Tax avoidance vs tax evasion: fiscal vocabulary made easy

Having problems talking about taxes? Discover simple definitions for fiscal terms such as tax avoidance, tax evasion, tax havens and more.

*Our handy glossary of common tax terms is in alphabetical order:*

**Base erosion and profit shifting**

Tax planning strategies that exploit loopholes in the international tax system to artificially shift profits to places where there is little or no economic activity or taxation, resulting in little or no overall corporate tax being paid.

**Beneficial owner**

The ultimate beneficial owner of a company or other legal entity, which can be hidden behind a string of shell companies. This can mean a lack of transparency as it is not clear who is earning profits or dictating the company's moves.

In its fight against money laundering and terrorism, Parliament has already managed to get EU countries to create central registers with information on the beneficial owners of companies. These registers are open to authorities and to people with legitimate interest, such as journalists.

In January 2018, MEPs supported a new law that would allow anyone to access data about the beneficial owners of firms that operate in the EU.
Common consolidated corporate tax base

A common set of rules that companies operating in the EU could use to calculate their taxable profits instead of having to follow different rules for each EU country they are located in. They would also be able to consolidate all their profits and losses across the EU. However, national governments would maintain the right to set their own corporate tax rate.

In March 2018, Parliament supported the proposal for the establishment of a common consolidated corporate tax base. Firms would be taxed where they earn their profits. In addition their digital assets would be taken into account: personal data is an intangible but highly valuable asset mined by firms such as Facebook, Amazon and Google to create their wealth, but it is currently not considered when calculating their tax liabilities.

Patent box regime

A special tax regime for intellectual property rights. In order to boost innovation and attract tech companies some European countries offer tax exemption for income from patents. This means that products such as patents or sales of intellectual property licences qualify for a lower tax rate. Some companies have been accused of incorporating irrelevant patents in their products in order to qualify for the patent box regime and pay lower taxes.

According to Parliament’s second tax rulings committee, the link between patent box regime and research and development can be artificial as companies use the offered exemption for aggressive tax planning. In its final report, the committee calls on the Commission to ban the misuse of patent boxes and produce new legislation to regulate it.

Tax avoidance

Using legal instruments in order to pay as little tax as possible, for example by shifting profits to a low-tax country or deducting interest payments for loans with artificially-inflated interest rates.
The EU's anti-tax avoidance directive comes into force in January 2019.

Check our infographic about the fight against tax avoidance

Tax evasion or tax fraud

Using illegal practices to avoid paying taxes, for example by not declaring profits or using various ways to avoid paying VAT.

In October 2017, the European Commission proposed legislation to tackle VAT fraud.

Tax havens

Countries or jurisdictions allowing foreign companies and individuals who register there to pay little or no taxes. Tax havens also guarantee not to divulge the identity of individuals and real owners of companies established in their jurisdictions.

In its report on measures against tax avoidance in the wake of the Panama Papers scandal, Parliament called for a blacklist of tax havens or "uncooperative jurisdictions". After the blacklist was finally established by the Council in the beginning of 2018, Parliament strongly criticised member states for not including eight jurisdictions, including Panama.

Tax ruling

A written statement issued by a tax authority, setting out in advance how a corporation's tax will be calculated and which tax provisions will be used. They are legal but could, under EU rules, involve state aid and thus be subject to scrutiny from the European Commission. Tax rulings have sometimes been criticised when multinationals are found to pay less in taxes than ordinary tax payers.
Parliament's role

In tax matters, Parliament has a consultative role in the legislative process. EU laws are adopted with unanimity by member states in the Council.

One of Parliament’s priorities is the fight against tax avoidance and tax fraud. On 1 March 2018, MEPs established a special committee to investigate wrongdoing in the field of taxation.

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