Communication on Business Taxation for the 21st century

Presentation to Platform for Tax Good Governance

15 June 2021

European Commission

Taxation and Customs Union

Context and challenges

Covid crisis and recovery: need for investment to kick-start the economy and finance green and digital transitions, public debt levels.

Longer term megatrends: e.g. population aging, transformation of labour market, climate change, globalisation, digitalisation.

Specific challenges for business taxation:

- Outdated corporate tax framework not fit for today's digitalised and globalised economy.
- Lack of a common tax framework for the single market creates barriers and loopholes and holds back investment and growth.

Business taxation in EU's wider tax strategy

- Overall tax strategy must be guided by principles of **fairness, efficiency** and **simplicity.**

- Key priorities:

  - **Enabling fair and sustainable growth**: Environmental taxes to support green transition; Addressing tax barriers to investment; Supporting the digital transition, CMU and industrial strategy

  - **Ensuring effective taxation**: Billions of euros lost each year in tax fraud, evasion and avoidance. Addressing this contributes to level playing field, improving EU competitiveness.

Need for a reflection on the EU tax mix

- Population ageing and an increase in non-standard work may reduce the ability of **labour taxation** to generate the same revenues as today.
- **Consumption taxes** at all time high – action on VAT should focus on removing inefficient exemptions and reduced rates and tackling fraud and evasion.
- **Environmental / behavioural taxes** must help accomplish policy goals, but can also generate revenue to partially compensate for labour tax reductions.
- A future-proof tax mix will also require the fair and effective **taxation of capital income**, both from individuals and corporations.

→ Tax Symposium in 2022: “EU Tax Mix on the Road to 2050”

Forthcoming global agreement (OECD/G20)

- **Pillar 1:** reallocation of profits for the largest and most profitable multinationals, including digital companies
- **Pillar 2:** minimum effective taxation
- Following agreement – the Commission will implement this within the EU
    - Pillar 1: Multilateral convention will make it mandatory for participating countries. Commission is considering proposing a Directive to ensure uniform implementation.
    - Pillar 2: Commission will propose a Directive reflecting the OECD Model Rules, with the necessary adjustments. Implications for existing legislation too (ATAD, IRD).

Business in Europe: Framework for Income Taxation (BEFIT)

- BEFIT will…
  - create a common rulebook for companies operating in more than one Member State;
  - reduce red tape and compliance costs, combat tax avoidance, support growth, jobs and investment;
  - provide a simpler and fairer way to allocate taxing rights between Member States;
  - ensure reliable and predictable corporate tax revenues for Member States.
- Builds on international progress to construct a new EU framework.
- Proposal in 2023.
- CCCTB will be withdrawn.

BEFIT: What is new?

- New political context: A springboard for progress at EU level

  Global agreement expected which includes agreement (for specific purposes) on:

    - Formulary Apportionment as a way to partially reallocate taxing rights (Pillar 1)
    - A common way of calculating the corporate tax base (Pillar 2)

- New economic context:
    - Digitalisation needs to be reflected
    - Increasing revenue needs post-Covid.

Other targeted actions at EU level (2021-2022)

Ensuring fair and effective taxation

- New rules to tackle the misuse of shell companies for tax purposes

- Publication of effective tax rates for large multinationals

Enabling productive investment and entrepreneurship

- Debt Equity Bias Reduction Allowance (DEBRA)

- Recommendation on domestic treatment of losses

New rules to tackle the misuse of shell companies

- “Shell companies” (no or minimum substance) can be misused to reduce the taxation of a group/structure
- Proposal will tackle this misuse, with sanctions for non-compliance
- Proposal in Q4/2021

Publication of effective tax rates for large multinationals

- Tax Transparency ⬄ Great public knowledge of the tax multinationals pay
- Proposal for large multinational groups to publish their effective tax rate for each country where they operate
- Will use internationally agreed methodology (Pillar 2)
- Proposal in 2022 (aligned with the timetable for a Directive implementing Pillar 2 OECD).

Recommendation on treatment of losses

- Tackles major pandemic-related problem for businesses, particular for SMEs: Insufficient Cash Flow
- Recommendation that Member States allow companies to offset losses against past profits, to address current liquidity problems.
- Will be limited to EUR 3 million.
- Adopted alongside the Communication.

Debt Equity Bias Reduction Allowance (DEBRA)

- DEBRA will address the current debt-bias in taxation - companies can deduct the interest they pay on their debts but not the costs of equity.
- This distorts financing decisions, makes companies more vulnerable to bankruptcy and undermines the stability of the overall economy.
- DEBRA will take the form of a notional interest deduction on capital increases.
- Proposal in early 2022

Thank you for your attention.

European Commission