spending. The United Kingdom haemorrhages almost USD 40bn a year, an annual per capita loss of USD 607. This represents 18.72 per cent of the UK healthcare budget or the wages of around 840,000 care workers.

Hospitals need more money. The education system needs more money. Small businesses on the brink of bankruptcy need more money. And someone has to foot the bill. These revenues therefore need to be recovered from where they've been stashed, namely tax havens. And because the OECD is not up to the job, the European Union needs to step up to implement reforms. One example would be a minimum effective tax rate on company profits.

Ursula von der Leyen has a choice

The Independent Commission for the Reform of International Corporate Taxation (ICRICT), whose members include, besides myself, economists such as Joseph Stiglitz, Thomas Piketty and Gabriel Zucman, sets out from a minimum tax rate of 25 per cent. Even US President-elect Joe Biden is calling for a global minimum of 21 per cent. A lower level – some states favour 12.5 per cent – would trigger a downward spiral in corporate taxation, causing tax revenues to fall even further.

Naturally there is strong opposition even in the EU – for a simple reason. Pointing the finger at small Caribbean islands diverts attention from the tax havens right here in Europe.

According to the State of Tax Justice report, the United Kingdom and its overseas territories – aptly described as a ‘spider’s web’ – are responsible for 29 per cent of the USD 245bn global shortfall because of corporate tax abuses. There are other examples in the EU, such as the Netherlands, which pockets around USD 10bn from its EU neighbours. Luxembourg, Ireland, Cyprus and Malta do the same.

For years, these states have blocked every proposed reform by exploiting the unanimity requirement on tax matters. Commission President Ursula von der Leyen, however, has a formidable weapon at her disposal. Article 116 of the EU Treaty requires the same competition rules for all member states – and tax dumping is clearly a violation. That would make it possible to bypass the unanimity requirement and prevent culpable states from siphoning off tax revenues. Ursula von der Leyen has the requisite political influence and also the support of Germany, which holds the Council presidency until the end of the year and is one of the countries hardest hit by tax abuses. And if it runs out of time, Portugal, which assumes the presidency in January, can take up the baton.

Ideally, the Commission would launch a global initiative. Europe is a key market for multinational companies. If that fails, France, Germany, Spain, Italy and other countries could use the ‘enhanced cooperation’ mechanism. This requires that at least seven member states work in tandem. The European Public Prosecutor, for example, was created this way. In the teeth of the second wave of the Corona pandemic, not to mention the danger that Brexit could foster an even mightier tax haven, inaction is just not an option.