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EU Commission to Propose Tax Transparency Directive

Summary

The European Commission plans to introduce a directive on April 12, which would oblige large multinationals to publicly disclose their taxes and earnings in the European Union (EU). The directive would also apply to large US multinationals. The proposal would force multinationals to open their tax arrangements with EU governments to full public scrutiny.

Detailed Discussion

The Commission's plan for a directive on disclosure of income tax information is part of an overall effort by the EU to clamp down on corporate tax avoidance which began in January with the adoption of an antitax avoidance package. EU member states agreed on a directive earlier this month to automatically exchange amongst authorities tax-related information on the activities of multinational companies. However, this information will not be disclosed to the public. The new Commission proposal to be introduced in April requires multinationals to publicly disclose some of the same information submitted to tax authorities. It would apply to multinationals based in the EU or in third countries.

The European Parliament held a hearing March 16 on tax avoidance by multinationals, which included Apple, Google, Ikea and McDonald's. By June, member states plan to approve new rules to tackle some of the most prevalent tax avoidance practices of multinationals affecting EU and non-EU companies. The EU is positioning itself as a frontrunner on tax base erosion and profit shifting to low tax countries. It believes that companies should pay taxes wherever they make their profits in Europe.

The new Commission proposal would require multinationals with an annual turnover exceeding €750 million to publish information each year on their websites which should be made easily accessible to the public for at least five years. The rules would apply not only to companies with EU headquarters but also to US companies with subsidiaries in Europe. The Commission claims legislation is needed because an environment of complex tax rules and fiscal secrecy has allowed many large multinationals to exploit loopholes in tax systems that enable them to shift profits from one country to the next in order to reduce their tax bill. In a recent study commissioned for the European Parliament, it is estimated that EU member countries lose between €50 and €70 billion each year to tax avoidance by firms.

Next Steps

Germany and Spain have raised concerns that sharing country-by-country data between national tax authorities should not lead to publicly disclosing such information, as it could impact on the competitiveness of European multinationals. Ireland, which has benefitted from its low tax regime for multinationals, has expressed concerns about individual companies being singled out under the draft directive. European employers groups have warned that tax transparency requirements could put EU multinationals at a disadvantage compared with rival firms elsewhere in the world.

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