THE EUROPEAN COMMISSION'S **HEAD OFFICE TAXATION** PROPOSAL

Compliance with business taxation rules can be complex. If SMEs wish to operate cross-border, they become taxable in more than one Member State as soon as their activity abroad creates a permanent establishment, which requires compliance with different tax systems and rules.

The Commission's Head Office Taxation proposal will allow SMEs operating cross-border through permanent establishments the option to interact with only one tax administration – that of its Head Office.

HOW WILL IT WORK?

1 SMEs calculate their taxable result for all their activities, in their main member state (head office) and all their permanent establishments in the EU, using only the tax rules of the member state where their head office is located.

2 They file one single tax return with the tax administration of that member state.

3 The tax administration shares this return with the other member states where the SME maintains a presence.

4 The member state of the head office applies the tax rate of the other member states to the profits accrued by the SMEs permanent establishment there and transfers any resulting tax revenues.

The proposal will increase tax certainty and reduce compliance costs, which will help to foster investment and cross-border expansion in the EU.

THE HEAD OFFICE TAXATION PROPOSAL: HELPING SMEs TO GROW ACROSS BORDERS.