



TACKLING TAX AVOIDANCE

Restoring the Balance

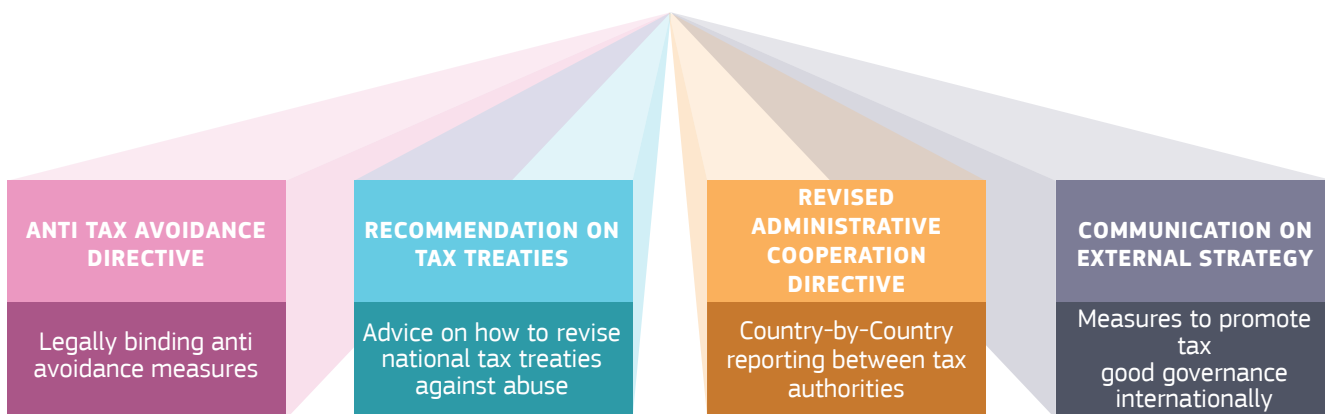
#FairTaxation



WHY DO WE NEED THE TAX AVOIDANCE PACKAGE?

Corporate tax avoidance deprives public budgets of billions of euros a year, creates a heavier tax burden for citizens and causes competitive distortions for those businesses that pay their share. The Commission has put the fight against corporate tax avoidance at the top of its agenda.

WHAT IS IN THE PACKAGE?




“Today we are taking another step to strengthen confidence in the entire tax system, making it fairer and more efficient. People have to trust that the tax rules apply equally to all individuals and businesses. Companies must pay their fair share of taxes, where they make their profits. Europe can be a global leader in tackling tax avoidance.”

Valdis Dombrovskis
Vice-President for the Euro and the Social Dialogue



“Billions of tax euros are lost every year to tax avoidance - money that could be used for public services like schools and hospitals or to boost jobs and growth. Europeans and businesses that play fair end up paying higher taxes as a result. This is unacceptable and today we are acting to tackle it.”

