



Opening remarks by Commissioner Gentiloni at the press conference on the implementation of the OECD agreement on a global minimum level of taxation and on an initiative to prevent the misuse of shell entities

Brussels, 22 December 2021

Two months ago, 137 jurisdictions came together and agreed on a historic reform of international taxation, which will transform the global corporate taxation framework through two so-called pillars:

Pillar 1, on the reallocation of taxing rights, which we propose will form – partially – the basis for a new own resource, as Commissioner Hahn will explain;

And Pillar 2, establishing an effective minimum taxation rate of 15%, which we are today already proposing to implement through an EU directive.

As we emerge from the shadow of the pandemic, we have a unique opportunity to rebuild our economies on a new footing. We want to see not just a rebound, but a new era of sustained and sustainable growth. Recent investigations such as OpenLux or the Pandora papers were another reminder of the injustices that characterise our economic system today. And the green and digital transitions can only succeed if they are based on fairness.

That's why we adopted these two decisions.

First, our proposed Directive implementing Pillar Two of the international agreement will ensure a 15% minimum effective tax rate for large companies with annual turnover above EUR 750 million that have their parent or a subsidiary in the EU.

The Directive will provide legal certainty and ensure that the Pillar Two rules are enacted in a manner that is compatible with EU law.

Moreover, by moving as quickly as we have with this proposal, we are facilitating a first discussion among finance ministers in January, with a view to reaching a swift agreement during the French Presidency. This is necessary in order to meet the globally agreed deadline of 2023 for the entry into force of the rules.

Of course, a swift opinion from the European Parliament will also be crucial in this context, and I am confident that this will be the case.

As you know, all EU Member States that are part of the OECD inclusive framework supported the global agreement in October. This is something we are very proud of. We will spare no efforts to maintain this consensus and to ensure that the Pillar Two Directive is adopted during the French Presidency.

Our proposal is fully consistent with the final version of the OECD's Model Rules which set out the details for the application of the new framework. That means no gold plating; no departure from the international agreement. We are maintaining the careful consensus that has been forged among EU Member States and our international partners.

The second proposal, the second Directive we have adopted today will enable us to step up the fight against tax avoidance and evasion by tightening the screws on shell companies – or letterbox companies – used as vehicles for tax avoidance or evasion.

The new rules will establish transparency standards around the use of shell entities, so that their abuse can more easily be detected by tax authorities. Our proposal will help national tax authorities detect entities that exist merely on paper by using three objective indicators:

Is the bulk of the company's income passive?

Are a majority of its transactions cross-border?

Are its management and administration outsourced?

If the answer is yes to all of these questions, the company will be subject to new tax reporting

obligations related to economic substance. It will not be able to access tax relief and tax benefits will be restricted. And perhaps most importantly, tax authorities in a Member State will be able to make a request to those of another Member State to conduct a tax audit of any entity that reports there and gives indications of being a shell. And this has been a difficulty in the recent past.

These two initiatives will significantly strengthen the Commission's toolbox in fighting abusive tax practices and delivering more tax fairness across the EU and the world.

Not a minor thing in these times, minimum taxation will bring additional revenue to EU Member States that have seen their tax takes depleted by low tax jurisdictions. In the medium term, part of this additional revenue will likely decrease as low-tax third countries will increase their tax rates precisely because of the effective mechanisms of Pillar 2. Nonetheless, if the tax advantages of offshore locations are reduced, this will mean that we have reached one important goal: business might see an interest to relocate to EU Member States and we would have built a more effective and fairer tax system across the EU and the world. And we will be stronger in protecting our citizens.

But tackling tax avoidance and evasion is not something that can be solved with a single battle. It is an endless commitment, of course.

This is why we will not stop here.

Next year, we will put forward a novel transparency proposal to require large multinationals to publish their effective tax rates.

We will also propose a new Directive on Administrative Cooperation to give tax administrations the information they need to cover crypto assets.

Finally, in 2023, the Commission will put forward a proposal for a holistic EU business tax framework fit for the decades to come - The "Business in Europe: Framework for Income Taxation" (or BEFIT). Building on the international tax agreement, it will be our flagship proposal to bring fairness and simplicity for business tax in the EU.

Our world has changed enormously in the last two years, and it is high time also for global taxation to change.

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