

EU broadens corporate tax crackdown to Amazon (Update)

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European Commissioner for Competition Joaquin Almunia addresses the media at the European Commission headquarters in Brussels, Tuesday, Oct. 7, 2014. The European Union's competition authority is opening a formal investigation of Amazon's European corporate income tax practices. (AP Photo/Yves Logghe)

The European Union is broadening its crackdown on multinationals' tax avoidance schemes, opening Tuesday an investigation into Amazon's practices on suspicion the online retailer is not paying its dues on profits made across the 28-nation bloc.

The probe adds another high-profile name to the list of companies targeted by the EU, which is already investigating Apple Inc., coffee chain Starbucks and the financial arm of carmaker Fiat.

The EU's executive Commission is trying to curb companies' ability to avoid taxes by shifting profits made across the bloc to a subsidiary in one particular country where the company enjoys a very low tax rate.

In Amazon's case, the company registers its profits from across the EU at its unit in Luxembourg, a tiny country whose economy depends on attracting foreign capital. Amazon's taxable profits in Luxembourg are further reduced by making royalty payments to another Luxembourg-based Amazon entity that is not subject to corporate taxation.

The result is that not only does Amazon pay little tax in many EU countries where it operates, but also that its effective tax rate in Luxembourg is particularly low.

"As a result, most European profits of Amazon are recorded in Luxembourg but are not taxed in Luxembourg," said the EU Commission, without providing figures.

About 40 percent of Amazon's revenue is generated outside the U.S.—about \$30 billion—but the company declined to say how much of that is from Europe.

In particular, the Commission is looking at whether a tax deal Amazon struck with the government of Luxembourg in 2003 is illegal under EU law and distorts competition.

If the bloc's executive Commission were to rule against Amazon in the coming months, the Seattle, Washington-based company would likely have to repay taxes for its European operations, its biggest overseas

market.

EU Competition Commissioner Joaquin Almunia says the EU suspects the royalty payments between Amazon's units in Luxembourg are not in line with fair market rules and are exaggerated with the intention of avoiding tax.

"National authorities must not allow selected companies to understate their taxable profits by using favorable calculation methods," Almunia said.

Several of Europe's relatively smaller economies, such Luxembourg, Switzerland, and Ireland, have a history of attracting multinationals with low corporate tax rates or banking secrecy to bolster their otherwise relatively small economies. Luxembourg, a tiny, landlocked country of some 500,000 people, has over the past decades become one of the world's wealthiest nations per capita by doing so.

But in the wake of the financial crisis, many cash-strapped EU countries have sought to limit such tax avoidance systems. Popular anger grew on reports that big brands like Apple or Amazon were paying tiny amounts of tax in countries where they have large operations.

The Commission has been going after both the companies and the governments.

Luxembourg long resisted the EU Commission's demand to submit tax information on Amazon and other cases, but the government lost a court battle against Brussels and eventually had to hand over the information.

The EU Commission provided no estimate of the amount of taxes Amazon saved through its arrangement with Luxembourg. However, Amazon said in its last annual report its overall tax rate was lower than

the 35 percent U.S. federal statutory rate thanks to lower taxation in Europe.

"The favorable impact of earnings in lower tax rate jurisdictions primarily relates to our European operations, which are headquartered in Luxembourg," it said.

Both Amazon and Luxembourg rejected the Commission's allegations that the company had received a special tax treatment in the country.

"We are subject to the same tax laws as other companies operating" in Luxembourg, Amazon said in a statement.

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