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COMMON CONSOLIDATED CORPORATE TAX BASE WORKING GROUP (CCCTB WG)

*Input from national tax administrations for the
Impact Assessment of the reforms at the EU level of
corporate tax systems*

Meeting to be held on 27-28 September 2007

Centre de Conférences Albert Borschette
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WORKING DOCUMENT

I. Introduction and purpose of the paper

1. In accordance with current practice, a Commission legislative proposal for a reform at the EU level of corporate income taxation systems planned for 2008 has to be accompanied by an Impact Assessment (IA), drafted in accordance with the key analytical steps laid down in the 'Impact Assessment Guidelines'¹. This IA report should provide a description and evidence of the existing cross-border company tax obstacles in the Internal Market; a number of objectives to be achieved by the tax reform should be defined; several alternative policy options that could address the obstacles should be analysed and their respective economic, environmental and social impacts assessed.

2. As regards the policy options that could address the existing tax obstacles, a number of alternatives, in addition to the 'no change' scenario, could be subject to analysis in the IA exercise: among them, a common corporate tax base (CCTB, without consolidation) and a common consolidated corporate tax base (CCCTB - with consolidation and apportionment). These alternative policy options are to be conceived in principle as *optional* policies (i.e., available for any company in the EU subject to corporate taxation that may wish to use these sets of rules to compute its taxable profits). Different assumptions on which companies might adopt the alternative tax systems could be made through the IA exercise.

3. As regards the most relevant types of impacts of the various policy options, the IA should aim to assess: the economy-wide effects of the alternative tax reforms on competitiveness of the EU, on growth of the EU economy and welfare, their respective effects on companies' compliance costs and notably, their respective impacts on national corporate tax bases and on tax administrations' costs.

4. The success of providing an accurate quantitative assessment of all these effects greatly depends on how much reliable data can be collected. As regards the assessment of the impact of the alternative policy options on national corporate tax bases, several approaches can be envisaged.

- First, the exercise could rely on 'real corporate tax data', which could be gathered either from national tax administrations or from taxpayers. Whilst it could be argued that this could be the most accurate information for a quantitative assessment of the reform, this 'real tax data' -in the required form and detail aggregated by Member State- is not readily publicly available. Furthermore it probably would not necessarily provide results in a timely, cost efficient and proportionate manner or be more reliable than other approaches. Notwithstanding, the effort should be made to assess whether the collection of such data is possible. Such is one of the purposes of this paper as regards the input from national tax administrations: this paper spells out which information would be needed for a quantitative assessment of the impact of the reforms on corporate tax bases if the route of using 'real tax data' was taken.
- As a second approach for this assessment, accounting or financial data of EU companies could be used. The advantage of this approach is that this information is

¹ SEC (2005) 791, 15.6.2005, with March 2006 update.

publicly available and allows simulations under conditions similar to those of the actual reform (information can be arranged matching the definition of groups, etc). This approach implies that accounting data are used as proxy for the 'real tax data': for example, accounting profits would be used as a proxy for taxable profits and other financial data would be used for other tax data such as the apportioning factors, etc.

- Thirdly, in addition to using micro or firm-specific data as in the two former approaches, some macro-economic modelling can be used to assess the impact of tax reforms on the aggregate tax bases, for the whole EU and for the different national economies.

The Commission Services' current view is that without the provision by the national tax administrations, in a common form, of the type of 'real tax data' described throughout this paper in a reasonable timeframe the other alternative ways (accounting data or economic modelling) would be an adequate, and proportionate, approach for the assessment of the impact of the reforms on corporate tax bases.

5. As regards the assessment of the impact of a tax reform on national tax administrations' costs consistent measurements of the costs for tax administrations of managing corporate taxation (and the aspects of it that would be affected by the alternative tax reforms) are also not publicly available.

6. The possible cooperation of Member States tax administrations in the collection of the most pertinent data for the work on this IA was already briefly mentioned at previous meetings (Plenary Meeting of the CCCTB Working Group of 13 December 2006 and first meeting of the Subgroup 6 on the Sharing Mechanism held on 1-2 February 2007²) and several experts raised doubts about whether they would be able to provide such data due to rules on taxpayer confidentiality. It was agreed that a more detailed paper explaining what data would be needed and why it would be requested would be prepared and circulated.

7. The purpose of this paper is to describe the areas on which, in the view of Commission Services, national tax administrations have an opportunity to provide the Commission Services with data which is not available in standard sources of information.

