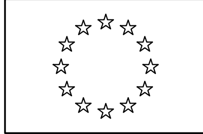

EUROPEAN COMMISSION
DIRECTORATE-GENERAL TAXATION AND CUSTOMS UNION
Analyses and tax policies
CCCTB Task Force

Brussels, 22 October 2007
Taxud TF1/DB/

CCCTB/WP/059/draft/en
Orig. EN

SUMMARY RECORD OF THE MEETING OF THE COMMON CONSOLIDATED CORPORATE TAX BASE WORKING GROUP

Held in Brussels on 27-28 September 2007

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Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.
Office: MO59 6/22. Telephone: direct line (32-2) 295 03 22. Fax: (32-2) 295 63 77.
taxud-ccctb@ec.europa.eu

I. OPENING OF THE MEETING

1. The eleventh meeting of the Commission Working Group on the Common Consolidated Corporate Tax Base (the WG) was attended by experts from all Member States (MS) and was chaired by the Commission Services.

II. ADOPTION OF AGENDA

2. The agenda was adopted by consensus.

III. REPORT AND DISCUSSION ON THE WORKING DOCUMENT 'CCCTB: possible elements of a technical outline' (CCCTB/WP/057)

3. The Commission Services presented to the WG members[1] a summary of the working document 'CCCTB: possible elements of a technical outline' (CCCTB/WP/057) and a general discussion followed. Based on the technical work undertaken since November 2004, the document prepared by the Commission Services attempted to bring the various structural elements of the base together into a coherent set of rules. The purpose of the presentation was to prompt comments and discussions. The following preliminary remarks were made:

4. First, the paper was not meant to cover everything (for instance, the administrative and legal framework and the sharing mechanism would be covered by future documents to be tabled at the December meeting).

5. Second, the paper contained several detailed assumptions (for instance, the definitions of related companies, opting companies, consolidating companies, rates of depreciation, etc) and experts were invited to comment more on the principles than on debating the precise percentages, although obviously comments on the detail were also welcome.

6. Third, in line with the principles of community legislation[2], the paper suggested that the basic act (a Directive) should not contain detailed provisions which could be placed in an implementing measure. Such implementing measures could be adopted by making use of the so-called 'Comitology' procedure. Broadly speaking that would mean that the Commission, assisted by a Committee formed of representatives from MS which where necessary would use qualified majority voting, would be conferred

[1] Throughout the document the terms 'members', 'experts', and 'Member States' (MS) are used. In common with other documents these should be understood to refer to individual experts participating in the meeting. They do not indicate any formal position or view of a MS.

[2] Joint Practical Guide of the European Parliament, the Council and the Commission for the drafting of Community legislation

the power to implement the basic rules laid down by the Council in the basic act (the CCCTB Directive) by way of, for example, a Commission Directive.

7. Fourth, every option suggested in the paper was heavily driven by the preference for simplicity rather than the complexity that a more elaborate option would entail. That was not always possible (for example the applicable rules when consolidation starts for a new entrant to group) but comments on where more simplification could be achieved would be appreciated.

8. Fifth, as regards the relationships with the international accounting standards/international financial reporting standards (IAS/IFRS), they were used when suitable for the CCCTB (e.g. the definition of stock and provisions) and amended as required.

9. Finally, the following points contained in the paper were stressed since their implications might not be immediately evident: under the CCCTB consolidation would apply also to a purely domestic group and capital expenses for research and development (R&D) would be written-off immediately and not depreciated. In addition some areas such as local taxes, transparent entities, gifts and leasing required more analysis.

10. MS made general remarks concerning the opposition of simplicity and complexity and voiced two main general concerns, one as regards the 'Comitology' procedure and the second concerning the lack of details in the outline.

1. Basic structure of a possible CCCTB

a) Simplicity versus complexity

11. In general, MS expressed a preference for as simple as possible rules because they would be more attractive and acceptable. However, they acknowledged that sometimes complexity is unavoidable because the reality of the matter is complex. Furthermore, a specific concern was expressed concerning the amount of detail in any legislation. Some experts stated that the suggestion in the Working Document that in the event that the Directive did not cover a particular item the national accounting treatment (GAAP) should be consulted was not desirable. Accounting rules are not harmonised and therefore to ensure a common treatment reference should not be made to national standards. The Directive should be as detailed as possible and where there was doubt reference should be made to basic principles included in the Directive itself, and not to national accounting standards.

