Funding the Future

Tax competition isn't competition at all: it's cheating

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The EU has ruled that favourable tax rulings for Starbucks and Fiat constituted illegal state aid. Both companies face substantial costs as a result, but that is not the significance of what has happened.

That significance comes in other ways.

First, there will be many other such rulings from Luxembourg and the Netherlands that will need unpacking now: as we know such rulings were issued on an industrial scale in Luxembourg and all reports I have seen suggest they were also common in the Netherlands.

Second, this then hits at the very heart of the EU corporate tax haven system.

Third, although there will no doubt be appeals the defence that Starbucks is making that it complied with OECD rules and so it must be in the clear is obviously unsatisfactory: the time has surely come when such arguments about minimal compliance cease to be seen as credible by anyone, including tax lawyers.

Fourth, the issue of what tax compliance is has been very obviously moved on by this ruling. It is no longer enough to say you're compliant. It is not even enough to get a letter from a tax authority saying that you are compliant. In the full face of publicity that has also to be true. And what that means is that, in effect, transparency has now to become the norm on tax.

So deliver on full public country-by-country reporting, which would help expose such practices.

And roll out the Fair Tax Mark (which has a new company in the scheme today).

And bring on disclosure of all tax agreements, again in public.

Then and only then will we have fair competition between companies, large and small, wherever they are located. What we have had to date is tax competition. And what the

EU is really saying today is that tax competition is cheating and that is not the same as fair competition. And that is very significant indeed.

The corporate world of tax abuse does really need to take note.