The EU agenda for tax transparency

Pierre Moscovici says we are witnessing a generational shift when it comes to tax transparency in the EU and internationally.
From the very beginning of my mandate as European Commissioner responsible for taxation, I have been intent on pursuing a ‘transparency revolution’. I have been keenly aware of the need to inject more openness, more cooperation and more trust into taxation—in Europe and beyond. Why?

Because transparency is the bedrock of everything that we want to achieve in EU tax policy. It is essential for fairer and more effective tax systems that support growth and jobs. It is vital to ensure that countries can rely on sustainable revenues, without being undermined by opaque regimes elsewhere. It is central to creating a healthier and more competitive business environment, where all companies operate on a level playing field. And it is fundamental to re-establishing citizens’ confidence in our tax systems, which has suffered a blow in recent years due to revelations of wide-scale tax evasion and avoidance, the latest one being the Panama Papers revelations.

Historically, the EU has a good track record when it comes to tax good governance. In fact, we have long been flag-bearers for transparency in the international arena. The EU was the first region in the world to apply the automatic exchange of information as a tool against tax evasion—and we were active in encouraging international partners to follow suit.

We rapidly enshrined the new global transparency standard into EU law, enabling member states to automatically exchange information on financial accounts from January 2017. We have signed ambitious transparency agreements with our closest neighbours, including Switzerland, which effectively implement the global standard and put an end to bank secrecy in the European continent. We also have strict legislation in place to prevent money-laundering and financial crimes, which we are going to further reinforce. On the corporate tax side, we have had an EU peer review system in place against harmful regimes for nearly 20 years, as well as important transparency requirements for the financial sector and extractive industries.
Nonetheless, recent media scandals of wide-scale tax abuse and public demands for fairer taxation called for new efforts to raise the bar of tax good governance even higher. This was a mission that the European Commission was more than happy to take up and it did not delay in delivering far-reaching and effective proposals. Thanks to these initiatives, and a new political will amongst member states to coordinate more closely on tax matters, the EU’s transparency revolution is now advancing at full speed.

**Transparency package**

The Commission kicked off this new agenda towards greater tax transparency in March 2015, when I presented the ambitious *Tax Transparency Package*. At the core of the Package was a ground-breaking new proposal for the automatic exchange of information on tax rulings. This proposal aimed to tackle the long-standing problem of secrecy around tax rulings, which frequently left one country unaware of the effect that another’s tax rulings were having on their own revenues. Companies exploited this opacity to avoid taxes, while certain countries appeared to deliberately use rulings to entice mobile profits away from the base of economic activity.

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Our solution has been to develop robust new transparency provisions for tax rulings in the EU, going beyond any measures that had been agreed at international level. Under the new legislation, member states must systematically share pre-defined information with each other on all of their cross-border tax rulings and pricing arrangements, including those made in the previous 5 years.

Authorities cannot refuse to share the information and must provide additional details to any member state that may be affected by the ruling. The Commission will have access to certain data on the shared information, so that it can monitor the application of the rules and take swift action if there are any lapses. This greater transparency on tax rulings will put an end to the secret ‘sweetheart’ deals of the past and should deter companies from using rulings to shift profits.

In short, it is a significant victory in our campaign for fairer corporate taxation. The proposal was adopted by EU Finance Ministers after just 7 months of negotiation, sending a positive signal that member states were ready to get behind the EU drive for greater tax transparency, and it will enter into force in January 2017.

CBCR
Continuing with the quest for more openness and cooperation between tax authorities, the Commission’s next major transparency initiative came in January 2016. As part of a wider package of measures to combat corporate tax avoidance, I proposed that national tax authorities should exchange country-by-country reports on multinationals’ tax information. Country-by-country reporting between authorities had already been endorsed internationally, under the OECD’s Base Erosion and Profit Shifting (BEPS) project.

My goal was to ensure that it was swiftly, smoothly and fully implemented throughout the EU in a coordinated manner. In practice, the parent company of a multinational group will have to provide its member state of residence
with a report on key information for the entire group. The report should detail the revenues, profits, taxes paid and accrued, accumulated earnings, number of employees and certain assets of each company in its group. These reports will then be shared with all other member states where the group operates. To ensure a level playing field, the new rules have a wide scope, covering any multinational - European or otherwise - that is active in the EU internal market.

Here again, these new transparency rules were adopted by member states in record-time and will come into effect from next year. They will make an important contribution to fight against corporate avoidance, by providing tax authorities with crucial information to better target their tax audits and identify aggressive tax planning schemes.

Public CBCR
While greater cooperation and information exchange between tax authorities is critical in combatting cross-border tax abuse, the Commission was also conscious of the need to extend the transparency net wider. The public demand for access to companies’ tax information grew louder with each new headline of wide-scale tax avoidance– and I shared this ambition for full transparency and actively advocated for it.