12. It was also mentioned that simplicity should be evaluated on a case-by-case basis and not in general. The Chair invited those MS to submit written comments at a later stage to specify exactly where further room for simplification would be possible.

b) The amount of details

13. Many MS were of the opinion that the Commission Services have succeeded in laying down the cornerstones of the tax base. However the outline was considered by many MS to be very concise and not detailed enough on some points. Several of the points referred to in the paper, and again by the Commission Services in their introduction, as requiring further work were mentioned again by experts. The Commission services invited MS to comment in writing on any additional element or detail but asked them to bear in mind that any specific suggestion had to be acceptable to all MS. Detailed substantive arguments and analyses supporting the suggestions in the paper were not repeated in the paper because it was the synthesis of the work carried out over the past 3 years which had been extensively documented and discussed.

c) The 'Comitology' procedure

14. The various references contained in the outline to more detailed rules to be adopted by a committee in accordance with the 'Comitology' procedure raised several questions. A few MS referred to their Constitutions, expressing concern over how such comitology proceedings would satisfy their requirement to submit taxation legislation to parliamentary approval. A few expressed concern over the implications of the qualified majority rules in comitology given the unanimity requirement for tax issues as prescribed in the Treaty, wondering if MS would be ready to follow this path. However, another expert pointed out that the qualified majority process was more appropriate when rapid decision making was required, as might be the case with the CCCTB. Another asked the Commission Services to provide further information on how Comitology works or would work in the direct tax field, including practical arrangements.

15. The Chair agreed more detail on how the Comitology procedure would work could be helpful. However, he stressed that the CCCTB Working Group should focus on tax technical issues as the political issues would be discussed in the Council once the Commission has presented a formal proposal. He also invited MS to explain their possible constitutional difficulties with comitology in writing, taking into account that in other areas of community taxation the procedure already applies (e.g. excise duties).

16. The Commission Services also asked whether it was not already the case that current domestic tax systems – though regulated by primary law – allow secondary legislation to determine ancillary aspects of the taxation, thereby apparently escaping formal parliamentary scrutiny. Similar issues might arise in Community law if the basic directive explicitly determined the scope of the implementing powers conferred on the comitolgy committee. For the CCCTB the main principles and rules could be in the basic directive with only detailed implementation measures being decided by Comitology. An expert responded that areas in which this can be domestically done

are very limited, very tight and are constantly watched very carefully from a constitutional point of views.

17. However, several MS found the Commission Services' approach reasonable and pragmatic, particularly since the proposed new system of corporate income taxation should assure flexibility and ability to react rapidly to fresh developments. However, the basic instrument should be sufficiently complete and contain all the main elements of the proposal on which the comitology procedure would be called upon to implement.

2. Tax base of individual companies (paras 19 to 55)

a) Tax base

18. After the introduction from the Commission Services on the main elements of the tax base for a single company, the floor was opened for discussions. There were general comments on the link between the financial accounts and the tax base (paragraph 9 of the working document CCCTB\WP\057) and some detailed comments on several structural elements of the tax base. Several MS promised more detailed written comments would follow.

19. The Commission services suggested that in practice companies would probably start the calculation of the taxable base with the financial accounts based on their national accounting standards (GAAP), or IFRS if they used these. These accounts would then be adjusted (the bridge) in order to meet the requirements of the directive and arrive at a common base. The CCCTB would not define the 'bridges' between all the different national GAAPs but the final result – the base itself. For practical reasons where something was not defined in the CCCTB rules the reference point could be the national GAAP treatment (see however remark in para 14).

20. One expert thought that the need for 27 different 'bridges' (adjustments from the accounting results to the common tax base) plus the need for maintaining transfer pricing rules between related but non consolidated companies (where ownership remains between 20 % and 75%) would mean that the CCCTB would not bring about the simplification and reduction of compliance costs which it is supposed to. Furthermore, he thought that consolidating companies might continue to maintain full arm's length transfer pricing in case they subsequently left the CCCTB and had to reintroduce arm's length pricing.

