Funding the Future

Hypocrisy in European Tax Policy and the Morality Play ...

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The article that follows was written by my friend and colleague, Prof Leonard Seabrooke of Copenhagen Business School. It was originally published in Danish in Politiken as ' Man skal ikke belÃ¦re andreom Ã¸konomiske dyder, nÃ¥r man selv bor i et skattely' ['One shouldn't teach others about economic virtues, when you are a tax haven'] on May 31 2020. I felt it well worth sharing in English because it highlights the massive obstacles to progress on tax justice issues that still exist, not least in the EU.

Political action against tax havens is setting the stage for a morality play that will expose some of the hypocrisies inEuropean tax policy. Different policy positions taken by the OECD and the EU, as well as individual countries, are revealinghow embedded tax havens are in our European economies. The finger pointing on who can claim the moral high ground is going to intensify in the coming months.

The extreme costs of the coronavirus crisis are going to strain the fiscal purse in most countries, intensifying the rally againstcorporate tax avoidance. We have already seen national responses through conditions on economic support packages that prevent companies that directly own corporate entities in non-EU tax havens from receiving state support. Belgium, France, Denmark, and Poland were early to act in linking state support to companies in crisis and the issue of tax havens. In Denmark this is symbolic politics, since the requirement is 'direct' ownership from a tax haven on the EU blacklist. Of the countries on the list only the Cayman Islands is important. Recent reports suggest that very fewDanish companies will be affected. In Scotland *a new amendment includes not only direct ownership in a tax haven on the EU blacklist, but also being involved in an arrangement that profits from tax havens. That's a much more ambitious ruling. Living up to it requires some serious investigative capacity to understand how multinational corporate structures are composed, or what our research group calls global wealth chains. The Danish companies recently targeted for attention for being invested in tax havens complained that they were being unfairly smeared because their corporate registrations are in countries that are not on the EU blacklist. The obvious problem here is that the EU blacklistdoesn't include EU member states.*

Denmark's symbolic politics on tax havens is strategicallyambiguous. There is a much *bigger political game in this moralspil. The recent French-German initiative on a â‚¬500 billion 'Recovery Fund' is an especially important plot twist. The agreement explicitly states that fair taxation in the EU is a priority, and that "effective minimum taxation" and digital taxation is needed "ideally based on a successful conclusion of the OECD work, and establishing a Common Corporate Tax Base". The words in quotation marks are important. They establish explicitFrench-German support behind the OECD's more assertive policies on tracing corporate tax avoidance through its Base Erosion and Profit Shifting programme, which includes 137 countries. The French-German action has obviously spurred on the 'Next Generation EU' proposal announced last week, which includes ideas for digital taxation, a carbon border tax, and a tax on large companies with more than â‚¬750 million in revenues. While the details are not yet present, there is certainly movement for more coordination on European tax policy as part of the recovery effort.*

The OECD estimates that corporate tax avoidance has cost between 4-10% of global corporate income tax revenue, between US$100-240 billion a year. Pascal Saint-Amans, the OECD 'tax czar', has made a strong push on having a new unified framework for assessing a 'nexus', where companies are active in a country for tax purposes, as well as an agreement on minimal corporate tax levels. The tax havens on the EU's blacklist are right to be worried.

Some northern European countries may also be worried by this development. OECD data shows that in 2018 corporate taxes as a percentage of all taxes was 8.85%. In France it was 4.6% and Germany 5.6% (Denmark is 6.5%), while in the Netherlands it was 9%, in Ireland 14.4% and in Luxembourg 14.8%. The French and German governments may be looking at their neighbors and wonder how much they are subsidizing them. Southern European countries may look at claims from the Netherlands about 'moral hazards' and the need for fiscal prudence and cry 'hypocrisy!'.French and German support for OECD work points to a coming conflict not between the north and the south within the EU, but between northern countries that enable corporate tax avoidance and those who lose from it.

The Tax Justice Network's Corporate Tax Haven Index provides some insight here. The index ranks how aggressively tax havens allow multinational corporations to avoid paying taxes. In the 2019 index first place goes to the British Virgin Islands, with Bermuda second and the Cayman Islands third. This fits with our image of tax havens as places with palm trees and sandy beaches. However, fourth place goes to the Netherlands and sixth place to Luxembourg. New research from political economy scholars, especially Javier GarcÃ-a-Bernardo, separates out tax havens into 'sinks' and 'conduits'. Sinks attract and keep foreign capital, while conduits are used as midway points in corporate structures. The Netherlands is the most important conduit for European companies, especially as a passage point to the key sink, Luxembourg.

We can expect a lot of political activity on tax havens in the coming months as the moralspil evolves. Reform of the tax system through the EU is unlikely given that *changes to tax policies require unanimity from member states. Last year the European Commission signaled its desire to remove unanimity in favor of more 'efficient and democratic' decision-making on tax issues, especially for the same initiatives being pushed by the OECD. Denmark, Sweden, the Netherlands, Luxembourg and Ireland oppose a change to unanimity on tax rules. For some this opposition is to protect sovereignty. For others it is also to protect their corporate tax base. Given the impasse on unanimity we will see more activity on accounting issues, since it is the reporting standards that provide information on what is and could be taxed. Accounting directives don't require unanimity in the EU, so there is space for political action there.*

Denmark aligns itself with the Netherlands, Austria and Sweden in 'The Frugal Four', opposing joint loans. This affirms the old narrative of northern European countries claiming the moral high ground of fiscal prudence, and pointing fingers at southern European countries for poor economic management. But now we have an important development in this morality play. France and Germany's support for the OECD's work is going to highlight hypocrisies on the role of tax havens in Europe and force all member states, including Denmark, to consider who their friends are when claiming the moral high ground.