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1. I see a growing need and urgency to make progress toward corporate tax reform in the EU for the following reasons:

   a. The creation of the Internal Market in 1992 is not yet complete; there still exist substantial obstacles in the area of corporate taxation;

   b. The creation of the EMU and the Euro in 1999 has successfully removed the distortions related to exchange rate risks within Euroland and simultaneously has shed more light on the remaining tax distortions;

   c. The substantial increase in cross-border activity in Europe by industrial as well as financial companies.

2. The heart of the matter today is still the same as at the time of the Report of the Ruding Committee (1992): the Single Market is imperfect because there are still too many tax obstacles to cross-border activities, particularly in the form of double taxation.

3. It has become clear that the traditional way of removing these tax obstacles by the European Commission submitting draft directives to the EU Council of Ministers, no longer works. Major factors in explaining this impasse are the requirement of unanimity on Council decisions regarding tax matters and the growing number of member countries. The IGC in Nice in December 2000 sadly failed to widen the application of qualified majority voting.

4. The Commission in recent years is now devoting most of its attention to alternative ways for making at least some degree of progress toward

corporate tax reform, such as promoting coordination of national tax policies by way of voluntary measures by member countries, including "peer pressure", consultations and codes of conduct, as well as more active use of instruments of competition policy, including addressing cases of state aid.

5. At this moment, it seems unlikely to expect, in the foreseeable future, major steps forward toward final and fundamental tax reform in the EU such as replacement of all national corporate taxes by a new, single and federal European corporate income tax (EU CIT), or (less dramatic) a mandatory EU-wide taxation of (groups of) companies with a common and consolidated tax base in the entire EU and with a uniform formula to apportion taxable corporate income across the EU member countries.

6. In recent years the focus of the debate in the EU on corporate tax harmonisation has moved toward the tax base. I am quite sympathetic to the efforts by Commissioner Frits Bolkestein to make progress via this route. I may recall that the report of the Ruding Committee in 1992 already proposed action in the complex area of harmonisation of the corporate tax base in the EU rather than devoting all attention to the tax systems and the tax rates in the EU. The Ruding Report had recommended a certain degree of harmonisation of the national tax bases, with an outline of concrete steps to achieve this long-term goal.

   I agree with current proposals by the Commission as well as by the private sector such as CEPS (Centre for European Policy Studies, Brussels, in its report "EU Corporate Tax Reform", by a CEPS Task Force, chaired by Malcolm Gammie, November 2001) to make " in between" steps by allowing companies to opt for a EU-wide consolidated tax base, through either:

- Home State Taxation (HST), or:
- Common Base Taxation (CBT).

Both proposals would operate alongside, or in parallel to, the existing national corporate tax rules. In other words: the different national tax bases may continue to exist. The alternative is, of course, the more traditional and compulsory approach of harmonisation of all existing national bases through the method of EU directives. The Commission is - probably correctly - afraid that this compulsory harmonisation will not receive the necessary unanimous support in the Council.

Although HST and CBT are different in character, their effects are rather similar. I would support either one of these solutions and would favor the one which has the best chance of implementation in practice.

I want to warn the optimists, however, that even these less ambitious solutions require agreement by the member countries on a uniform formula to apportion, or allocate, the overall profits of a company across the EU, respectively to allocate the tax revenues between the member countries. If one wants to give this formula apportionment a sufficiently strong legal base, the requirement of unanimity of Council decisions presents itself again.

7. Despite the current focus on harmonisation of the tax base - or elements thereof - one should not forget that for the effective level of taxation of companies the tax base and the tax rates are two sides of the same coin. It will be difficult and unrealistic to try to achieve a common tax base in

the EU while disregarding any need to make changes in the prevailing national tax rates. Progress toward a common tax base will make differences in tax rates more transparent and more relevant. I consider it likely that more harmonisation of the tax base will lead - maybe with a time lag - to more harmonisation, or approximation, of the corporate tax rates as well.

8. The recent agreement in principle to adopt by 2005 International Accounting Standards (IAS) for the publication of consolidated accounts of all listed companies in the EU is likely to provide another boost for reform in the corporate tax field. Although taxation and accounting are different matters, I see a situation in which the accounting and reporting by companies all over the EU are done on the same base, as an incentive and facilitator to apply a common base for company taxation as well. Accounting according to common rules greatly improves transparency and comparability in the corporate world. I do not see the logic why the Council - rightly - creates a common base for corporate accounting but would be unwilling to do the same in the adjacent area of company taxation.

9. After almost 40 years of debate, in 2001 the EU has finally adopted the European Company Statute (ECS). This provides the Societas Europeae (SE) as an optional solution for international companies. The question then arises whether this ECS will contribute to resolving the prevailing impasse in the efforts toward elimination of the obstacles in the area of company taxation? I am afraid that the ECS will not have much notable effect in practice. Unfortunately, the ECS lacks a tax component such as the EU-wide consolidation of losses and profits. The taxation aspects are left to national law. However, without appropriate tax treatment

most companies probably do not see advantages in using this new legal device. CEPS very recently issued an excellent report ("An EU Company without an EU Tax?" by Karel Lannoo and Mattias Levin, CEPS Research Report, April 2002) with similar conclusions.

10. The supporters of corporate tax reform are well advised to focus their efforts more on the capitals of the <u>member countries</u> than on "Brussels". The lack of progress in recent years is largely the result of the combination of the requirement of unanimity in Council decisions on tax matters and the unwillingness, respectively lack of international or European thinking, in the member states - both governments and parliaments - rather than (non) action by the European institutions.