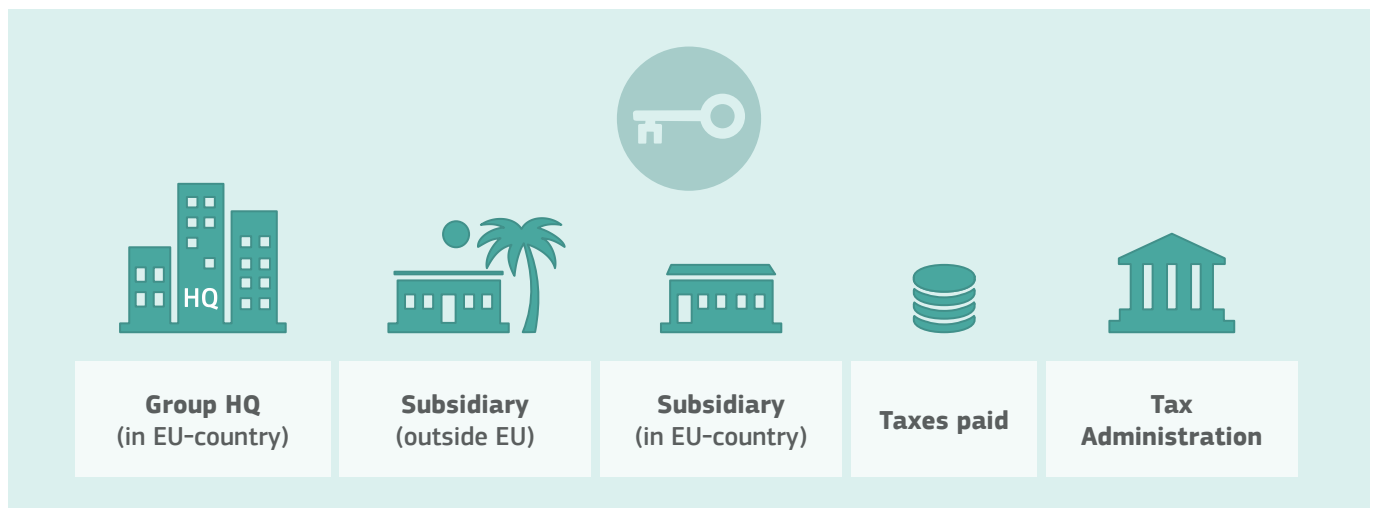
Pierre Moscovici
Commissioner for Economic and Financial Affairs, Taxation and Customs

THE ANTI TAX AVOIDANCE DIRECTIVE

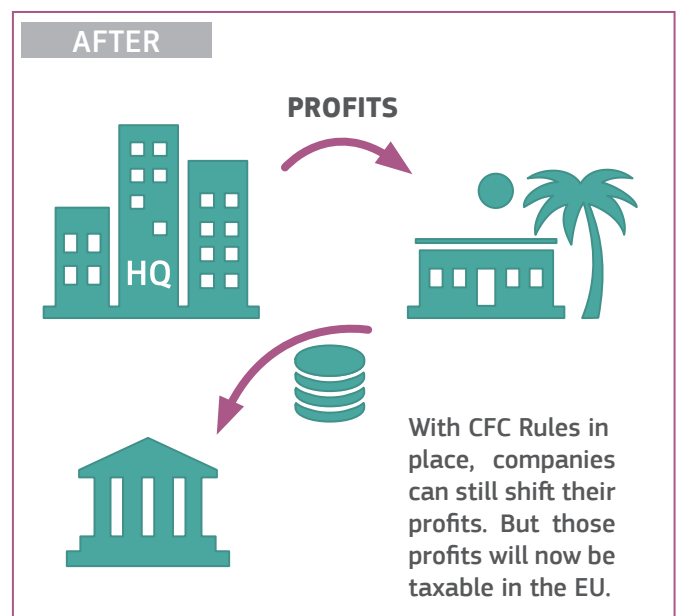
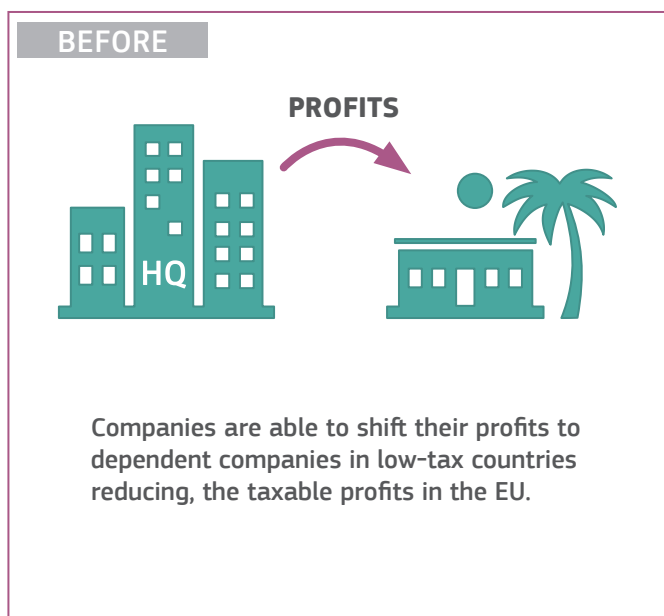
Effective taxation means that companies that generate their profits in the EU's Single Market should pay their fair share of tax.

