FEE Tax Day

Simple, fair, coordinated – tax Utopia in the EU?

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Does Europe need a common corporate tax? 
Academic views: CCCTB

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1. Brief evaluation of company taxation in Europe

- Great diversity of EU-wide company taxation
  - Nominal tax rates (10 – 38.7 per cent)
  - Tax bases (but: financial profits = starting point)
  - Number and types of local taxes
- Taxation of foreign income: Coexistence of residence and source principle
- Problems
  - Violation of fundamental economic goals of EC Treaty (economic efficiency, Art. 2 EC)
  - Obstacles to cross-border activities within the EU (businesses)
    - Compliance costs
    - Disputes and double taxation (cross-border loss relief, group financing, transfer prices, reorganisations)
  - Tax administration, protection of tax bases and conflicts with EU Law (member states)
(1) Computation of taxable income at the level of each group member according to a harmonised set of rules (CCTB = common corporate tax base)

(2) Consolidation of individual income to group income

(3) Allocation of combined income to group members located within the EU according to a formula

Source principle

Each Member State’s own tax rate
### 2.2 CCCTB - Advantages -

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2.3 CCCTB
- Implementation issues -

Determination of taxable income at the level of each group member

Determination of group income (consolidation)

Apportionment of group income

Related issues

Interrelations

- widely agreed (see Common Consolidated Corporate Tax Base Working Group, CCCTB: possible elements of a technical outline, CCCTB/WP057)
- not all issues even addressed and analysed
2.3.1 Implementation issues

- Determination of taxable income at the level of each group member -

- Dependency of IFRS
- Combination of both approaches
- Separate tax accounting rules

- not addressed by IFRS
- other items if necessary

- Losses
- Capital gains
- Dividends
- Depreciation
- Others

Standing for trust and integrity
2.3.1 CCCTB

- Determination of taxable profits in case of a harmonised tax base according to the proposals of the CCCTB-WG (WP057)-

➤ depreciation /capital allowances
  - buildings: straight-line 40 years
  - intangibles: straight-line 5 years
  - machinery (5-10 years): pooling at 20%
  - office & furniture (4-9 years): pooling at 20%

➤ stocks
  - production costs: full-costs without
    - r&d expenses
    - production overhead costs
  - simplified valuation: FiFo

➤ occupational pension schemes
  - market interest rate
  - projection of increases of salaries

➤ losses
  - no carry back
  - unlimited carry forward (no constraints)
2.3.1 CCCTB

- Change of effective tax burden (per cent) (small corporation, manufacturing sector, 10 periods) -
2.3.2 Implementation issues

- Determination of group income (consolidation) -

**Taxable unit**
- group definition
  - legal control (shareholding)
  - management control
  - combination

- residence, nexus
- personal scope
  - OECD-principles
  - corporations
  - transparent entities / partnerships

**Consolidation**
- scope
  - full consolidation
  - exceptions

- third-country relations

**Entry & Exit / reorganisations**
- allocation of hidden reserves

Standing for trust and integrity
2.3.3 Implementation issues

- Apportionment of group income -

Uniform formula

macro-factors

micro-factors

value added

formula apportionment:

Property (intangibles?)
Labour (payroll / employees?)
Sales (origin / destination?)
2.3.4 Implementation issues

- Related Issues -

**Legal framework**
- Option
- Compulsory

**Administration**
- Member States
- Superordinate control entity (one stop shop)

**Local profit taxes**
- Apportioned individual income
- Group income

**Non-profit taxes & social security contributions**
- Apportioned individual income
- Group income
3 Results

1. The present tax situation in the EU reveals that there is no proper functioning of the Common Market and that obstacles to cross-border activities of businesses and conflicts with EU-law exist.

2. A CCCTB as proposed by the Commission might abolish obstacles to cross-border activities, reduce conflicts with EU-law and increase national tax autonomy.

3. An implementation of a CCCTB needs harmonised EU-wide rules for the determination of profits, consolidation and apportionment.

4. The Commission has announced to release a proposal for a CCCTB. However, with respect to consolidation and apportionment, not all relevant issues have yet been addressed and analyzed.

5. Therefore, it is recommended to start with the harmonisation of tax accounting rules (CCTB). Consolidation and apportionment of group income should be addressed at a later stage.
43 professional institutes of accountants
32 European countries, including all 27 EU