Corporations reached secret deals with Luxembourg to avoid tax payments

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More leaked documents relating to tax avoidance schemes involving Luxembourg's government under the leadership of Jean-Claude Juncker, now President of the European Union (EU) Commission, have intensified the political crisis surrounding the EU.

It comes at a time of growing opposition to the pro-business EU and the vicious austerity cuts it has imposed in Greece, Ireland, Spain, Portugal and elsewhere.

The documents confirm that giant corporations negotiated secret deals with the Grand Duchy during the nearly two decades when Juncker was Luxembourg's minister of finance, an office he later held jointly for some years with that of the premiership.

The corporations set up their headquarters or subsidiary offices in the tiny city-state for the express purpose of avoiding tax in those countries where their actual sales and activities take place. At the same time, there is no public register of either their parent companies or who actually owns these fictitious subsidiaries. Ports and shipping companies are known to be located in the landlocked country, where tax payable on profits can be as low as 1 percent.

The latest documents show a far wider involvement in tax avoidance by giant multinational corporations, who route their financial affairs through Luxembourg, than was revealed last November. Among those named are Amazon, Skype, Disney, and Koch Industries.

These arrangements were explicitly signed off by Luxembourg and never substantively queried, let alone challenged, by the tax authorities whose jurisdictions the corporations sought to evade.

The tax deals deprived the governments of member states as well as states around the world of vital tax revenue, all of whom now claim that public services are unaffordable. These revelations show that the money is there, but the corporations refuse to pay up and governments actively collude with them doing so.

The first batch of documents related to schemes involving the global financial auditors and financial advisers, PwC. The second batch confirms that the rest of the Big Four auditors, KPMG, E&Y and Deloitte Touche, were also active in arranging and aggressively marketing similar tax haven schemes.

Most damaging of all were the revelations by Amazon. Its European sales in 2013 were €13.6 billion, up from €11.9 billion in 2012. But Amazon EU Sarl, the company that books the revenue from most of Amazon's European customers, paid little in tax because of deductions for royalty payments to another Luxembourg unit, an Amazon-controlled limited partnership not subject to tax in the Grand Duchy.

Bob Comfort, Amazon's former tax chief, said he had toured most of Western Europe in 2003 looking for a regional base. He said that Juncker had fiercely courted the online giant, acting as a "business partner" and "helping solve problems."

After locating in Luxembourg in 2003, Amazon secured a secret deal with the tax authorities. Two months ago, this became the subject of a formal investigation by the European Commission's Competition authorities on the grounds that the tax deal may have constituted state aid, which is outlawed by the EU. A subsidiary of the Fiat auto corporation is the subject of a similar investigation and the list is likely to grow.

Comfort stated in an interview with the Luxembourg newspaper *d'Lëtzebuerger Land*, "The Luxembourg government presents itself as business partner, and I think it's an accurate description: it helps to solve problems."

He said he had held meetings with top civil servants in the finance ministry and Juncker himself, who was serving as both prime minister and finance minister at the time. "His message was simply: 'If you encounter problems which you don't seem to be able to resolve, please come back and tell me. I'll try to help.'"

Shortly before he retired from Amazon last summer, Comfort took on an additional role as Luxembourg's "honorary consul for the Seattle region" where his role is to encourage business with the Grand Duchy. As an official announcement noted, he has had "a long-standing relationship with Luxembourg."

While EU Commission chief, Juncker denied any wrongdoing, claiming he did not encourage tax avoidance when he held office in Luxembourg and was not personally responsible for the deals negotiated with Disney, Skype and other companies. Although he had been in frequent contact and negotiations with Amazon and other companies, Juncker said he was not allowed to discuss tax arrangements. He is, however, on record as having said in 2003 that the factors that led to success with Amazon included "the right tax policy."

In an Austrian TV debate with the *Guardian* and other European publications, he said, "I had contact with several, but not all of the firms mentioned. But I never interfered in the special tax rulings because under the law a Luxembourg finance minister is not allowed to. He is not allowed to influence the form of a specific tax file."

Juncker insisted that there is no conflict of interest in his position of President of the EU Commission, which he took over in November, while the EU investigates the Grand Duchy's tax deals. Indeed, he has sought to re-invent himself as the one who will reform the EU's corporate tax system. By this he means 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.

Little can be expected from this. After all, 22 of the 28 governments, as Juncker has pointed out in his defence, were negotiating similar tax deals. Luxembourg was up against stiff competition from a number of EU states such as the Netherlands, Ireland and Britain.

Juncker's appointment last summer to succeed Jose Manuel Barroso was highly controversial, reflecting wider divisions between the European powers over their conflicting national interests.

While he has come in for much criticism, he cannot be sacked although he can resign. The entire Commission would have resigned after a motion of no confidence, as happened with the Commission of Jacques Santer in 1999 over allegations of corruption, fraud and mismanagement by the EU. For now, his survival depends on whether there are further revelations and incriminating evidence against him, as well as the investigations into Amazon and Fiat.

A motion of censure against him in the European Parliament brought by a right-wing faction opposed to the EU was defeated, as a result of support from the 28 Commissioners and legislators from the federalist European People's Party and Social Democrats, who had backed him for the presidency.