

TAKING ADVANTAGE OF TAX HAVENS: SPAIN AND SPAIN'S BIG COMPANIES

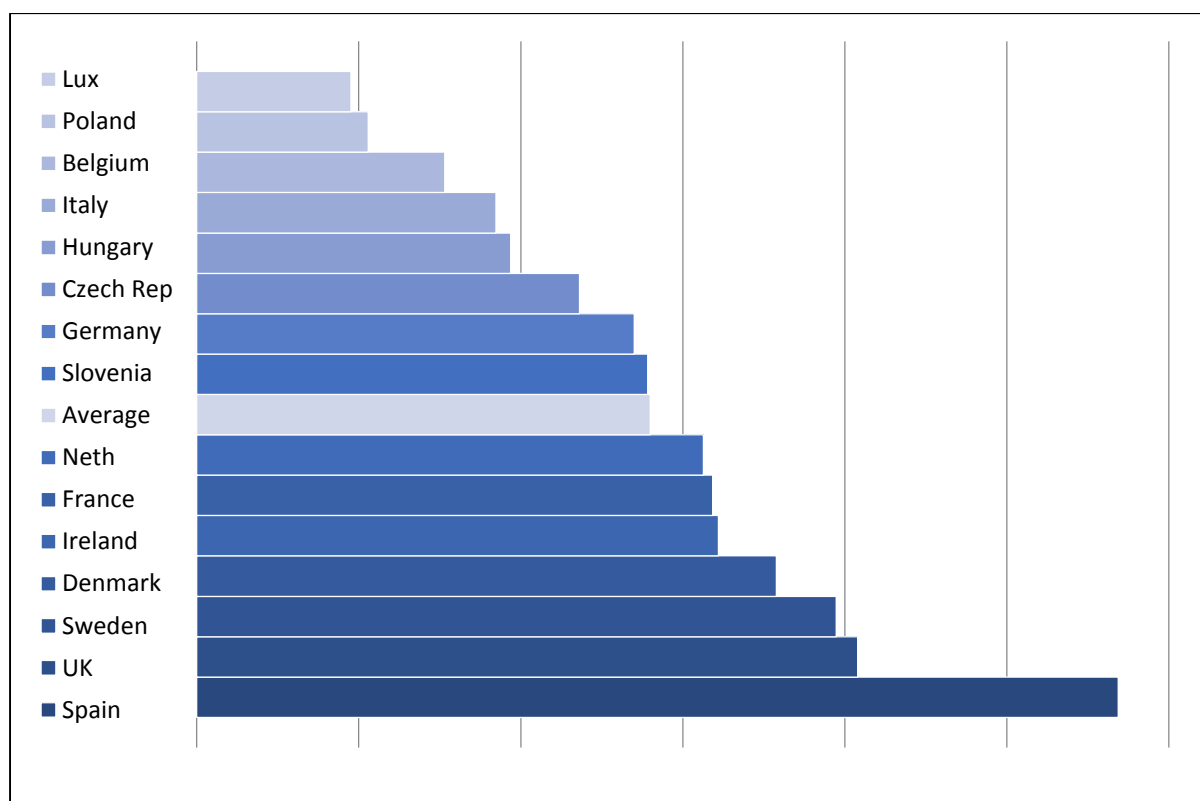
Some weeks ago, [Oxfam Intermón](#) launched an excellent report called [La Ilusión Fiscal](#), which analyses the relationship between the biggest Spanish companies and tax havens. The conclusions are astonishing: while Spain is losing almost €60 billion every year due to tax evasion and avoidance, Spain's biggest companies – listed in the [IBEX35 stock market index](#) – have increased their presence in tax havens by 44%. To add insult to injury, while small- and medium-sized enterprises (SMEs) are paying an effective tax rate of 16%, the biggest companies are paying a rate of just 5.3%. Oxfam Intermón proposes two recommendations: (i) that the political parties in Spain should include the fight against tax evasion and avoidance as an urgent priority in their electoral programmes during the 2015 electoral contest; and (ii) the celebration of a [World Tax Summit](#) next July during the [UN Conference on Financing for Development](#) in Addis Ababa (Ethiopia).