8. There are two key areas on which input is sought from national tax administrations so as to allow the Commission Services to use 'real' data in the IA:

(i) data on corporate tax bases and how they would be affected by each of the alternative policy options (in terms of their size and geographical distribution). Please note that as mentioned in CCCTB/WP/057 '*CCCTB: possible elements of a technical outline*' special rules may be required for certain financial institutions. These special rules have not yet been developed to the same extent as the possible rules for other companies so initially the data mentioned below would need to distinguish between financial institutions and other companies. Where recalculation is suggested in line with

² See CCCTB/WP/051/en par. 32 and CCCTB/WP/052/doc/en par. 6 respectively.

the rules outlined in CCCTB/WP/057 this would obviously not be possible at this stage for financial institutions. Financial institutions should be understood to include banks, insurance companies and other regulated financial institutions.

(ii) estimates of the administrative costs that would be imposed on/saved by national tax administrations by each of the alternative options for a tax reform mentioned above.

Chapters II and III develop respectively a more detailed description of the precise steps and information requirements for working out the ‘ideal’ data to evaluate quantitatively these two elements of the IA exercise in each of the alternative policy scenarios. In order to ensure cross-country comparability of the results, a common step-by-step guide to construct or evaluate this data by national tax administrations is suggested as well as possible methodologies to undertake the task.

II. The assessment of the effects of alternative policy options on national corporate tax bases

9. The quantitative impact of each alternative policy option on Member States' corporate tax bases is one of the most important effects that the IA exercise should try to assess. Ideally, the exercise should compare the current size of corporate tax bases at an aggregated level (by Member State) with the size of corporate income that would become taxable in each Member State after the implementation of the corresponding policy alternative. The following paragraphs in Section II.A (11-26) develop systematically the necessary data and the steps that could be followed to consistently evaluate the impact on national tax bases of each of the alternative policy options mentioned above: a Common Corporate Tax Base (without consolidation) and a Common Consolidated Corporate Tax Base. Further on, Section II.B (paragraphs 27-28) reflects on some important methodological remarks on how the calculations to arrive at such structured information could be made. Section II.C (paragraphs 29-30) adds further remarks.

10. It should be stressed from the outset that the information on taxable income (and on any other tax variables mentioned in this paper) sought by the Commission Services is required aggregated at a national level: thus, even if the data was collected company-by-company by tax administrations, in this sense no concerns with confidentiality should arise when transmitting the information to the European Commission, as the requested information is the aggregate by Member State (i.e., it will not be necessary to disclose data of individual taxpayers). However, confidentiality issues could arise when Member States have to cooperate in order to calculate the consolidated tax bases of multinational groups (see paragraph 23).

II.A Data description

II.A.1 A Common Corporate Tax Base (without consolidation)

The next paragraphs develop the information sought for the assessment of the effects of the first type of alternative policy option, a Common Corporate Tax Base (without consolidation), on the national corporate tax bases.

11. The first important issue of concern in the task of comparing the current with the future situation of national tax bases' sizes when the policy alternative was a CCTB system of taxation that was made optional to companies is determining the EU companies that will be affected by the reform in each Member State. This is obviously a complex task. Theoretically, the perfect exercise would be the simulation of each firm's choice as an endogenous one: i.e., each company chooses the system –either the national one or the CCTB rules- that minimises its tax-related costs (tax payments and tax compliance costs). Such an approach is impossible to be carried out in practice. Therefore, some reasonable common assumptions to approximate the firms that may adopt this system of taxation should be made.

12. For that purpose, two assumptions, that bring about respectively two different CCTB scenarios for analysis, are suggested:

- (i) The Commission Services' opinion is that the first most logical working hypothesis is that 'all EU-based multinational groups' would participate in an optional CCTB system and therefore the tax bases of all members of such groups would be affected by the reform. For the purpose of this exercise it can be said that an 'EU-based multinational group' exists when a parent company established in an EU Member State owns at least 50% of one or more subsidiary companies located in other Member State/s³. The argument for assuming that these groups will opt for a CCTB system is that members of these groups are the companies that could in principle take more advantage of the relief from cross-border tax obstacles addressed by a CCTB scheme: notably, the reduction of compliance costs related to having to deal with up to 27 different tax codes. Another advantage in analysing this hypothetical 'all EU multinationals participate' scenario is that the results obtained under this assumption could be easily extrapolated to other scenarios of multinationals' participation: as one can reasonably assume a broadly linear relationship between the number of participating multinationals and the aggregate impact, it would be relatively easy to estimate the impact of a participation rate by multinationals of less than hundred percent.
- (ii) Another scenario for analysis is to assume that all EU-based companies subject to corporate taxation (members or not of a group) would adopt the alternative CCTB rules for calculation of their taxable bases, thus giving rise to an 'all in' CCTB scenario. This kind of scenario could in theory arise under different contexts: for example, all companies consider the tax base to be attractive enough to use it; all

³ In particular, a more precise definition of these groups for this exercise can go along the lines suggested in CCCTB/WP057 for the definition of groups > 50%.

