Transparency International EU

The global coalition against corruption

ECOFIN agreement a missed chance, campaigners say

Alessandro · Tuesday, March 8th, 2016

EU governments need to make tax more transparent, further opportunity looms ahead for lawmakers

BRUSSELS—The Economic and Financial Affairs Council (ECOFIN), has agreed today on a proposal for corporate financial reporting, but despite increased pressure from European advocacy groups and policy-makers, the agreement would still keep country-by-country reports about the activities of multinationals secret.

ECOFIN representatives agreed to the 4th Directive on Administrative Cooperation (DAC4), which includes an amendment requiring multinationals to report, among other things, on their revenues, profits, taxes paid and number of employees in each country where they operate. These reports would only be shared with tax authorities, to help them detect whether companies engage in profit shifting with an aim to artificially lower their tax bill.

"Country by country reporting is an integral piece of the anti-tax avoidance puzzle, but keeping these reports confidential will make it nearly impossible for developing country governments, journalists, or the general public to scrutinize the operations of multinational corporations," said Koen Roovers, EU Lead Advocate for the Financial Transparency Coalition. "Public reporting is also key for investors who want to know if they are making sound business decisions. "

"We understand the intention behind this measure, given that tax avoidance is thought to cost developing countries an estimated US$200 billion a year, but the information needs to be available to the media, researchers and concerned citizens as well as tax authorities" added Diarmid O'Sullivan, Tax Policy Advisor at ActionAid UK.

The DAC4 agreement is modeled on the Organization for Economic Cooperation and Development's (OECD) project on Base Erosion and Profit Shifting (BEPS), which was developed over the past three years to address global tax avoidance. However, some Member States were reluctant about covering the activities of non-EU companies operating inside the EU through different subsidiaries.

"If only companies headquartered in the EU are legally required to file reports on a country-by country basis, the legislation will be much less effective," said Elena Gaita, Policy Officer on Corporate Transparency at Transparency International. "Subsidiaries that are part of non-EU companies should be covered in the requirement, regardless of the size of the subsidiary, provided that the whole group meets the threshold".

"The most recent tax deal between Google and the UK shows us first hand how much scrutiny is levied when we can't dissect a company's true obligations, due to a lack of disclosure," said Tove Ryding, Tax Justice Coordinator at the European Network on Debt and Development. "Therefore it only makes sense that international companies operating within the EU, like Google, comply with this reporting requirement."

Though this Directive does not propose public country-by-country reporting, a separate forthcoming proposal from the European Commission is set to go further and recommend public reports.

"We look forward to seeing the European Commission's announced proposal for public corporate reporting in April, as they have a chance to address some of the issues that today's decision did not," said Aurore Chardonnet, EU Policy Adviser at Oxfam International. "We expect to see a proposal that covers the large majority of multinationals, while defining a reporting standard which has to be useful to developing countries, as well, some of which are greatly affected by tax avoidance by European multinationals."

One of the paramount problems with the OECD-style country-by-country reporting framework is a reporting threshold of €750 million in revenue.

"The threshold set by member states would mean that just 10 to 15 per cent of all multinationals would have to file reports," added Chardonnet. "This is a clear sign that governments are not hearing the growing demand for tax transparency. Excluding the vast majority of multinationals because they don't meet a high threshold of revenue does not create the transparency we desperately need."

Contact:

Christian Freymeyer
Financial Transparency Coalition
+32 4 97 50 98 71
cfreymeyer@financialtransparency.org

Notes to the editor:

[1] European Parliament has voted for a stronger public CBCR proposal within the Shareholders Rights Directive. This Directive is currently under trilogue negotiations.

[2] Various European Commissioners have come out in support of public country by country reporting, including Commissioner Vestager andCommissioner Moscovici

[3] This is a joint CSO reaction from the Financial Transparency Coalition, Oxfam, Transparency International – EU, European Network on Debt and Development, and ActionAid UK.

This entry was posted on Tuesday, March 8th, 2016 at 4:44 pm