21. The Commission services pointed out that the use of up to 27 different 'bridges' is unavoidable without complete accounting harmonisation but this does not seem to pose insurmountable problems to business. Indeed when commenting on the CCCTB business representatives had not requested complete accounting harmonisation. As regards further simplifying transfer pricing issues comments and suggestions were welcome.

22. The issue of the need for a 'tax balance sheet' was also mentioned. The Commission services answered that designing a bridge in terms of balance sheet or profits and loss accounts seemed to be a matter of legislative technique, but the result would be the same tax base. By designing the base on the basis of a profit and loss method, the legislation would be directed at defining the various income types, exempting taxable income, deductible items, etc. The same results would be achieved in designing the legislation through a balance sheet method, where the legislation would be framed in terms of comparing assets and liabilities of two consecutive balance sheets. In both cases the starting point in practice would probably be the financial accounts calculated in accordance with local GAAPs with companies making adjustments to achieve a common base through the bridge.

23. On specific issues, a series of comments were made, as follows:

24. As regards the threshold for assets to be immediately written-off and not depreciated one expert pointed out that EUR 1000 (paragraph 26) was too low having in mind the purpose of simplicity.

25. As regards the arm's length principle (ALP) applied to loans (paragraph 44), it was also mentioned that the suggestion in the working document may cause some concern, not as regards the rate of interest, but as regards the amount of the loan which could be very complex.

26. As regards the list of non-deductible expenses one expert suggested this might imply a narrower tax base than the current one where a MS has limits on the deductibility of: (i) directors' fees and remunerations in form of profits distributions; (ii) gifts (limit of deduction); (iii) entertainment and representation costs; (iv) financial costs (to reduce the disparity with the treatment of dividends) and (v) labour costs, which are currently deductible only insofar as they are taxable in the hands of the individual recipients.

b) Depreciation (paras 56 to 77)

27. The Commission Services presented their 'compromise solution' consisting of individual depreciation for long terms assets and 'pooling' for the remaining assets. That solution was generally well received.

28. As far as individually depreciated assets are concerned, several MS considered that a 25-year useful life as threshold between the two types of depreciation was too high. On this topic, one expert suggested a better threshold would be 10 years, which is the average duration over which a pooled asset would be depreciated while another suggested linking the duration to the actual useful life of each individual asset. Moreover, the quantitative threshold of EUR 5 million could create some problems to companies depreciating expensive assets with a short useful life. It was also mentioned that treatment of ships and hovercrafts referred to at paragraph 67 could be contrary to Community guidelines on State aid to maritime transport (which suggests accelerated depreciation on investment in ships as a possible fiscal incentive).

29. The option to depreciate improvement costs at the same rate as the underlying assets was also well received, although one expert suggested for the sake of simplicity to add the value of the improvement cost back to the tax written down value (TWDV) of the underlying assets instead of depreciating it separately as if it was a different asset. However the same depreciation rate would apply to the aggregated TWDV.

30. As regards the pooling system, it was generally accepted by the majority of the experts who took the floor with some exceptions, although it was mentioned that it would be difficult to find a satisfactory depreciation rate since in the pool there are quite different assets, often with a long useful life. One expert who favoured the use of tax balance sheet pointed out that as the pooling method is a move away from accounting methods preparing the tax balance sheet from the accounting balance sheet would require adjustments which could not be considered to be a simplification. A MS already applying the pooling system mentioned the possible difficulties in 'splitting' the pool between two companies in case of division (re-organisations); although the Commission Services noted that this should not pose particular problems if appropriate rules were defined. If depreciation were mandatory, as the document suggested, determining the TWDV of assets should not be difficult providing the acquisition, construction and/or improvement costs and the year of purchase of asset were recorded.

31. It was also noted that due to the automatic roll-over relief contained in the pooling system and in particular tax induced incentives linked to the deferred taxation of capital gains, there may be different treatment of companies within the same MS depending on whether the company is in the CCCTB or the 'normal' domestic system (assuming the domestic system does not provide for the pooling). However the Commission Services pointed out that opting for the CCCTB entails a series of consequences, some more advantageous than others, therefore individual elements where different treatment applied should not be isolated and considered to be discriminatory.