Member States aligned their tax base on the CCTB; or even in the case when the CCTB was a compulsory policy option. The effects of any of those situations would be materially the same: all EU-based companies would switch to the CCTB system for calculating their taxable bases. And again it can be argued that it is worth to study an 'all in CCTB' scenario as an 'extreme' case because further possible alternative scenarios in which only a number of companies participated can be roughly approximated by scaling down the effects calculated for the whole economy.

Question 1: Do MS think that the two CCTB scenarios suggested for analysis -(i) only 'EU multinational groups' would opt in and therefore the analysis of an optional CCTB should be restricted to the members of these groups and (ii) all EU-based companies would adopt CCTB- are reasonable ones? If not, what other workable assumptions would they suggest to define the possible scenarios of participating companies in the context of a CCTB as alternative policy option?

The next paragraphs develop step-by-step the specific data sought, as follows from the two assumptions defining the participating companies in these two CCTB scenarios.

Scenario 1.1: A Common Corporate Tax Base with all EU-based multinational groups opting in

13. In the scenario where only (but all) members of EU multinational groups were considered to participate in the alternative CCTB system, it is first important to evaluate how many such qualifying companies belonging to a multinational group exist in each Member State.

Question 2: Are national tax administrations able to identify the companies within their Member State that would be members of EU multinational groups according to the above definition and communicate the total number of such companies by Member State?

14. Once the companies affected by an optional CCTB reform under the assumptions of this scenario are roughly delimited, their current corporate tax bases⁴ under the respective national tax systems should be evaluated and aggregated by Member State. In particular, information on how much of each Member State's total corporate tax bases these companies contribute, could assist in evaluating how much would be at issue for Member States' tax budgets owing to this tax alternative system under the assumptions of this scenario.

Question 3: Could tax administrations calculate the current taxable bases of the companies affected by an optional CCTB reform -under the assumptions of this scenario- and report it aggregated by Member State?

⁴ The analysis for this scenario and the following ones could be carried out for a number of years backwards: eg 2001-2005.

15. The next step should be the assessment of the impact of the new CCTB code on the size of the tax bases of the companies concerned under this scenario (and on the aggregated national tax bases). The new taxable profits (or losses) of the concerned companies should be measured according to the provisions defining the common tax base: that is, taking into account the depreciation rules, treatment of deductible expenses, treatment of foreign income, etc in principle as suggested in the CCCTB/WP057 (or further possible revisions of this paper).

<p><i>Question 4:</i> Could tax administrations simulate the <u>taxable bases, under the new tax code</u>, of the concerned companies affected by an optional CCTB system -under the assumptions of this scenario- and report it aggregated by Member State?</p>
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Scenario 1.2: A Common Corporate Tax Base with all EU-based companies adopting it

16. The second scenario that could be analysed is a Common Corporate Tax Base that all EU-based companies would adopt. This alternative would affect the calculation of the corporate tax bases of all EU-based companies. Thus, in order to evaluate the impact of this scenario on national corporate tax bases, several pieces of information are needed: (i) the total number of companies subject to corporate taxation within each Member State; (ii) the current size of corporate tax bases at an aggregated level (by Member State) and (iii) the size of corporate income that would become taxable in each Member State after the implementation of an 'all in' CCTB system (when all EU-based firms applied the new tax code, ie as defined in CCCTB/WP057 -or further possible revisions of this paper- to compute their taxable income).

<p><i>Question 5:</i> Could national tax administrations report the <u>total number of companies</u> subject to corporate taxation within each Member State?</p>
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<p><i>Question 6:</i> Could tax administrations report, aggregated by Member State, the <u>total taxable bases -calculated under the current national tax codes-</u> of all companies established within their territories?</p>

<p><i>Question 7:</i> Could tax administrations simulate the possible size of the <u>new national taxable bases</u>, when <u>all the companies</u> within their territories were to apply the new CCTB tax code?</p>
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The following table summarises systematically the information requested in the previous paragraphs:

Table 1. Alternative policy option: An optional Common Corporate Tax Base (CCTB) (in brackets the number of the question in this paper where the relevant information is requested)

	Number of relevant companies within the Member State X	Aggregate current national tax bases of relevant companies (millions of euros)	Aggregate national CCTB-based tax bases of relevant companies (millions of euros)
Scenario 1.1: Only (but all) EU multinational groups (>50%) opt for CCTB	(2)	(3)	(4)
Scenario 1.2: All EU-based companies adopt CCTB	(5)	(6)	(7)

II.A.2 A Common Consolidated Corporate Tax Base

The next paragraphs develop step-by-step the information sought for the assessment of the effects of the second type of policy option alternative, a Common Consolidated Corporate Tax Base, on the national corporate tax bases.