Oxfam's report analyses different methods and practices that Spanish companies are using to evade/avoid taxes around the world. As already mentioned, the amount of money siphoned out from Spain due to these tax malpractices and others is huge (€60 billion) – as well as for the European Union (€1 trillion) and developing countries (\$100 billion).

Spain's situation is particularly symbolic at this point in time because of the impact of the economic crisis and the austerity measures implemented by the governments on its population – currently almost 12 million people are at risk of poverty and social exclusion in Spain. It is worth examining some of the figures in Oxfam's report in more detail:

- 26% of Spain's foreign direct investment (FDI) consists of loans to subsidiaries of Spanish companies.
- 24% of Spanish total FDI goes to tax havens.
- 56% of inward investment to Spain comes from tax havens (in the last 20 years, this has increased six times). Half of this investment comes from the Netherlands and Luxembourg.
- 12.4% of investment that arrives in Spain from tax havens as FDI actually comes from Spain. Therefore, Spain is actually the second biggest 'foreign investor' in Spain.
- 34 out of 35 IBEX35 companies have a presence in tax havens, totalling 810 subsidiaries.
- The companies with the most subsidiaries are Arcelor Mittal (58.3%) and Banco Santander (19.5%).
- The 'favourite' jurisdictions of IBEX35 companies are Delaware in the US (352 subsidiaries), the Netherlands (122), Luxembourg (62), Ireland (56) and Switzerland (25).
- The Cayman Islands attracted the most Spanish investment among all the tax havens: almost €2 billion in 2014 (89 times more than in 2013).
- Spanish investment to tax havens increased by 205% in 2013-2014.
- Spanish Double Tax Treaties with developing countries have reduced withholding tax rates with developing countries more than any other European country (5.7%), as can be seen from the graph below. The outcome of these low withholding tax rates is likely to be a loss of tax revenues for developing countries.

Average rate reduction in treaties between European countries and developing countries



Source: Based on data obtained from Martin Hearson, London School of Economics (LSE) and International Bureau of Fiscal Documentation (IBFD) tax research portal.

Spain... a tax haven?

One of the main concerns as far as Spanish fiscal policies are concerned to attract investment are the [Empresas de Tenencia de Valores Extranjeros](#) (ETVE). This mechanism was created in the mid 1990s to attract foreign investment. They are similar to the holding companies in the Netherlands or Luxembourg. Their key feature is that dividends and capital gains are tax exempted both coming in or out of Spain. Currently 30.9% of net investment from Spain and 22.1% to Spain is channelled through ETVEs.

Oxfam Intermón's report sheds light on the role of big companies in developed economies and how their fiscal strategies allow them to reduce their tax bills. In a country like Spain, these companies (together with wealthy people) account for 72% of the money lost through different tax schemes. Their 'strategies' drag resources away from financing the welfare state and increase a global race to the bottom in which developing countries are losing out the most.

The report focuses on just four companies out of 35 for which it has been possible to draw up a map of subsidiaries. The corporate structures of the companies Telefónica, Abengoa, Mapfre and Abertis reveal how these companies are taking advantage of different jurisdictions all over the world to create holding companies. More information on the way companies are structured can be found [here](#).

As the report highlights, the Organisation for Economic Development (OECD) Base Erosion and Profit Shifting (BEPS) process spearheaded by developed countries – although welcome – has many weak points, such as the threshold or the confidentiality of information regarding country by country reporting, or the lack of participation of the vast majority of developing countries in the process. It is, therefore, necessary to find global solutions in which all the countries can participate on an equal footing in order to stop the siphoning of resources through tax havens.

As Oxfam recommends, a first step in order to solve these imbalances would be to organise a [World Tax Summit](#) next July in Addis Ababa (Ethiopia) during the [UN Financing for Development Conference](#). This could go hand-by-hand with the creation of a new UN Intergovernmental Body on Tax Matters, a demand that [more than 140 other civil society organisation \(CSOs\) all over the world have asked for](#), that Eurodad fully endorses, and that in an election year in Spain, the new government should also commit to.