



CEVROINSTITUT

[school of political studies]

Harmonisation of Corporate Taxation in the European Community: Losers and Winners

Jaroslava KYPETOVÁ



CIT Harmonisation – over 40 years of history

- 1962 – Neumark Committee – treatment of retained and distributed profits
- 1970 – Tempel report – tax base and rate harmonisation
- 1975 – Commission’s proposal – rates between 45 % - 55 %
- 1984/85 – Commission’s proposal – loss compensation
- 1988 – Commission’s draft – tax base harmonisation – never presented
- 1990 – Merger Directive 90/434/EEC, Parent/Subsidiary Directive 90/435/EEC
- 1992 – Ruding Report – necessity of some minimal standards for CIT
- 1994 – Commission’s proposal – abolishment of the withholding tax – withdrawn
- 1998 – new Commission’s proposal – same issue
- 1999/2000 – ECOFIN discussions on “tax package”
- 2004 – Establishment of the CCCTB Working Group
- 2005 – Bersani report – European Parliament’s support of the common tax base
- 2008? – Commission’s proposal – **C**ommon **C**onsolidated **C**orporate **T**ax **B**ase



Common Consolidated Corporate Tax Base – CCCTB/I.

- **Working group meets quarterly - plenary sessions (closed or extended)**
 - **subgroups: Assets and depreciation**
 - Provisions, reserves and liabilities**
 - Taxable income**
 - International aspects**
 - Group taxation**
 - Sharing mechanism**

Active participation of the experts (MoF officers) - majority of the Member States is waiting for the final proposal to formulate their overall opinion.

Rather technical exchanges of views – no formal position of the MS.



Common Consolidated Corporate Tax Base – CCCTB/II.

■ Reasons for a common tax base

- removing the tax obstacles to cross-border economic activities
- solving the problem of transfer pricing
- reducing the compliance costs
- resolving the double or no taxation
- *tax competition*

Common tax base should be consolidated within the EU and tax revenues then distributed among the Member States concerned.

CCCTB should be optional – company can choose between existing national rules or opt for the new system.



Tax Sharing Mechanism

- **Probably the most important determinant of MS position**
Macro-based apportionment and value added option – abandoned
Formulary apportionment
 - payroll factor – differential in wage level – number of employees
 - assets factor – financial and intangible assets excluded
 - sales factor – origin (payroll and assets) versus destination (VAT)

Data availability for the impact assessment – unconsolidated and detailed

Existing studies: Devereux, Loretz (2007), *Weiner (2007)*

- the overall loss in tax revenue around 1 % (if optional)
- more significant impact for individual Member states



Example – one multinational company

- **European based company – services provider since 60s**
80 countries – 22 EU members – 2 quite independant divisions
85 % of income arising outside of the Parent company State

Consolidated data as per 31/08/06 (annual report)

income (aprox. sales) 12 798 millions EUR

number of employees 332 096

payroll 6 041 millions EUR (incl. stock options)

total assets 8 314 millions EUR (tangible assets 430 mil. EUR)

Share for the Czech Republic – 6 % higher tax base (but no withholding tax)

Constrains:

**Important share of financial and intangible assets,
IFRS data and internal methodology**



Winners and losers

- **Business sector should be the winner**
 - consolidation of profits and losses, unified simple rules
 - but additional reporting (transfer bridges)
 - tax planning via non EU countries
- **Tax administration will lose some information and control power and „win“ the second system of taxation**
- **Some or all MS will lose tax income – the official Impact Assessment**

- **Governments will not be able to predict CIT revenue – influenced by changes within the EU, floating shares. „Maastricht reporting?“**



Positive aspects of CCCTB

- Project has provided detailed studies on CIT taxation in the EU
- Final proposal could bring number of interesting improvements – e. g. introduce pool depreciation, facilitate deduction for a bad debt, limit exemptions.
- Transfer pricing has been tackled
- English terminology has been cleared up.

However, the unanimity for the optional and consolidated version will be hard or even impossible to gain.



CEVROINSTITUT

[school of political studies]

Thank you for your attention.

jaroslava.kypetova@vsci.cz