3. Consolidation (paras 85 to 115)

32. As regards consolidation, MS stressed their preference would be for a system which is as simple as possible but also secure, not open to abuse and fundamentally acceptable.

33. A concern was raised that by defining the group membership only by reference to voting rights, the proposal would leave room for avoidance opportunities. It would be easy under this approach for taxpayers to 'pick and choose' companies in and out of consolidation for tax purposes. It was also pointed out that a company could be controlled by another one via agreements outside of the companies' statute amending ownership of voting rights. In comparison, economic rights (i.e. participation in the equity of a company) would therefore be a much easier element to assess.

34. The Commission Services explained that the rationale behind such an approach is that voting rights were considered to be the best measure of control but invited MS to comment in writing on potential abuse in this respect.

35. Other MS considered the definitions of opting and consolidating companies confusing and not at all simple (a lower threshold of more than 50% for mandatory application of the CCCTB rules for controlled companies within an opting group and a higher threshold of 75% for consolidation).

36. The Commission Services acknowledged the complexity of this approach but referred to the work carried out previously in the WG and in the subgroup. In particular, during the discussions it emerged that a low threshold for applying the 'all-in all-out' principle would be an effective tool to prevent 'cherry-picking' (a reasoning based on anti-abuse considerations), which led to making use of wide criteria (effective control) and a lower threshold (more than 50%) to ensure that all controlled companies of an opting group are included. However, some MS considered consolidation as an incentive rather than as an anti-abuse measure, and therefore suggested restricting access to consolidation by applying a higher threshold (up to 100%). In that context, the suggested threshold of 75% was a compromise. However the Commission Services invited MS to comment in writing.

37. One expert mentioned that a so-called 'sandwich situation' in a participation chain of entities (a non-EU entity in between a EU entity as parent company and another EU entity as subsidiary) should break the participation chain for consolidation purposes. In addition, if EU companies or EU PEs are under common control of a non-EU entity, these EU entities should not be eligible for consolidation.

38. It was also suggested, in order to promote simplicity, not to divide a tax year into two parts to deal with companies joining a CCCTB group and therefore not to apply different sets of rules during one single year (domestic tax rules to the first part and CCCTB rules to the second). In addition, that split of the tax year would also require closing the accounts for taxation purposes half way through the accounting year.

39. As regards leaving companies, one expert referred to para 99 of the working document and suggested to include a time apportionment factor in the formula.

40. As regards the treatment of pre-existing losses (i.e. losses incurred by a company before entering a CCCTB group), the outline suggested to ring-fence such losses (to be offset against the share of the common tax base that that company in each MS would get after apportionment). According to one expert if a company did not have enough profit to be compensated with its pre-existing losses and if these losses could not be off-set in future years due to limited carry-forward under domestic legislation, that case could probably raise legal issues.

41. The Commission services answered that the (discriminatory) situation of lack of cross-border loss relief ("trapped" losses) combined with domestically limited carry forward of losses already arises under most current domestic tax systems. Furthermore, since the CCCTB would be optional and would replace existing rules

with a new set of rules some of which may be more advantageous (on loss relief) but other less advantageous, discrimination with current systems should therefore not be an issue; however the Commission reserved their right to further analyse internally the question of infringement of existing community case-law on cross-border loss relief. In addition, the Commission services stressed the alternative method (admitting losses incurred under different sets of rules before a given company joined the CCCTB to be brought into the CCCTB pool) would have greater disadvantages.

42. It was also expressed that, as suggested, if no losses were attributed to a company leaving a CCCTB consolidated group, that leaving company should however be entitled to compensation as losses have an economic value in tax terms although this could be dealt with by internal agreements within the group.

43. A comment on sales of assets or shares was also made that the anti-abuse provision mentioned at paragraph 108 of the outline would not make the CCCTB so attractive. However, if an anti-abuse provision was to be introduced, it was suggested extending the period referred to at paragraph 109 of the outline, in particular for intangible assets.

4. Foreign income and participation exemption (paras 117 to 139)

44. The Commission services opened the floor by reminding the meeting about the questions on the treatment of foreign income contained in the working document. At the suggestion of one expert, they also welcomed any comments on information exchange issues connected with the suggested anti abuse measures (Controlled Foreign Companies (CFC) rules and the switch-over mechanism from the exemption method to the credit method).

