Irish government crisis over Apple's €13 billion tax dodge

By Robert Stevens
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The European Union's decision to fine US tech giant Apple up to €13 billion (US$14.5 billion) for failing to pay taxes at its European corporate headquarters in Ireland, has prompted a major crisis in Irish ruling circles that could lead to the collapse of the government.

The total amount due to the Irish government is around £19 billion, when interest is taken into account.

Shortly after Tuesday's announcement directing the Irish government to collect legally due taxes from Apple, the right-wing Fine Gael party, which is in a coalition with the Independent Alliance, announced it would appeal the decision. In doing so, it fell into line with Apple, which immediately announced it was appealing. However, Independent Alliance ministers, fearful of mounting public anger, are delaying backing an appeal and are seeking the recall of parliament to discuss the issue.

In a statement summing up the role of governments as servants of big business, Fine Gael Finance Minister Michael Noonan said an appeal would be made "to defend the integrity of our tax system; to provide tax certainty to business; and to challenge the encroachment of EU state aid rules into the sovereign member state competence of taxation." He added that to collect the taxes owed by Apple would be "destroying the future for short-term advantage."

Noonan's comments were a refined version of the apoplectic response from Irish business leaders. Ryanair CEO, Michael O'Leary, declared the ruling "bizarre," adding, "Frankly the Irish government should turn around—they shouldn't even appeal the decision—they should just write a letter to Europe and tell them politely to f**k off."

Following a three-year investigation, the European Commission (EC)—the EU's executive arm—concluded that Apple had effectively paid a maximum of just 1 percent tax on its European profits in 2003, which had diminished to about 0.005 percent by 2014. Over that entire period, Apple paid just €50 million in tax.

Due to lucrative tax deals granted to it by successive Irish governments, Apple was able to avoid tax on almost all the profit generated from its multi-billion euro sales of iPhones and other products across the EU's single market.

The EC investigated the activity of two of Apple Inc.'s subsidiaries—Apple Operations Europe (AOE) and Apple Sales International (ASI), both of which were incorporated in Ireland and therefore permitted to record profits in the country. Both subsidiaries had a "Head Office" and an Irish branch, which were known as "Double Irish" schemes. In 2011, ASI made a profit of €16 billion, yet only €50 million of this was allocated to the Irish branch—equivalent to a tax rate of just 0.05 per cent.

"To put that in perspective," European Commissioner for Violation of EU Treaties, Margrethe Vestager, declared, "it means that for every million euros in profit, it paid just €500 in tax."

According to Vestager, the vast remaining amount of profit was allocated to what was in reality a fictitious Head Office with "no employees, no premises and no real activities" where it remained untaxed. If the profit had been taxed under Ireland's corporate rate, the figure of € 13 billion plus interest would have been payable.

Apple first set up operations in Ireland in 1980 after the then government offered the company a deal allowing it to operate virtually tax-free in exchange for locating its European headquarters in the country. Some £7 million was invested and 700 jobs created.

Even though Ireland's membership of the European

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Economic Community, (the EU's predecessor) meant it had to levy taxes on companies operating on its territory, Apple continued to be offered preferential treatment.

The EC's ruling points out that the selective treatment given to Apple by Ireland through two tax rulings in 1991 and 2007 were illegal under EU guidelines.

The first of these "sweetheart deals" in 1991 resulted in Apple only being taxed on a certain bracket of its earnings. In 2007, the year that Apple first launched the iPhone, the previous deal was renewed giving the corporation access to further tax loopholes.

The courting of Apple was part and parcel of the whole system of subsidies and tax breaks handed out by Irish governments to attract transnational entities and global investment that made Ireland into the so-called "Celtic Tiger." The country functioned as an offshore financial centre and tax haven. At the same time, Ireland's membership of the EEC in 1973 was utilized by firms globally to access to the Single European Market and a base from which to avoid and evade taxation.

As of 2016, Ireland hosted over half of the world's top 50 banks and half of the top 20 insurance companies. In 2013 it hosted nearly 14,000 funds (6,000 of these were Irish-domiciled) administering an estimated €3.7 trillion—up from $840 billion a decade earlier. Today, corporate tax rates are 12.5 percent, compared to 50 percent in 1988 and the top rate of income tax is just 40 percent, compared to 65 percent.

The "Double Irish" strategy and other deals have enabled Apple to dodge US taxes on an estimated $181 billion in profits, contributing to the company amassing a cash hoard of over $230 billion. The €13 billion owed in Ireland equates to just 27 percent of the profit Apple made just in 2015.

The world's major conglomerates and super-rich are up to their necks in similar financial swindles. Another "Double Irish" scheme saw an Irish subsidiary of Facebook shift profits of €1.75 billion in 2012 to another subsidiary in the Cayman Islands and post a pre-tax loss of €626,000 instead. Google dodged $2 billion a year in taxes using a "Double Irish" scheme via the Netherlands and Bermuda.

The cost to the Irish working class and society is staggering. It is estimated that that the €13 billion tax withheld from the public purse by the Apple deal equates to €2,500 for every man, woman and child. It would cover the cost of Ireland's annual healthcare budget, used by 4.5 million people, two-thirds of the social welfare budget or 20 new hospitals.

This pillaging of vast public resources must be understood in the context of the even larger bailout of the banks and super-rich that took place in Ireland following the 2008 global financial crash.

The EU, International Monetary Fund and European Central Bank arranged an €85 billion bailout in 2010 for the Irish financial elite to avoid the collapse of the major banks. The borrowing undertaken as part of the bailout has already cost the Irish state almost €9 billion to service.

The Irish population was made to pay for this, plunging millions into poverty. With the collaboration of the trade unions, savage cuts to jobs, wages and conditions have been imposed. Eight austerity budgets were passed between 2008 and 2014 involving €18.5 billion in public-spending cuts. Nearly 40,000 public sector jobs were lost and health spending cut by 27 percent. On top of this €17 billion of Ireland's national pension reserve was seized to pay off the bailout.

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