But many multinational companies use what are called aggressive tax planning practices to take advantage of mismatches in the tax rules of EU Member States.

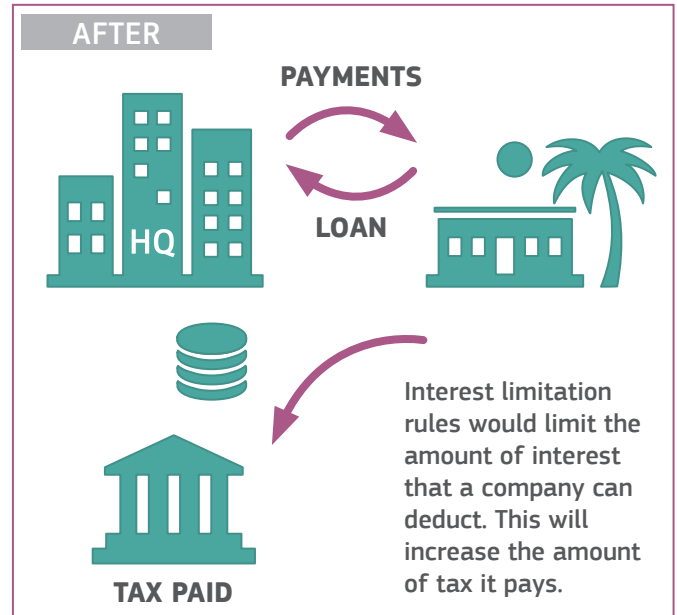
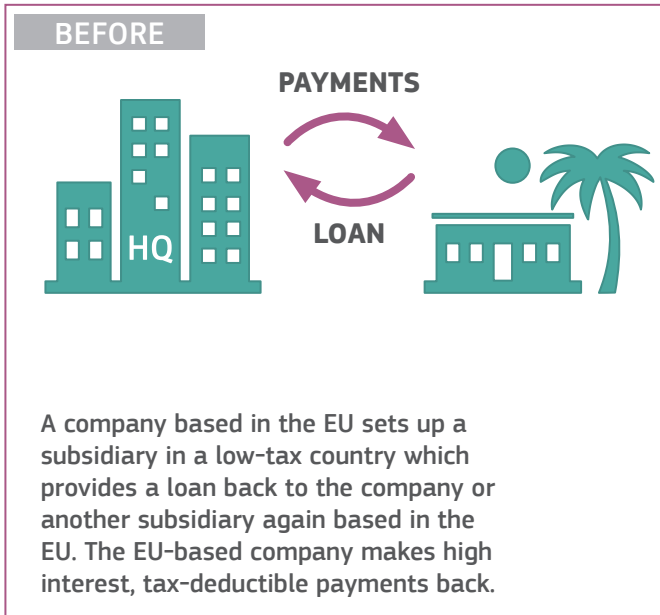
They want to pay as little tax as possible on their profits. Here we present the **six** most common methods used by such companies to avoid tax... and how we plan to tackle them.