In April this year, the Commission proposed public country-by-country reporting for all large multinationals operating in the EU internal market. A challenge in developing this proposal was to find a way of providing citizens and civil society with the information they expected, while also protecting the competitive interests of EU businesses.

The right balance had to be found: I am convinced that we successfully did so. I indeed believe that we rose to this challenge with provisions that are both ambitious and well-balanced. Our proposal will require any multinational with global revenues exceeding €750 million a year and a presence in the EU to publish a specified set of tax-related
data online. They should provide a separate report for every member state in which they are active, and an aggregated report for their activities outside the EU.

To intensify the scrutiny on tax havens, multinationals will also have to provide a detailed report of activities in any country listed as a problematic tax jurisdiction by the EU. These public reporting requirements are primarily aimed at making large multinationals more accountable on the taxes they pay. I am also convinced that they offer many benefits to businesses themselves. Not only will they help to restore public trust in corporations’ tax practices, but they will also reinforce the level-playing field for all companies in the Single Market.

Many companies are already publishing their tax information on a voluntary basis and these binding EU rules will put them on an even footing with their less transparent counter-parts. The proposal for public country-by-country reporting is now being negotiated by member states and the European Parliament, and hopefully it will soon be part of EU law. Once it is, the EU will once again be breaking new ground and leading by example internationally in the field of tax transparency.

**Post-Panama initiatives**

Despite these achievements, our transparency campaign is far from over. The recent *Panama Papers* scandal revealed that loopholes still exist in the international tax system, which allow funds to be concealed offshore and artificial arrangements to be used to escape taxation. It confirmed that there is still work to be done on tax transparency for companies and individuals, in the Single Market and beyond. In this respect, three areas must be prioritised.

First, as confirmed by the G20 in April 2016, we need to improve the transparency requirements on beneficial ownership, so that tax authorities can identify the ‘real live’ person behind opaque companies and trusts. The Commission will propose stronger provisions for beneficial ownership before the summer, within the EU’s anti-money
laundering framework, and will back international efforts to launch the automatic exchange of information in this area—which all 28 EU countries support.

Second, we must address the question of advisors or enablers and how to ensure better oversight of their activities and hold them accountable if they assist in or promote aggressive tax planning schemes. While this is a complex task, it is too important to shy away from. So the Commission has already started to examine possible options to deal with those that facilitate and enable tax abuse, and will encourage the EU’s global partners to do the same.

Third, we must ensure that the new global transparency standard – the Common Reporting Standard – is fully and properly implemented worldwide. This will provide tax authorities with a powerful instrument to detect and deal with evasion and – if applied worldwide – will leave tax evaders with nowhere to hide. The important point here is that transparency cannot have boundaries; if some countries ‘opt-out’ of the new global framework for more openness and cooperation on taxation, the whole structure comes crumbling down. This is no longer acceptable, and will no longer be accepted.

**EU blacklist**

In the EU, we have taken our tax good governance commitments seriously, and followed through with concrete action and binding law. Now we expect our global partners to do the same. The OECD and G20 can be applauded for their work to push this agenda forward and the EU actively supports them in this work. In fact, in January, the Commission tabled a new External Strategy, through which the EU will draw on every available instrument to promote tax good governance standards worldwide.

A key initiative in this Strategy is the development of a common EU blacklist, to deal with countries that refuse to meet the required standards of transparency and fair taxation. This new EU blacklist will be based on clear and in-
ternationally justifiable criteria and on a robust screening process, and will be backed by countermeasures for listed countries that refuse to comply with international standards. Work on this listing process will start this summer, with a view to publishing a first list in 2017.

I firmly believe that an EU blacklist, with 28 member states behind it, will provide a real deterrent for countries that refuse to come on board in the global move towards fairer and more transparent taxation. Moreover, the G20’s recent – and very welcome - call for an international blacklist gives additional value to this new EU listing process. It offers the EU a chance to, yet again, pave the way and provide a robust model for the international list to be built on. The EU will work very closely with the OECD to this end. And I will remain very ambitious on this EU listing process, to make sure that we deliver rapidly and completely.

**Conclusion**

We are witnessing a generational shift when it comes to tax transparency, in the EU and internationally, and witnessing improvements at a pace that would have been unheard of even a decade ago. While much has been achieved and more is still to come, I believe that the primary challenge now lies in securing this new tax transparency for the long-term. In the EU, we are doing this through binding new legislation and ambitious coordinated initiatives.

However, to be truly successful, the transparency revolution must be global. The EU will continue to work closely with its international partners to achieve this – and put due pressure on those that drag their feet – so that we can cement much-needed changes and deliver the fairer and more transparent taxation that citizens worldwide are waiting for. This will remain my priority for the coming months and years.

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