45. The Commission services recalled, answering a preliminary request for clarification on paragraph 117 and footnote 37 of the working document, that the future CCCTB directive could not override any arrangement under existing double tax treaties concluded by EU MS with third countries. Those treaties would therefore take precedence over conflicting CCCTB provisions. The Commission services explained that the exemption method - provided for in many treaties as standard method - has therefore been retained in the CCCTB as preferred method to deal with foreign income. However, as some anti abuse measures would also be necessary to protect the tax base, a switch-over mechanism to the credit method and CFC rules were suggested but would nevertheless in most cases conflict with the existing treaty network.

46. One expert presented the meeting with another example of potential conflicting provisions under the CCCTB and the treaties with third countries, where a third country company had a PE in MS A and a subsidiary in MS B both meeting the requirements for consolidation. The question was raised whether the outcome of the sharing mechanism for MS B could conflict with for instance a treaty provision between that MS B and the third country specifying that the profit of the third country

company can only be taxed in MS B to the extend that they arise from a PE in that MS.

47. As regards portfolio shareholdings, one expert considered incentives to choose an exemption approach would be limited, while another referred to the example the Commission services presented where a 5 % in a multinational company would be considered as portfolio while a 50 % in a start-up as a major shareholding, and suggested agreeing on a quantitative criteria to include high value investments in the definition of major shareholdings, whatever the holding percentage.

48. As regards anti-abuse methods, one expert mentioned that the switch over mechanism for PE or dividends from major shareholdings should apply not only in case of low taxation but also if the PE or the subsidiary does not have a real economic activity. Some experts favoured CFC rules, which they believed should take precedence. With regard to fat capitalisation, one expert suggested the Commission to further develop the approach in its proposal.

49. Following another request for clarification, the Commission services explained that thin capitalisation which would apply to inward investment from non consolidated related companies (EU and third countries) would be governed by the general arm's length principles (ALP) applied to both (i) interest and (ii) the amount of debts. However, comments on whether the latter condition (the AL borrowing capacity of a company) could be considered too complicated to be assessed in practice were requested.

50. Finally, the Commission services invited MS to expand in writing on the questions raised in the working document as regards anti-abuse measures the CCCTB should include (thin capitalisation, fat capitalisation, CFC rules) and the treatment of dividends from portfolio shareholdings.

IV. REPORT AND DISCUSSION ON PROGRESS OF THE SUB-GROUP ON THE SHARING MECHANISM, WORKING DOCUMENT 'Report and overview of the main issues that emerged during the discussion on the sharing mechanism - SG6 second meeting – 11 June 2007' (CCCTB/WP/056)

51. The Commission Services presented to the WG members the Working Document which provides a summary and key insights of the main points that were discussed at the second meeting of the subgroup on the sharing mechanism (SG6) in Brussels on 11 June 2007. A general discussion followed.

52. MS acknowledged that the document gave a fair true view of the state of discussion among them, including the fact that certain fundamental divergences of opinions still exist.

53. Three topics in particular remained at the core of a lively debate among MS: the definition of the payroll factor to take into account outsourced labour and different wage levels across the EU MS; the inclusion of intangible assets in the 'assets' factor;

the inclusion of a 'sales' factor and, in case of inclusion, its measurement at origin or at destination. As regards the first topic, an expert who previously suggested taking into account out-sourced labour informed the WG that he would now favour excluding it from the labour factor. However, interim personnel should be included.

54. The question of whether the number of employees could be an additional factor (or even be considered in lieu of the wages) remained open. One MS expert expressed his reluctance to include ‘number of employees’ in the formula because of the distortions it may introduce in labour markets, because with such a factor the conditions to hire/fire people could vary in MS so as to induce changes in companies’ tax burdens.

55. As regards the assets factor for apportionment, it should be recalled that the Commission Services had suggested the exclusion of intangibles from this factor, mainly due to practical problems (difficulties in valuing and locating intangibles, easiness of factor shifting and manipulation, etc). One expert emphasised the difficulty of including intangibles in the assets factor due to their high mobility.