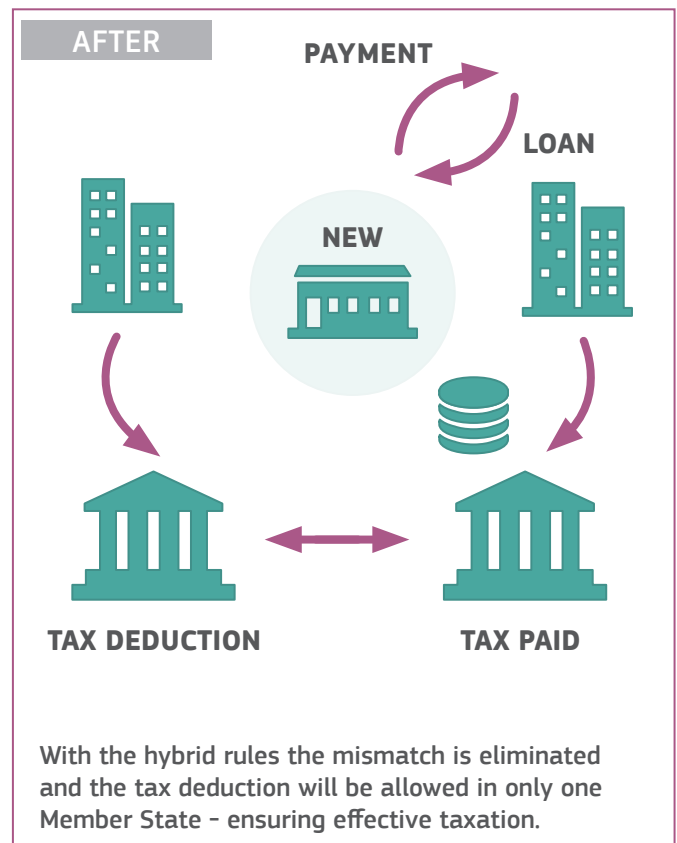
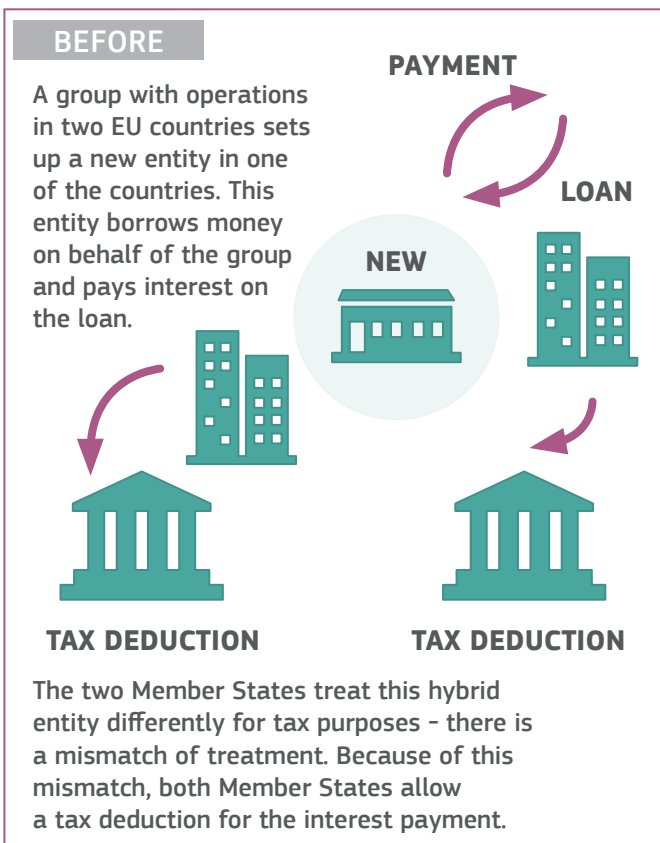
THE CLASSIC PROFIT SHIFT: Controlled Foreign Companies (CFC) Rules



