Why the EU's tax probe of multinationals is raising US ire

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In this Wednesday, Dec. 7, 2011 file photo, a person stands near the Apple logo at the company's store in Grand Central Terminal, in New York. The European Union's executive branch rejected Thursday, Aug. 25, 2016 the U.S. government's complaint that its probes into sweetheart tax deals between EU governments and big companies are hitting U.S. firms hardest. The European Commission, which polices EU laws, is cracking down on the practice in which EU governments offer low corporate tax rates to multinationals. The Commission has opened tax probes into Apple in Ireland, Starbucks in the Netherlands and Amazon in Luxemburg. (AP Photo/Mark Lennihan, File)

The European Union's campaign to crack down on tax avoidance by multinationals has drawn unusually public criticism from the U.S., which says it is unfairly targeting American companies.

The EU executive Commission responded with a sharp denial on Thursday, insisting it is being fair as it goes after corporate tax dodging.

The EU's investigations of multinationals trace their origins to a 2014 leak of documents that showed how big companies shop around among EU states to get as low a corporate tax rate as possible. That helps multinationals often pay very little tax, a revelation that has fueled popular anger in Europe, where cash-strapped governments had been raising taxes on households.

The high-profile companies that have been caught up in the EU action since then include Amazon, Apple and Starbucks.

Here are some questions and answers about the issue.

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WHY DID THE EU LAUNCH THE TAX CRACKDOWN?

European countries are keen to attract big companies to their territory; sometimes too keen, with some offering ultra-low tax rates as incentives. So the EU launched a drive to combat tax avoidance by investigating the deals that allow multinationals to slash their bills in countries like Luxembourg, Ireland and the Netherlands. The EU says some 50-70 billion euros ($56-79 billion) are lost every year due to tax avoidance. Also, some multinationals shift their earnings made in EU countries to the one low-tax country they are based in. That helps them lower their overall tax bill. In January, the EU Commission, which polices EU rules, unveiled new plans to tackle the problem. They include closing tax loopholes and improving the way tax information is shared across the 28-nation EU.

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DON'T EU COUNTRIES MAKE THEIR OWN TAX LAWS?

They do. The Commission says it's not interfering with members' rights to set their corporate tax rates, but that it should help protect countries from unfair tax competition. When one country's tax policy hurts a neighbor's revenues, that country should be able to protect its tax base. The EU rules also try to ensure that a country can effectively tax profits generated in its territory. A big problem is that EU countries share little information about their corporate tax rulings. This makes it difficult for tax authorities to work out where a company's real business takes place and apply the rules fairly. The Commission says many multinationals take advantage by shifting their profits from one country to another. This deprives EU governments of tax revenues.

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WHY DOES THE U.S. GOVERNMENT CARE?

The U.S. Treasury Department says that disproportionately targeting U.S. companies could end up costing American taxpayers. This would happen if companies are forced to pay higher taxes in Europe because these businesses get U.S. tax credits for foreign tax payments. Apple and other U.S. firms leave much of their foreign earnings overseas to avoid higher U.S. tax rates. Treasury officials say they're working to get companies to repatriate those funds.

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ARE U.S. MULTINATIONALS REALLY HIT HARDEST?

The highest-profile multinationals to be investigated by the EU—Apple, Amazon and Starbucks—are American. But the EU Commission says there is no bias against U.S. companies. It notes that Italian automaker Fiat was targeted last year, and that 35 mostly European firms were impacted this year by its ruling against a Belgian tax scheme. The Commission says all companies that generate and record profits in an EU country should pay taxes in line with national tax laws, no matter whether they're based in Europe or abroad.