Luxembourg tax avoidance scandal rocks European Union

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Just one week after JeanClaude Juncker took over as European Commission chief, a scandal has erupted over massive tax avoidance by major corporations that took place while he was Luxembourg's Prime Minister.

The scandal was sparked by the International Consortium of Investigative Journalists (ICIJ) release of a cache of 28,000 pages of leaked tax agreements and returns, and other documents relating to more than 1,000 corporations that routed transactions through the Grand Duchy of Luxembourg, which signed off on these complex arrangements to minimise their taxes obligations elsewhere.

The revelations confirm an open secret: a vast tax avoidance industry centred on Luxembourg, a country renowned for its secrecy, and made up of global accounting firms, lawyers and corporate lobbyists working closely with governments. The "savings" to their clients, who pay little or no tax, have benefited the shareholders, and robbed millions of workers who have seen public services and the social safety net gutted as a consequence.

While the total value of such tax scams is unknown, it almost certainly amounts to more than a trillion euros since 2000. It is grand larceny carried out against the vast majority of the world's population. As far as the financial oligarchy is concerned, the corporations will choose when, where and how much tax they will pay, if they pay any at all.

Most of the documents relate to PricewaterhouseCoopers' (PwC) clients. PwC is one of the world's largest tax advisory firms, while at the same time acting as financial advisors to governments on public-sector restructuring. Large companies used complex webs of internal loans and interest payments to shrink their tax liabilities. The scale of the "loans" bore no relation to real corporate need. They served to reduce their tax obligations because interest payments are tax deductible in the country of production, while paying corporation tax of just 1 percent in Luxembourg.

The documents show how 340 multinational groups, such as Pepsi, Ikea, Accenture, the global financial and IT services company spun off by Arthur Andersen, Burberry, Procter & Gamble, Heinz, JP Morgan, FedEx, the Coach handbag firm, drugs group Abbott Laboratories, Amazon, Deutsche Bank and the Australian financial and infrastructure group Macquarie, set up convoluted corporate structures specially designed in accordance with the Luxembourg authorities.

Luxembourg's role was to facilitate and mask tax avoidance via Advance Tax Agreements (ATAs), binding agreements otherwise known as "comfort letters." The papers include 548 such comfort letters signed off by Luxembourg.

The *Guardian* provided extensive analyses of several of these scams by well-known companies, whose executives regularly sit on government commissions and pontificate on matters of public policy, claiming that such and such "reform" will be good for the "economy." None of them deigned to answer the *Guardian* 's questions, but instead issued vacuous and lying statements denying any involvement in tax avoidance, adding that they paid tax in the countries where profits were made.

PwC refused to answer the questions put to it by the ICIJ, claiming that their evidence was based on "outdated" and "stolen" information, "the theft of which is in the hands of the relevant authorities." But as the *Guardian* noted, an examination of the public filings show that these arrangements are still in force.

As well as the shareholders, the beneficiaries of these

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bogus arrangements are the corporate executives whose bonus payments are boosted by the enhanced net profits. So too are the global accountancy firms and their sister consultancy companies, whose legitimacy and profits are the result of the government-granted monopoly on the legally-required annual audit of the corporations' financial accounts. These giant firms in turn dominate the International Accounting Standards Board, which determine the rules surrounding financial and tax disclosure.

Juncker's appointment to succeed Jose Manuel Barroso as the President of the European Commission was controversial, reflecting wider divisions within the European powers over their conflicting national interests.

Opposition was led by British Prime Minister David Cameron, who cast Juncker as the personal embodiment of federalist tendencies within the EU that the UK was determined to oppose and was backed by Hungary. German Chancellor Angela Merkel, though unhappy that Juncker had been chosen as candidate for the largest conservative European Peoples Party group, was forced to defend his appointment in the face of this challenge, and was backed by the Party of European Socialists (PES) group.

Juncker, as Luxembourg's prime minister and finance minister for nearly two decades, had headed the government responsible for these "comfort letters" and tax dodges. He presided over Luxembourg's transformation into a European tax haven, turning the tiny country, no more than a city-state with a population of 540,000, into one with the second-highest GDP per capita in the world after Qatar. He was forced to resign last December over his role in a scandal involving the security services.

His first response was to deny any wrongdoing on his or Luxembourg's part. He then sought to lay the blame on the other European countries for refusing to give up national sovereignty over taxation, sanctioning their own "fiscal engineering" and "tax rates that can sometimes lack fairness", and failing to agree to legislation on tax harmonisation.

He has a point in making such self-serving claims. They all allowed Luxembourg and the corporations to operate in this way, with many providing similar "comfort letters" and some, like Britain, strenuously trying to compete with the Grand Duchy.

There were calls for him to resign by the European Parliament's European United Left—Nordic Green Left group of 52 members from 14 countries, several British Conservatives, as well as the prestigious financial journal *Bloomberg*. "Just now, the importance of restoring trust in the EU would be hard to overstate," Bloomberg editorialized. "The union is struggling to emerge from the financial crisis and is increasingly seen as elitist, meddling and incapable of producing either fairness or growth. It cannot help this effort to have it overseen by a man who spent his career as a quintessential backroom dealer while building and running an international tax haven at other European countries' expense."

In response, EU legislators from the European People's Party and the Social Democrats in the PES again leapt to his defence.

Now, the man who gave out "comfort letters" exempting corporations from paying tax has pledged to lead the campaign against tax avoidance! By this he means a proposal requiring member states to share special tax rulings with each other and closing loopholes that enable multinational companies to set up special financing vehicles and shop around for the lowest tax rates.

These damaging revelations compound the growing anger against the pro-business EU and the European governments that routinely turn a blind eye to the most egregious scams by the corporations, at the same time as they impose austerity budgets gutting essential services. But exposing the normally-hidden sweetheart deals between governments and corporations, they demonstrate that the real reason public services and social welfare are "no longer affordable" is not because of an aging population, or "welfare scroungers" or immigration, but because the corporations refuse to pay any tax to governments that are in thrall to them.

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