THE LOW TAX LOANS: Interest Limitation Rules

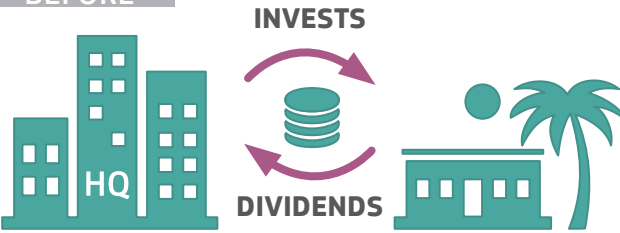


THE MISMATCHES: Hybrids



THE SWITCHOVER: Taxing Dividends Effectively

BEFORE

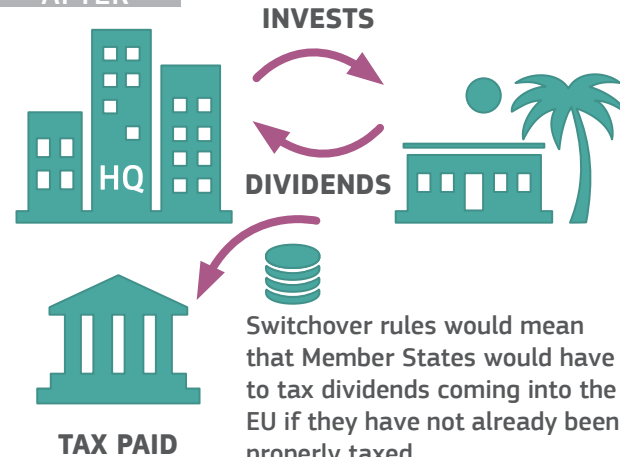


INVESTS

DIVIDENDS

An EU-based company invests in another company based in a low-tax country outside the EU. Dividends are in turn paid back to the EU-based company, where Member States treat them as having already been properly taxed in the third country. But this is often not the case.

AFTER



INVESTS

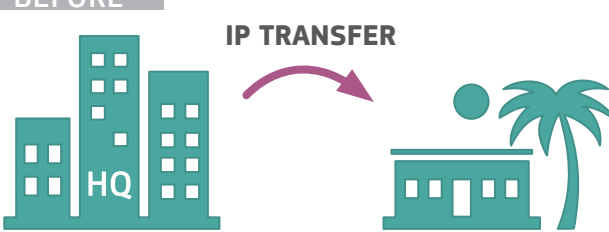
DIVIDENDS

TAX PAID

Switchover rules would mean that Member States would have to tax dividends coming into the EU if they have not already been properly taxed.

THE PATENT FLIGHT: New Exit Taxation Rules

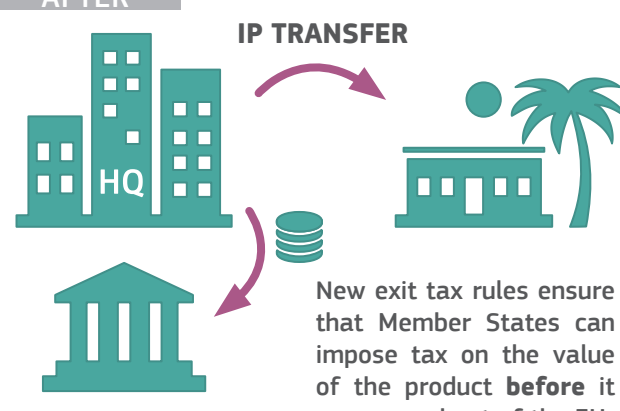
BEFORE



IP TRANSFER

Large companies spend a lot of time and energy developing new products. Companies based in the EU can develop a promising new product and move it to a no-tax country before it gets finalised. That way, the company pays less tax on the profits in the EU.

AFTER



IP TRANSFER

TAX PAID

New exit tax rules ensure that Member States can impose tax on the value of the product **before** it was moved out of the EU.

THE SAFETY NET: A General Anti-Abuse Rule (GAAR)

BEFORE



EXPERT'S GUIDE TO AGGRESSIVE TAX PLANNING

Companies engaged in aggressive tax planning continue to try and find ways of bypassing rules and finding loopholes in tax laws.

AFTER



TAX LAW 101

A GAAR gives EU countries the power to tackle artificial tax arrangements if other specific rules don't cover it.

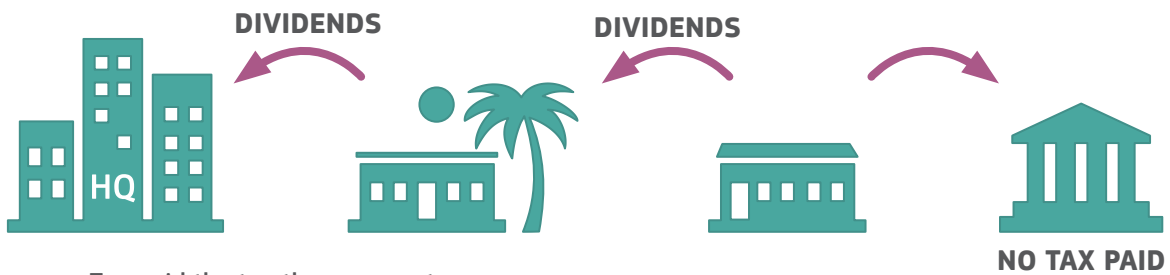
RECOMMENDATION ON TAX TREATIES: Closing Down Treaty Shopping

BEFORE



A group sets up a subsidiary in a different country. The subsidiary pays **dividends** to the parent company.

