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Finance Ministers agree on criteria to define tax havens

Will US be screened accordingly, after Trump's victory?

This post was supposed to be about yesterday's European Finance Ministers meeting and their decision on criteria to screen non-European countries who are deemed to be tax havens. These criteria will ultimately lead to some countries appearing on the first European common backlist of tax havens at the end of 2017.

But today is all about the US, isn't it? So let's have a look instead at what a Trump presidency will mean for tax. What did he promise during the campaign? Well, in September he published a tax plan, which at first sight is contrary to everything that the Greens stand for.

In an interview in May with the Wall Street Journal, Trump said "my core beliefs are I want a major tax cut" and major tax cuts he has indeed promised. Trump wants to cut taxes in general but especially wishes to reduce the tax rate for the richest, from 39.6% to 33%.

Regarding business, while scandals of US companies not paying their fair share of taxes are multiplying, his response is simply to reduce the corporate tax rate to 15% (from 35% at present). Some will tell you this is a good thing because the US has one of the highest corporate tax rates in the world. But in reality, US large companies are not taxed at this level as the US tax system is designed in a way that means big US companies are not taxed on profits realised overseas. This is why companies like Apple end up shifting their profits to overseas tax havens such as Bermuda or the Cayman Islands. Apple is the record-breaker, with $181 billion in foreign tax shelters, avoiding paying more than $59 billion in tax in the US!

Donald Trump also proposed a childcare deduction, applicable to all families, no matter what they earn. Such deductions allow people to subtract some of the income they are taxed on. Such measures typically favour the richest and the middle-class: some 43% of Americans are currently too poor to pay income tax in the first place. Mr Trump has also suggested eliminating the estate tax, which only applies when a family member passes on more than $5.45 million worth of assets to an individual or $10.9m to a married couple. Let's pause for a second here and look at who will benefit from getting rid of this tax. Those who have at least 5.45 million US dollars: clearly not the majority then.

Donald Trump's plan would reduce revenue collection by between $4.4 trillion and $5.9 trillion over a decade. Revenues which are indispensable for redistribution: to be used for public spending on health, education or pensions in a country of growing inequalities, where not everyone has access to public health care and free education.

Back to the Finance Ministers' decision. Tax transparency is one of the three criteria they agreed on to screen non-European countries (together with "fair taxation" and implementing the OECD corporate tax reform, the so-called BEPS action plan). As we denounced back in May, the US is already behaving like a tax haven to some extent, and has issues with tax transparency. Unfortunately, Finance Ministers made a political choice that, until 2019, only two out of the three transparency sub-criteria will have to be met to stay off the grid, meaning the US will be left alone. After Trump's election and his tax promises, our Ministers may want to reconsider their decision.

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