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Transparency International EU reveals the murky tax affairs of Europe's biggest banks

Alessandro · Monday, October 26th, 2020

New research by the anti-corruption watchdog Transparency International EU (TI EU) on the tax affairs of some of Europe's largest banks from 2015 to 2019 suggests widespread use of tax havens and profit shifting. The findings have been published today on TI EU's *Corporate Tax Tracker platform* and analysed in the new report "*Murky havens and phantom profits: the tax affairs of EU and UK banks*".

Among the 39 EU and UK banks looked at in the study, 31 were using low-tax or zero-tax havens, while 29 of them appeared to be declaring high profits in countries where they did not actually employ any staff. These 'ghost operations' may indicate that banks are shifting their profits to reduce their tax bill. Without full details on banks' operations in the countries concerned it is impossible to tell.

Several banks discussed in the research, including HSBC, Barclays, Deutsche Bank and Standard Chartered, were implicated in the recent FinCEN scandal, which alleged their involvement in moving dirty money across the globe.

"*The questionable practices highlighted by our research are still escaping full public scrutiny*," said Elena Gaita, senior policy officer at Transparency International EU. "*For instance, in the last five years, HSBC reported €1.59 billion of profits in Saudi Arabia, despite not having a single employee in the country. Likewise, Deutsche Bank made €418 million from its Maltese operation, which has been unstaffed since 2016. European economies are on their knees because of the pandemic, so it's now more important than ever that banks and other multinational companies are seen to pay their fair share of tax.*"

Since 2015, EU banks have been required to publish country-by-country reports of their profits, taxes and number of employees for every jurisdiction in which they operate. The banking and extractives sectors are the only industries that are subject to such regulations.

The researchers analysed five years' worth of these reports and used the data to build an online platform, the Corporate Tax Tracker, which will enable closer public scrutiny of major banks.

"*We were only able to scrutinise the tax behaviour of banks because they are subject to EU public country-by-country tax reporting rules*," explained Gaita. "*This is probably just the tip of the iceberg when it comes to aggressive tax planning, so it is essential that these rules are extended to other sectors of the economy. The EU member states that are still blocking this legislation should put the interests of their citizens and their economic well-being over the interests of large* *companies, especially in these times of economic uncertainty*."

"*The current German EU Council Presidency has an opportunity to ensure that Member States finally adopt a position on public country-by-country reporting rules for large companies, so we are calling on them to include it in the upcoming Competitiveness Council meeting*."

Notes to editor:

- The Corporate Tax Tracker website is available here.
- Murky Havens and Phantom Profits: The Tax Affair of EU Banks is also available to download here.
- TI EU offered all the 39 banks the chance to comment. 15 responded and, where relevant, we took their comments into consideration and made adjustments. Their replies are published in full here.
- Since 2015, the EU banking sector has been required to publish full country-by-country financial reports (CBCR). This is a provision set out by the Capital Requirements Directive (CRD) IV (Directive 2013/36/EU). In 2016, the European Commission released a proposal for public CBCR requirements for all multinational corporations. The EU states which appear to be blocking this legislation are Croatia, Cyprus, Czech Republic, Estonia, Germany, Hungary, Ireland, Latvia, Luxembourg, Malta, Slovenia and Sweden.

Disclaimer:
It should be noted that the CBCR data published by banks is not comprehensive, as they are not currently required by EU law to give full details of the nature of their operations in each country where they operate. It provides a glimpse into the world of banks' financial flows, which by no means encompasses the full complexity of tax accounting. **Our research findings should not be interpreted as a verdict on the level of taxes paid by European banks, but rather as a guide to understanding tax planning patterns in the sector over the past five years.**

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