The **tax treaty** between these countries requires that **tax is paid**.

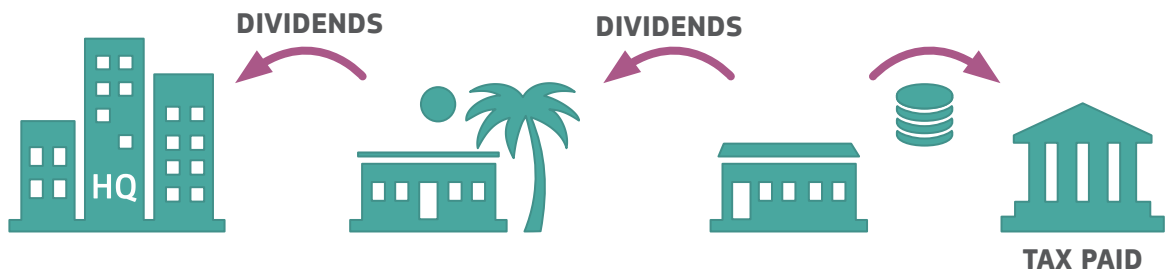


To avoid the tax the group sets up a **subsidiary** in a third country which has **tax treaties** with both of the other countries.

These tax treaties do not require tax to be paid. This process is known as **treaty shopping**.

The **EU Recommendation** advises Member States how to **reinforce their tax treaties against abuse** by aggressive tax planners, in an EU-law compliant way.

AFTER



If the new company does not carry out **genuine economic activity**, the country will be able to **not apply** the tax treaty.

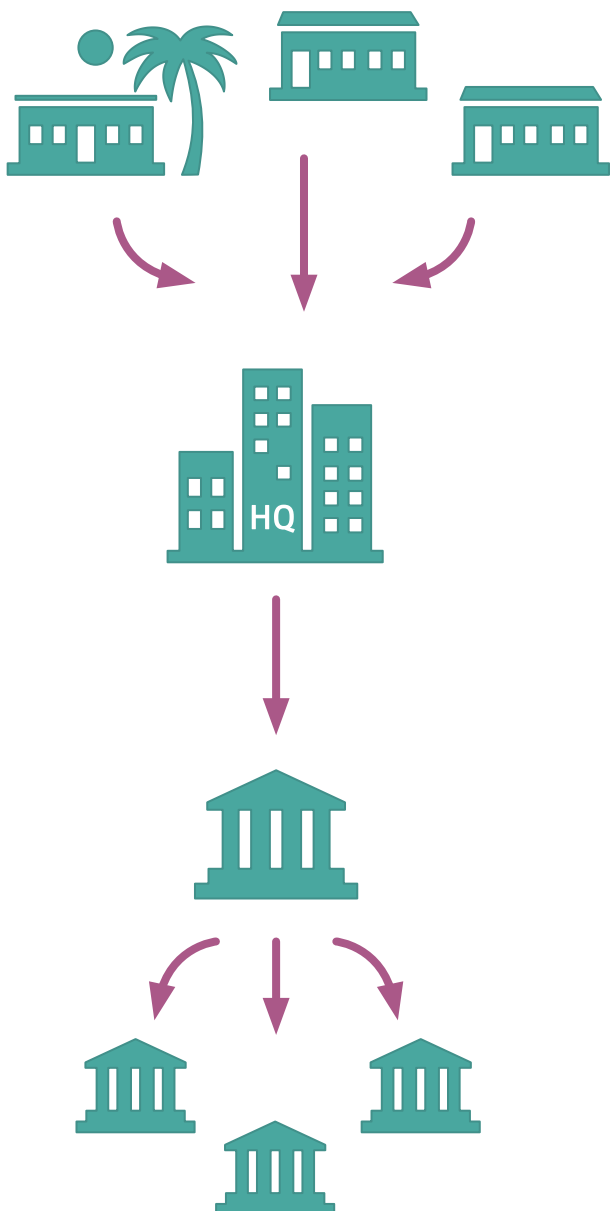
... making sure the tax treaty is not abused and taxes due are paid.

