



EconoMag

The Show that demystifies Economics

Fiscal Dumping ©

by Max Farrington & Abby Klein

The European Union has been a success in many ways, but is still confronted with considerable obstacles, including fiscal harmony and that's what we'll talk about in today's Economag.

Fiscal harmony, or tax harmonization is the idea that all of the members of the EU should have the same tax level. The minimum value-added tax in Europe is what this idea is based on: all countries must have a value added tax of at least 15%. As this is a required minimum, in theory most countries would surpass this threshold. However, in reality this is not the case, as there are many ways to bypass the minimum with fiscal optimizations, agreements, and other policies.

For example, Ireland has a well-known fiscal dumping policy, which means it has set its tax levels so low to attract big companies. The argument for this being acceptable is that it is simply fair competition among equal European states, while others would reply that this is not, in fact, fair. Ireland's corporate tax level is set at 12.5%. This technically should not be allowable, as it is significantly below the 15% threshold, so the EU has told the Irish government to increase it. However, for this order to be binding, all countries must be in agreement, as the EU works with unanimity and not majority - and obviously Ireland votes against it.

Ireland is the main target for improving these policies because it is home to part of the GAFA: you know, the big tech and Internet companies (Google, Amazon, Facebook, Apple). These multinational companies have tacit agreements with Ireland to provide jobs for the people; in return they pay lower taxes, which can mean that some of these companies pay as low as 4% in taxes.

The other countries that are the targets for improvement in fiscal dumping are Cyprus, Bulgaria, The Netherlands and finally, Luxembourg, which is home to Amazon, the online supermarket. Amazon sells goods on the Internet to customers worldwide, including in the many European states, but due to a lack of tax harmonization the VAT levels aren't the same in all the countries. So Amazon chose the country where it is the lowest, Luxembourg, to place its European HQ. This means that when you buy a product on the website from France, the VAT that Amazon pays is not the French one but the one in Luxembourg. This can create big problems, as there is a lot of money lost. According to economists, France loses 100 billion Euros due to tax evasion.

These issues started in 2004 and 2007 when Cyprus and Bulgaria joined the European Union. As they were relatively poor countries in comparison to many of the existing European states, they needed to attract large companies to settle in their territories. In this free market economy, countries compete with one another to attract businesses. This had a domino

effect, and more countries started to lower their tax levels. Overall in 20 years, Europe's tax level has dropped 12 points. At this point we would call it a fiscal war. If you think the European situation is complicated, it gets worse when you look at the rest of the world!

In 2011, the Tax Justice Network tried to count how much was lost in tax evasion. The United States is the most affected, with a tax loss of \$337 billion, followed by Brazil with \$280 billion and Italy with \$238 billion. These figures are stunning: all of the money that should go to the countries' treasuries is instead funneled into tax havens, offshore businesses, and other mysterious locales.

To counteract this, countries have tried to establish new rules, for example by creating an international blacklist of countries that do not cooperate and don't share information on tax exile. The problem is that the tax havens have also shared information, to give the illusion that they are helping, but really they aren't. To end this tax competition, the European Union will have to put into place some sort of tax harmonization mechanism on which all the countries can agree. But this will be complicated, as each country wants to keep its share and stay attractive to businesses.

Stay tuned to Economag on EnglishWaves.