Apple's "sweet" tax deal with Ireland being scrutinised

BRUSSELS, BELGIUM: The prospect of the European Union accusing Apple of getting illegal tax breaks in Ireland has reopened a debate on how European countries attract multinational businesses. It has also put Dublin back in the spotlight.

Apple's European base in Cork, Ireland. Apple has allegedly paid just 2% corporation tax compared with Ireland's normal rate of 12.5% and considerably lower than many other countries in Europe. Image: [Cult of Mac]

The US company, which has had its European base in Ireland since 1980, may have to repay billions of dollars if Brussels rules that its sweetheart tax arrangements with the Irish are a form of illegal state aid.

The European Commission said it would release the formal reasons behind its June decision to launch an official inquiry into the deals negotiated by the manufacturer of iPhones and iPads.

Apple and other companies including Amazon have come under intense pressure from politicians and campaigners over their tax deals, with critics saying the arrangements allow companies to move billions in earnings from more highly taxed countries to lower taxed ones.

"With massive profits and no taxes paid, Apple's been playing tricks with subsidiary in Ireland. EU, this must be severely punished!" tweeted Sven Giegold, a Green member of the European Parliament from Germany.

Apple, Fiat cases being watched closely

The Apple case will be keenly watched in several European countries.

An inquiry into Italian car manufacturer Fiat's tax deals with Luxembourg was also launched in June and the reasons for that decision also due to be released by the European Union next week.

Starbucks meanwhile is the subject of a probe into its tax arrangements with the Netherlands, although the EU's report on that will not come until later.

Apple, with its iPhones, iPads and iPods has made billions of euros in Europe and yet paid just a fraction in taxes even though it is actually one of the richest companies in the world. Image: [MacRumors]

But the most pressing questions are about Ireland, which has attracted a string of technology and pharmaceutical multinationals because of its very low corporation tax and other favourable terms.

The Financial Times said that Apple had paid just 2.0% tax in Ireland since 1991, far below Dublin's unusually low corporation tax rate of 12.5%, which has itself drawn criticism from other EU nations.

Any move by Brussels to curb Ireland's tax structures could have a negative effect on the country whose economy is only just emerging from a huge financial crash, years of recession and a €85bn EU-IMF bailout.

Ireland's economy grew by 1.5% in the second quarter of 2014 compared with the first three months of the year which saw growth of 2.7%.

"I think it is damaging from a reputational point of view. But also it creates uncertainty and what multinational companies and investors don't want is uncertainty," tax expert Jim Stewart of Trinity College Dublin told Ireland's RTE radio.

"So if the tax structure comes under attack, then the question is, will these companies continue to operate here? It just creates a little bit of uncertainty. I think most of them will continue to operate, but it will affect their operations, the size of their employment and other issues," Stewart said.

He said Ireland should seek to look at other mechanisms to encourage investment to attract high-paying firms that employ lots of people and can build a solid foundation in Ireland. He believes this is a more sustainable approach than merely offering tax incentives.

Major companies including Facebook, PayPal, Twitter and Amazon already use Ireland as a European base.

While there is no chance of EU states harmonising their tax rules, since any such move requires unanimity that Dublin would withhold, it could be the bloc's rules on illegal state aid which could do something to rein in the practice.

Source: AFP via I-Net Bridge