56. However, several MS supported the inclusion of intangibles since they represent in our modern economies one of the most important income-generating factors (the higher intangibles are involved in a company, the higher are the business risks that are assumed by that company and then the higher the share of the group's profits or losses might be). And as the choice of factors to be included in the formula aimed at identifying the most important income-generating elements, the exclusion of intangibles would therefore contradict the purported goal of the exercise. However, no concrete suggestions for how to include them were made at the meeting, but further research on how to overcome those difficulties rather than immediately excluding them from the formula was suggested.

57. Some MS suggested trying to do a sensitivity analysis of the impact on the distribution of tax bases of the inclusion/exclusion of intangibles from the formula. The Commission Services remained sceptical of whether there are any empirical tools that would help to evaluate such effects accurately and also taking into account possible dynamic effects, but concluded that that issue would be reconsidered carefully.

58. As regards the inclusion of a 'sales' factor in the formula, some MS opposed its inclusion altogether, because of the practical difficulties linked to including it either ‘by origin’ or ‘by destination’ and because they claimed that this factor can be manipulated (both in the case of measurement at origin or at destination). One MS supported its inclusion it if was measured 'at origin' (and not 'at destination').

59. Among the arguments raised by the experts against a sales by destination factor were, the complexities linked to the location of sales, especially as regards 'no-where sales' (sales in MS or other countries where the group does not have a taxable physical presence in terms of subsidiaries or PEs) and the possible negative effects

towards 'smaller' economies compared to 'larger' economies. Concerning the latter point it was mentioned that on average ‘small open economies’ tend to export more than they import (i.e., they have current account surpluses) and therefore may be 'worse off' with a 'sales-by-destination' criterion (although no studies exist to support that). The chair expressed its reservations on such analysis (i.e., winners/losers of a sharing mechanism that included ‘sales by destination’ would correspond to large/small MS respectively) first because large countries may also have high exports and second because a ‘sales by destination’ apportioning factor includes only *sales to third parties* and current account data does not distinguish between third party and intra-group transactions.

60. Other issues raised were: the desire to achieve a formula both simple and pragmatic as well as fair and accurate; the need to assess the formula as a whole, i.e. as a combination of factors; the importance of sector-specific formulae; the possibility of a general anti-abuse provision in order to secure MS tax revenues; and the risk of tax planning by manipulating the location of factors, in particular in relation to certain mobile assets (the chair pointed out the paper suggested an ‘effective place of use’ rule to counter the latter).

61. The Commission services announced its intention to table at the December meeting a comprehensive document on the technical elements of a possible sharing mechanism – similar to the outline document on the tax base.

V. DISCUSSION ON THE WORKING DOCUMENT ‘Input from national tax administrations for the Impact Assessment of the reforms at the EU level of corporate tax systems’ (CCCTB/WP/58).

62. The Working Document prepared by the Commission Services outlined the purpose of preparing an Impact Assessment report to accompany a Commission legislative proposal on corporate taxation and asked MS to what extent they were able and willing to provide quantitative data for this impact assessment on two issues: the possible effects of any tax reform on national corporate tax bases and on tax administrations’ administrative costs.

63. Many MS welcomed the efforts and recognized the importance of an in-depth Impact Assessment of the effects of corporate tax reforms on national corporate tax bases. It emerged that several MS were also preparing themselves to analyse the impact of the proposed tax reform, particularly having in mind the budgetary impacts for MS. Many MS committed themselves to reply in writing to the questions raised in the Working Document, which go through the data needed to do an Impact Assessment of the reform if the route of using ‘real tax data’ was taken and through the possible methodologies to undertake such a task.

64. However, there was a general remark as to whether this exercise may go beyond the tasks of this Working Group that is meant to analyse the best possible solutions for a tax base but not to do an Impact Assessment, which is part of the Commission proposal. Commission services agreed that the task of preparing an Impact Assessment lies with the Commission, and not the Working Group. However, MS are better placed to collect some of the data for the exercise as explained in the Working Document.

65. Some MS thought using 'real tax data' is the preferred option to carry out an accurate assessment but doubts were cast as to how much of this 'ideal' data could actually be provided. Experts were ready to look into the matter in more detail and their first reactions were as follows:

66. Some MS were able and willing to provide aggregated historical data on the '*status quo*' (such as the number of companies subject to corporate income tax in each country and the size of the national tax base). However most thought it would be difficult to simulate the effects of a common tax base (without or with consolidation) under alternative scenarios, as suggested by the Commission Services for several reasons:

67. First, it would not be easy to predict accurately the changes between the current tax base and the future common tax base until all the new base rules are finalised., ie the timing of the assessment was problematic. The Commission Services acknowledged this but pointed out that the Impact Assessment should be carried out prior to the finalisation of the proposal as a tool to develop the final proposal.