REVISED ADMINISTRATIVE COOPERATION DIRECTIVE

Transparency is crucial to identifying aggressive tax planning practices by large companies and to ensuring fair tax competition.

The Revised Administrative Cooperation Directive will make sure that key tax-related information on multinationals operating in the EU is exchanged between national tax administrations.

HOW WILL COUNTRY-BY-COUNTRY REPORTING WORK?



1

The parent company of a multinational group receives tax-related information for all its subsidiaries broken down per country.

2

The parent company sends the report to the tax authority in the Member State where it is resident.

3

The report is shared with all Member States where the group is liable for tax, giving all authorities the complete picture.

COMMUNICATION ON EXTERNAL STRATEGY

The EU should act as a united block in dealing with problematic third countries that refuse to respect global tax good governance standards.

We're proposing:

- Updated tax good governance criteria
- Tax clauses in international agreements
- Assistance to developing countries
- Tax good governance conditions for EU funds
- A new EU listing process for countries that don't play fair

HOW WILL THE NEW LISTING PROCESS WORK?



STEP

1

Commission identifies a set of third countries that may need to be screened using a neutral scoreboard of indicators.



STEP

2

Member States decide which of those third countries should be screened.

Constructive dialogue takes place with those countries selected for screening.



STEP

3

Commission recommends which countries should be listed. Member States take the final decision.

As soon as the third country meets jointly agreed standards, it is de-listed.

