European Commission

CORPORATE TAX REFORM

Pro-Business | Anti-Avoidance

#FairTaxation

A MORE MODERN, SIMPLE AND FAIR TAX SYSTEM

EU-wide rules for businesses to calculate their tax bill

MORE TAX CERTAINTY FOR COMPANIES

New dispute resolution rules to relieve problems with double taxation

CLOSING LOOPHOLES OUTSIDE THE EU

Extension of current rules to close tax loopholes between EU countries and non-EU jurisdictions

CORPORATE TAXATION IN THE EU – KEY FACTS

28 Number of corporate tax systems operating in the EU today

70% The share of profit-shifting for tax purposes due to transfer pricing and strategic Intellectual Property location. These possibilities would be eliminated within the EU with the Common Consolidated Corporate Tax Base (CCCTB).

2.5% The amount by which EU businesses could cut their compliance costs under the common base. With full consolidation, the reduction would be considerably larger.

"Tax policy should support the EU's goals of economic growth and social justice. Today's proposals aim to boost growth and investment, support enterprise and ensure fairness. The current corporate tax system treats debt financing of companies more favourably than equity financing. Reducing this debt-equity bias in the tax system is an important element of the Capital Markets Union Action Plan and underlines our commitment to deliver on this project."

Valdis Dombrovskis
Vice-President for the Euro and the Social Dialogue

"With the rebooted CCCTB proposal, we're addressing the concerns of both businesses and citizens in one fell swoop. The many conversations I've had as Taxation Commissioner have made it crystal-clear to me that companies need simpler tax rules within the EU. At the same time, we need to drive forward our fight against tax avoidance, which is delivering real change."

Pierre Moscovici,
Commissioner for Economic and Financial Affairs, Taxation and Customs Union

A FAIR AND ROBUST TAX SYSTEM FOR THE EU

– A COMMON TAX BASE –

Good for business: Companies will no longer have to waste time and money dealing with divergent tax rules in each Member State as they expand cross-border.	**Mandatory for multinationals: The new rules will be mandatory for groups with a global turnover of over €750 million per year. SMEs and start-ups with turnovers below this threshold will also be able to opt-in.**
Special innovation incentive: An EU-wide tax deduction for companies that invest in research and development will promote innovation in Europe and help smaller companies get off the ground. Start-ups will be given a super-deduction for their R&D costs, under set conditions. This should give a boost to young, innovative companies.	**Promoting growth and investment:** A new tax allowance will encourage companies to use equity rather than debt to finance their growth. It will allow a tax deduction for companies that choose to increase equity for financing rather than take on debt. This will reduce reliance on debt and help SMEs to tap into capital markets.

Today, cross-border companies in the EU have to follow 28 rulebooks to determine their taxable profits in each country. This creates red tape and high costs for cross-border companies.

We propose a single set of rules for companies to calculate their taxable revenues in the EU, replacing the current medley of different national systems.

"The CCCTB means certainty for businesses, certainty for governments and certainty for European taxpayers. We will still have different tax rates, but under the new system, competition between Member States will be much more transparent."

Professor Michael Lang,
Head of the Institute for Austrian and International Tax Law Vienna University of Economics and Business (WU)

A FAIR AND ROBUST TAX SYSTEM FOR THE EU

– A CONSOLIDATED TAX BASE –

Once Member States agree on the common tax base, they will also be able to move ahead on the consolidation part of the proposals.	This will ensure tax fairness because all large companies operating cross-border in the EU will pay taxes where they make their profits	**Member States will keep their sovereign right** to choose and apply their own rate of corporate taxation.

HOW WILL IT WORK?

SHARING PROFITS AMONG EU COUNTRIES

Once the taxable profits of the group have been calculated, they will be shared out amongst Member States where the company is active.

This will be done according to a formula based on the labour, assets and sales of the group in each Member State.

Assets

Labour

Sales

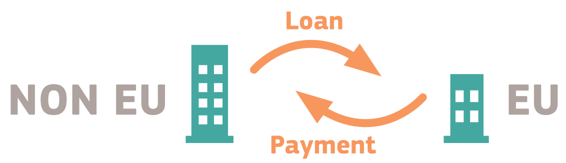
"We all stand to benefit from this proposal. When multinational corporations are not paying their fair share of taxes it means that we have to pay more taxes and that there is less money in the public sector for hospitals and schools. This is a big step forward."

Tove Maria Ryding, Policy and Advocacy Manager for Tax Justice, Eurodad, Brussels

BOLSTERING ANTI-ABUSE MEASURES
- CLOSING LOOPHOLES OUTSIDE THE EU -

This summer, the EU agreed rules to tackle loopholes and mismatches within the EU (Anti-Tax Avoidance Directive). At the request of Member States, we're now proposing to extend rules against mismatches to non-EU countries. This will ensure that profits can't be siphoned out of the EU without being taxed.

A parent company outside the EU grants a loan to a subsidiary company in a Member State. But the two countries treat the loan differently for tax purposes.



BEFORE	AFTER
The non-EU country and the EU Member State treat this transfer differently for tax purposes - there is a mismatch of treatment. Because of this mismatch, both countries allow a tax deduction for the interest payment.	With the new rules in place, the mismatch is eliminated and the tax deduction will not be allowed in the EU Member State - ensuring effective taxation.

RESOLVING DOUBLE TAXATION DISPUTES
- MORE TAX CERTAINTY FOR COMPANIES -

- One of the biggest tax obstacles to the Single Market is double taxation.
- There are currently over 900 double taxation disputes ongoing in the EU.
- Disagreements amongst Member States over who has the right to tax certain profits often result in companies being taxed twice or more on the same income.

Dispute Resolution for Double Taxation

BEFORE	AFTER
Member States' obligation to eliminate double taxation for businesses not always enforced	Explicit and enforceable requirement to eliminate double taxation for businesses in all cases
Often no recourse for taxpayers when dispute mechanisms are not applied properly	Recourse for taxpayers to national courts to unblock procedures
Unpredictable timeline for procedures	Clearly defined and enforceable timelines, with a standard period of 15 months for the arbitration phase
Scope limited to issues related to transfer pricing and permanent establishment	Scope extended to all cross-border issues
No transparency requirements	Obligation to notify taxpayers and publish arbitration