Lessons learnt from the Pandora Papers and other revelations

2022/2080(INI) - 30/03/2023 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Niels FUGLSANG (S&D, DK) on lessons learnt from the Pandora Papers and other revelations.

As a reminder, the Pandora Papers were a massive data leak, which the International Consortium of Investigative Journalists began publishing on 3 October 2021, documenting the beneficial owners of corporate entities established in secrecy jurisdictions.

General considerations

The report recognised that journalists and whistleblowers have an important role in investigating and exposing potential violations of tax law, as well as corruption, organised crime and money laundering. It deemed it necessary to **further protect the confidentiality of the sources of investigative journalism, including whistleblowers**.

Members regretted the fact that 24 Member States failed to transpose and communicate the transposition of the Whistleblower Directive within the deadline. They look forward to the Commission's report, due to be published in December 2023, **on the implementation of the 2019 EU Whistleblowers Directive**. They called on the Commission to consult stakeholders, when appropriate, on how to improve the directive.

Tax transparency and the exchange of information are essential for stemming illicit financial flows and increasing the mobilisation of domestic resources, which is of particular importance for achieving the sustainable development goals. Members calls for the EU to support developing countries in combating illicit financial flows and tax evasion by companies and multinationals, and to ensure that taxes are paid where real economic value and profits are created. They also called for the **EU to support the setting up of a UN framework convention on tax,** with

the aim of strengthening international cooperation and governance on tax and trade-related illicit financial flows.

The report highlighted the importance of **safeguarding high standards of integrity, honesty and responsibility among public officials in the EU** and in the Member States, as well as fostering, within that environment, an ethos of a sense of duty and personal honesty.

Member States should ensure that they have measures and systems in place, with sufficient human and financial resources, requiring politically exposed persons to declare any relevant outside activities, employment, investments, assets and substantial gifts or benefits which may give rise to a conflict of interest with respect to their functions. Members highlighted the importance of having systems in place for reporting and verifying this information and independently assessing conflicts of interest when they arise, as well as for providing dissuasive sanctions for failure to comply with disclosure obligations.

Role of intermediaries in facilitating tax evasion and avoidance

The report pointed out that, according to research carried out in 2018, the so-called Big Four major accountancy firms – PwC, EY, Deloitte and KPMG – accounted for 87 % of the global tax advisory market share. It called on the Commission to carry out a **study on the tax advisory market** in order to have up-to-date information on the market share of the major accountancy firms.

Members regretted the fact that, as exposed by the Pandora Papers, PwC, along with other major accountancy firms, had a central role in assisting Russian oligarchs with their investments in the West through their networks of offshore shell companies. They highlighted that, in view of Russia’s aggression against Ukraine and its hybrid actions against EU countries, **investigations into the assets and investments of Russian oligarchs** should be a top priority, as they are strategically important for the EU’ s security.

Harmful practices in non-corporate tax regimes

The report draws attention to the impact of new technologies (e.g. crypto-assets) which create new challenges in the area of tax avoidance and money laundering and for which new, appropriate and targeted regulations may be needed. It stressed that base erosion is facilitated by the fact that outbound dividends, royalties and interest across borders are not subject to withholding tax and that there are no common rules and procedures ensuring the effective taxation of intra-EU flows. The Commission and the Member States are invited to coordinate a **withholding tax** framework that ensures that all dividends, interest and royalties are taxed at least once at an effective rate.

Members observed, in parallel, a trend for countries, including EU Member States, to adopt legal frameworks designed to attract high-net-worth individuals, foreign pensioners and highly skilled workers to invest or live in their territory, notably granting them generous tax benefits and exemptions which do not apply to nationals, in addition to offering **golden visas** and selling citizenship opportunities. They urged the Commission to provide detailed information on the progress made by Member States in repealing or withdrawing the citizenship or residence permits of Russian or Belarusian individuals who have obtained their status through investment.

Misuse of shell companies and opaque structures

The report stressed the importance of strengthening coordination between national legal frameworks to close loopholes and improve supervision through the creation of a European Anti-Money Laundering Authority with adequate resources and powers. It called on the Commission to publish a list of assets that have been frozen or confiscated following Russia’s invasion of Ukraine.

Members stressed the importance of strengthening the tools for authorities to access information on the ownership of high-value assets.

The Pandora Papers identified examples of people circumventing beneficial ownership transparency requirements in Member States. However, Members deplored the delay in the setting up of the **Beneficial Ownership Registers Interconnection System** in the EU due to technical difficulties. They stressed that access to adequate, accurate and up-to-date information on beneficial owners and the monitoring of legal persons is a valuable tool in the fight against tax fraud and evasion.

The report noted that shell companies may be misused for aggressive tax planning or tax evasion. It welcomed the Commission's proposal for a Council directive laying down rules to **prevent the misuse of shell entities for tax purposes** and amending Directive 2011/16/EU and called on the Council to swiftly adopt the proposal, taking into account Parliament's opinion.

Members reiterates their call to the Council to extend the mandate of the Code of Conduct Group (Business Taxation) to include preferential personal income and capital tax regimes, and personal income and wealth tax regimes that are considered harmful.

Lastly, the report pointed out that several Member States have maintained preferential corporate tax systems, which may have led in billions of euros in tax losses for other Member States. It called for **greater transparency** concerning preferential tax systems, as well as more tax solidarity among EU Member States.