68. An expert pointed out that even if it were possible to transmit data for a representative sample of companies to the Commission Services (either individual data in anonymous form or aggregated by country), this would not allow the analysis of cross-border consolidation without MS exchanging data on specific companies. This might be difficult due to confidentiality issues.

69. Other experts stressed that if simulations were carried out differently from MS to MS or if some MS were able to provide more detailed information than other MS the final output may be a maze of different methods and different results that may not be comparable and the assessment could lead to unreliable results. The chair answered that the purpose of this paper was precisely to provide a common and systematic methodology for the simulation to reduce inconsistencies.

70. One MS asked for further information on a recent call for tenders for a study of the economy-wide effects of reforms at the EU level of corporate income taxation systems; and in particular if the inclusion, among the various policy scenarios, of a mandatory tax base with mandatory tax rate was a change in the Commission Services' policy.

71. As to the methodology that could be used to collect the 'real tax data' sought, some experts agreed that the impact assessment could be done on the basis of selected samples of companies although the risk existed that the results may be skewed. In

particular it is not necessarily correct, as mentioned in the Commission Services Working Document, that there is a linear relationship between the number of companies and the tax base. (It was mentioned that in one MS with around 100.000 companies subject to corporate income tax the largest 10% companies represented half of the tax base).

72. Two MS also raised doubts as to whether the 'shortcuts' proposed in the Working Document for the assessment of the tax reforms on corporate tax bases (i.e.. the use of accounting or financial data of companies or the use of economic modelling as alternatives to 'real tax data') were appropriate. They questioned whether this alternative data would not reduce the quality of this highly complex technical analysis. One of them supported the idea of using 'real tax data' for analysing short-run effects and using a general equilibrium framework to analyse long-run effects.

73. Some MS also explained that they use sophisticated internal economic models to simulate the budgetary implications of their domestic corporate tax reforms. They said that they should evaluate in more depth whether these models could be suitable to simulate the details of a CCTB or a CCCTB.

74. The chair invited MS to reply in writing whether they would be able to provide real tax data (and if so, which data) by 26 October, in particular whether or not simulations of the new tax base could be made (if necessary when more details on the base are available). The Commission Services would continue making use of financial data as well as using modelling tools and would seek the cooperation of individual multi-national companies for simulating the effects of the proposal.

75. As regards the assessment of the tax reform on administrative costs, the Commission Services presented the part of the Working Document dealing with the input sought from tax administrations to evaluate this issue. This included a draft questionnaire aimed at evaluating the effects for national tax administrations' (one-off and recurring) costs of switching from the current system to alternative policy scenarios of corporate taxation.

76. No MS appears to have yet undertaken an assessment of their national tax administrations' costs of implementing the corporate tax reform at the EU level. One MS suggested that some information could be gathered by reference to any costs incurred by other departments in implementing other 'similar' reforms (i.e. VAT). One commented that this sort of study (of the impact of a tax reform on the tax administration's costs) is not usually done when new domestic tax measures are implemented. But, two other MS said that they do analyse the costs of tax reforms, mainly in relation to their IT systems.

77. Several MS experts suggested the costs for upgrading the IT equipment and for training the personnel would be the main source of one-off costs for them. Some also mentioned that the co-existence of two different corporate tax systems (domestic and an optional CCCTB) could be a considerable burden. .

78. Although no MS volunteered at the meeting to 'test' the questionnaire, many committed themselves to replying in writing to the questions raised in this part of the Working Document

VI. ANY OTHER BUSINESS AND CONCLUSIONS

79. The Chair informed Members of the WG that the next meeting of the WG is planned for 10 (afternoon), 11 and 12 December 2007. Similarly to previous meetings held in December 2005 and 2006 the first part of the meeting will be open to representatives from academia and business to discuss the tax base, consolidation, the sharing mechanism and the administrative framework.