EU orders Apple to pay up to 13B euros in back taxes

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European Union Competition Commissioner Margrethe Vestager speaks during a media conference at EU headquarters in Brussels on Tuesday, Aug. 30, 2016. The European Union says Ireland has given illegal tax benefits to Apple Inc. and must now recover the unpaid back taxes from the U.S. technology company, plus interest. (AP Photo/Virginia Mayo)

Apple has to pay up to 13 billion euros ($14.5 billion)—plus billions more in interest—in back taxes to Ireland after the European Union found Tuesday that the U.S. technology giant contributed almost no tax across the bloc's 28 countries for 11 years.

The ruling is a dramatic escalation by the EU executive Commission in

its battle to have multinationals pay their fair share in the region, where popular outrage over corporate tax dodging has grown after years of financial crises and austerity budgets.

It also risks enflaming tensions with the U.S., which argues the EU is picking on American companies and depriving it of potential tax windfalls of its own.

At the heart of the matter is the EU's claim that many multinationals—including Amazon and McDonalds—struck deals with EU countries to pay unusually low tax in exchange for basing their EU operations there.

EU Competition Commissioner Margrethe Vestager said that a three-year investigation found Ireland granted such lavish tax breaks to Apple that the multinational's effective corporate tax rate on its European profits dropped from 1 percent in 2003 to a mere 0.005 percent in 2014.

That last tax rate meant that for each 1 million euros in profits, Apple paid just 50 euros in taxes, Vestager told a news conference.

"Member states cannot give tax benefits to selected companies_this is illegal under EU state aid rules," Vestager said.

For Ireland, a country of barely 4.6 million people, the sum to be recovered would be a huge windfall—equivalent to over 2,800 euros ($3,150) for every man, woman and child.

And yet the government said it would appeal the decision, arguing it had granted no favorable treatment to Apple.

Ireland has for years offered low corporate tax rates to multinationals, a common strategy among Europe's smaller nations, including

Luxembourg and Holland.

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Because the countries are small, they gain from even small amounts of tax on multinationals' huge revenues. They also benefit from the jobs created locally. Apple has 5,500 workers in Ireland, making it one of the biggest private-sector employers.

The Irish government insisted that Apple had paid its full amount of tax and no state aid was provided.

"It is important that we send a strong message that Ireland remains an

attractive and stable location of choice for long-term substantive investment," said Irish finance minister, Michael Noonan. "Apple has been in Ireland since the 1980s and employs thousands of people in Cork."

Apple likewise claimed that it had followed the law and paid every cent of what it owed.

Both Apple and the Irish government said they would challenge the EU action in the European courts, and predicted it would be vindicated.

Apple shares were down 0.6 percent in New York, a modest drop that reflects expectations that Apple can afford the settlement, should it stand. Apple made $10.5 billion in the first three months this year alone.

The EU ruling raises the difficult question of how to fairly tax multinationals—in their home country, where the bulk of their goods are developed, or in the countries where the goods are sold.

Currently, the setup allows Apple to record all its sales across the EU's 28 nations and 500 million consumers in Ireland.

That internal company practice, as well as two favorable Irish tax rulings in 1991 and 2007, "enabled Apple to avoid taxation on almost all profits generated by the sale of Apple products in the entire EU single market," according to the European Commission.

The EU's campaign against tax avoidance is meant to create a fairer society by having companies contribute taxes to the countries they operate in. Its critics argue that it's latest ruling in fact tramples on the sovereignty of a country and its elected government.

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Apple accused the EU executive body of engaging in efforts "to rewrite Apple's history in Europe, ignore Ireland's tax laws and upend the international tax system in the process."

In a statement, it also claimed the ruling "will have a profound and harmful effect on investment and job creation in Europe."

Some analysts say that with the EU reeling from Britain's decision to leave, the last thing it needs is more uncertainty for businesses. Supporters say the ruling is a step forward in harmonizing tax laws between EU countries—rather than have them race to the bottom—and taking action across borders in a way that the EU was meant to do.

Either way, the EU's bold move risks fueling tensions with the U.S., which complains that it is singling out American companies. Also, because U.S. companies get U.S. credits for tax they pay in other countries, the EU ruling could reduce the amount of money the U.S. government can get from Apple.

As of June, Apple had over $200 billion stashed outside the U.S. in countries like Ireland. The U.S. government cannot tax any of that money unless it is repatriated.

The U.S. Treasury Department said it was disappointed by the EU's decision, saying retroactive tax assessments by the EU Commission "are unfair, contrary to well-established legal principles and call into question the tax rules" of the individual countries in the EU.

What's more, the U.S. government agency warned that the ruling "could threaten to undermine foreign investment, the business climate in Europe and the important spirit of economic partnership between the U.S. and the EU."

Peter Vale, a Dublin-based corporate tax expert for the accounting firm Grant Thornton, calculated that the ruling, if upheld, could ultimately cost Apple 19 billion euros ($21 billion) because the EU order also includes interest.

The EU decision will require the Irish tax collection agency demand a payment soon from Apple, Vale said. Any money will be placed in a hands-off escrow account pending what could be years of litigation before the European Court of Justice in Luxembourg, he said.

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