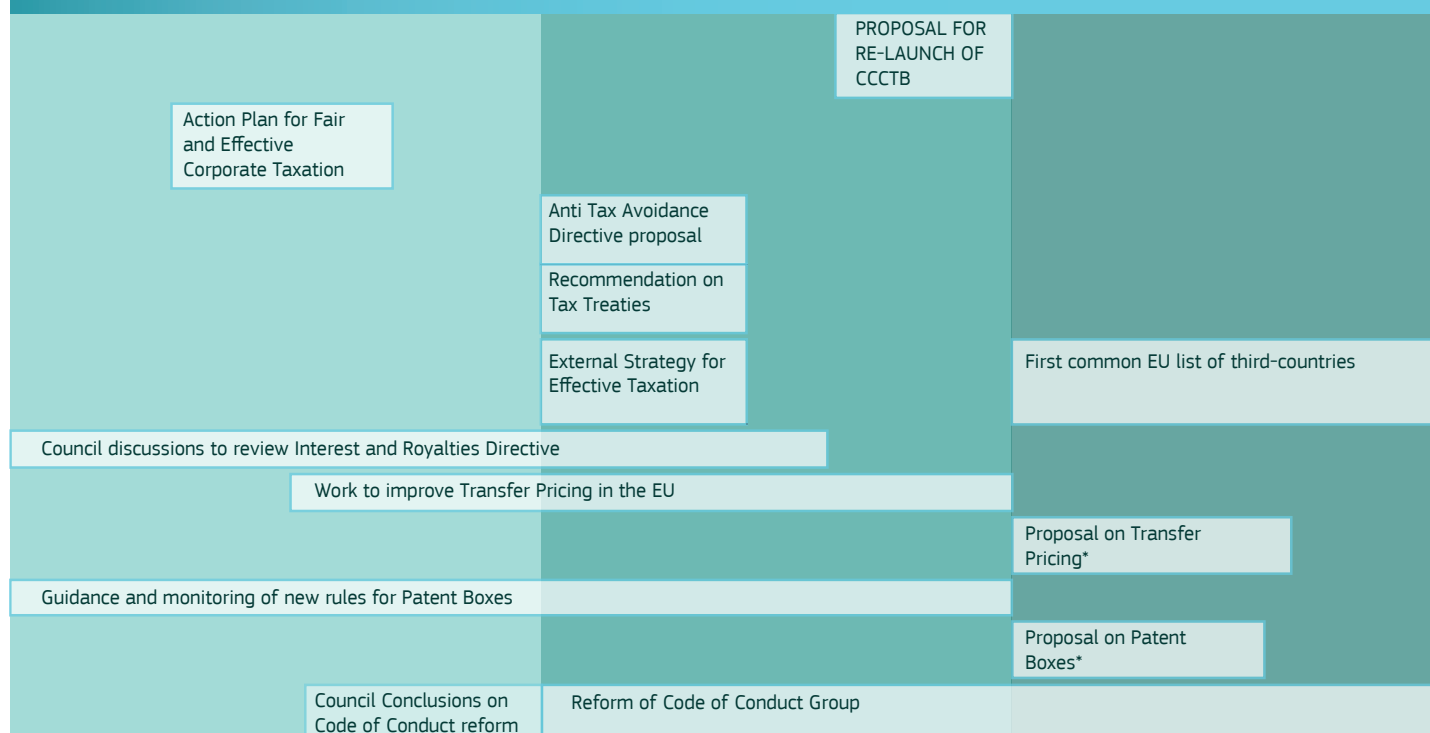
COMMISSION'S AGENDA FOR THE FAIR CORPORATE TAXATION IN THE EU

2015

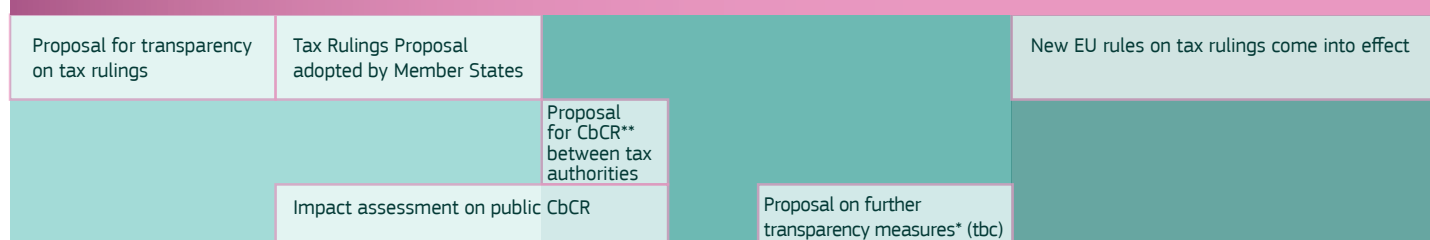
2016

2017 ONWARDS

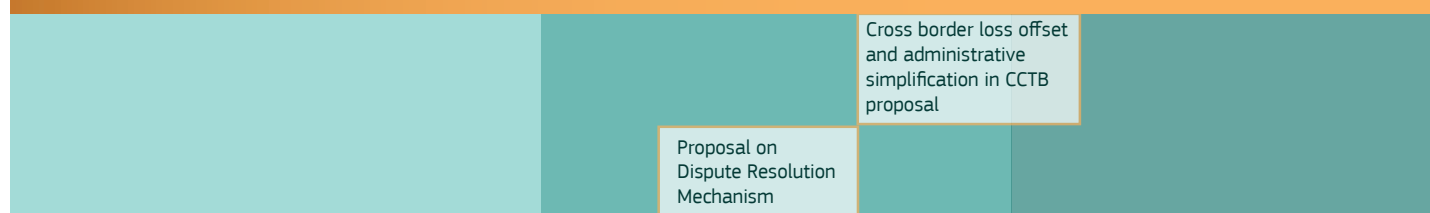
EFFECTIVE TAXATION



TAX TRANSPARENCY



BETTER BUSINESS ENVIRONMENT



* if needed

** CbCR = Country by Country Reporting