17. As with an optional CCTB, the first important issue of concern when evaluating a CCCTB system that was made optional to companies is trying to determine the EU companies that would be likely affected by the reform in each Member State. Again, given the unfeasibility of assessing company-by-company their individual decisions, some assumptions defining different scenarios on the possible participating companies ought to be made.

18. For that purpose, two assumptions, giving rise respectively to two different CCCTB scenarios for analysis, are suggested:

- (i) The Commission Service's opinion is that in principle, as a plausible hypothesis it could be assumed that in each Member State only (but all) the companies (or permanent establishments) which qualify for consolidation⁵ would opt for an optional CCCTB system (ownership of >75%). The argument for such assumption is that these are the companies that could in principle take more advantage of the relief of tax obstacles addressed by a CCCTB scheme: reduction of compliance costs related to up to 27 different tax codes, reduction of compliance costs related to transfer pricing obligations and possibilities of automatic cross-border (or domestic⁶) loss offsetting.

⁵ According to CCCTB/WP057.

⁶ Note that consolidation could be purely *domestic* and still interesting for the groups in Member States where currently no domestic consolidation is provided for group taxation.

- (ii) Another possibility is to assume that all EU-based companies subject to corporate taxation (members or not of a group qualifying for consolidation) would adopt the alternative CCCTB rules to calculate their taxable bases, thus giving rise to an 'all in' CCCTB scenario. As earlier on (see paragraph 12) this kind of scenario could in theory arise under different contexts (all companies or Member States choose to switch to CCCTB, a compulsory CCCTB, etc). Also as before, the advantage of the two scenarios suggested for analysis ('all groups qualifying for consolidation participate' and 'all EU-based companies participate') is that the effects obtained under these assumptions could be scaled down to represent other rates or participation (i.e. less than hundred per cent of groups qualifying for consolidation or less than hundred per cent of companies which are non-group members participate).

Question 8: Do MS think that the two CCCTB scenarios suggested for analysis -(i) 'only companies/PEs which qualify for consolidation' would opt in and therefore the analysis of an optional CCCTB should be restricted to the members of these groups and (ii) all EU-based companies would adopt CCCTB- are reasonable ones? If not, what other workable assumptions would they suggest to define the possible scenarios of participating companies in the context of a CCCTB as alternative policy option?

The next paragraphs develop step-by-step the specific data sought, as follows from the two former assumptions defining the participating companies in these two CCCTB scenarios.

Scenario 2.1: A Common Consolidated Corporate Tax Base with all EU-based groups qualifying for consolidation opting in

19. In the scenario where only (but all) members of EU groups qualifying for consolidation were considered to participate in the alternative CCCTB system, it is first important to evaluate how many qualifying companies belonging to a group eligible for consolidation exist in each Member State.

Question 9: Are national tax administrations able to identify the companies within their Member State that would qualify for consolidation and communicate the total number of such companies by Member State?

20. Once the companies likely affected by an optional CCCTB system under the assumptions of this scenario are roughly delimited, their current corporate tax bases under the respective national tax systems should be evaluated and aggregated by Member State. In particular, information on what is the share of these companies on Member States' current national corporate tax bases, could assist to evaluate how much is at issue for Member States' tax budgets owing to an optional CCCTB tax alternative under the assumptions of this scenario.

Question 10: Could tax administrations calculate the size of the current taxable bases of the companies affected by an optional CCCTB reform -under the assumptions of this scenario- and report it aggregated by Member State?

21. For the assessment of the impact of a CCCTB system on the size of the tax bases of the companies concerned under the assumptions of this scenario (and on the aggregated national tax bases), three elements have to be addressed systematically: (i) calculation of the companies' new taxable profits (or losses) under the new tax code; (ii) calculation of the groups' consolidated tax bases; (iii) calculation of the apportionment of the consolidated tax bases.

22. (i) The new measurement of taxable profits (or losses) of the concerned companies in this scenario should be done according to the provisions defining the common tax base: that is, taking into account the depreciation rules, treatment of deductible expenses, treatment of foreign income, etc as suggested in principle in the CCCTB/WP057 –or further possible revisions of this paper.

Question 11: Could tax administrations calculate the taxable income (before consolidation), under the new tax code, of the companies affected by an optional CCCTB system (under the assumptions of this scenario)?

23. (ii) As a next step, to work out the consolidated tax bases the construction of the groups qualifying for consolidation for tax purposes (according to the definition of such groups set in CCCTB/WP057) would be necessary. And then carry out the calculations required for consolidation: elimination of intra-group transactions⁷, setting-off of losses against profits of the different members, etc. When a group encompasses companies from two or more Member States, all national tax administrations involved would have to exchange the relevant tax data of the respective companies established within their territories to obtain the group's consolidated tax base for this simulation exercise. For practical purposes, it can be suggested that the necessary exchange of information was coordinated by the Member State where the group to consolidate is headquartered.

Question 12: Could tax administrations calculate the consolidated taxable bases, under the new CCCTB code, of the groups/companies with PEs affected by the reforms under the assumptions of this scenario? Would it be possible to exchange information on the necessary tax data of group companies in different Member States?

24. The calculations that should be carried out to answer the former question would take into account the possibilities of loss compensation provided by a CCCTB system. Hence, alongside, a deeper analysis of this important specific aspect can be undertaken: the quantitative impact of automatic EU-wide loss offsetting on companies' tax bases compared to the current situation. The questions to answer would be: how much is the amount of losses that EU-based companies could compensate cross-border⁸ under the new system and that would not be compensated in the 'no change' scenario? And what

⁷ For the sake of this exercise it would be reasonable to assume that intra-group transactions need not be identified and eliminated on the basis that one companies' intra-group income will be another's intra-group costs.

⁸ In the Member States where no domestic group consolidation is currently allowed, the argument extends to *domestic* consolidation that would be possible under the alternative CCCTB system.

would be the effect of cross-border loss compensation on the size of groups' tax bases (for example, how much narrower/wider would they become in percentage terms)? In principle it seems clear that, all else equal, the EU-wide corporate tax bases of some groups/companies would shrink compared to the current situation, due to automatic cross-border loss offsetting. However, the reduction in the tax base would be either *absolute* – ie losses for which there was no prospect of relief without cross border relief- or a *timing reduction* – ie losses which would be immediately relieved rather than carried forward for relief in the future-. The analysis should consist in calculating on a group-by-group basis the possibilities of cross-border loss offsetting in the new system under the assumption of full consolidation and compare the result with what could have been compensated under the current national systems, possibly through a number of years forward. What *additional* losses could be compensated in the alternative CCCTB option?

Question 13: Could tax administrations make calculations on which percentage/amount of losses of the concerned companies would go ahead for compensation in the current system (and therefore the effect of automatic offsetting would be 'timing')? Similarly, would they be able to elaborate data on which percentage/amount of losses of the concerned companies expire unrelieved (and therefore the effect of automatic offsetting would be 'permanent')? Eventually, could tax administrations make calculations (by Member State) on the amount of losses that would be automatically compensated in the new CCCTB system and compare this with the amount of losses that currently would be either (i) also immediately compensated or (ii) carried-forward (and compensated through X years) or (iii) never relieved at all?

25. (iii) Eventually, the impact of the optional CCCTB system on the national tax bases will also depend on the mechanism for apportionment of the CCCTBs. The factors on which apportionment would be based in the new system, their definition and their weighting are issues not yet fully designed. But tentatively, the following sharing mechanisms can be suggested in principle for this simulation exercise:

- * $\frac{1}{2}$ Payroll – $\frac{1}{2}$ Assets⁹
- * $\frac{1}{4}$ Payroll – $\frac{1}{4}$ Number of Employees – $\frac{1}{2}$ Assets
- * $\frac{1}{3}$ Payroll – $\frac{1}{3}$ Assets – $\frac{1}{3}$ Sales by Destination¹⁰
- * $\frac{1}{6}$ Payroll – $\frac{1}{6}$ Number of Employees - $\frac{1}{3}$ Assets – $\frac{1}{3}$ Sales by Destination
- * $\frac{1}{3}$ Payroll – $\frac{1}{3}$ Assets – $\frac{1}{3}$ Sales by Origin
- * $\frac{1}{6}$ Payroll – $\frac{1}{6}$ Number of Employees - $\frac{1}{3}$ Assets – $\frac{1}{3}$ Sales by Origin

The simulation exercise of the apportionment process should be carried out group-by-group. And then the shares of the group-level tax bases should be summed-up by Member State to gain information on the national tax bases each Member State would get after the consolidation and apportionment. It might be sensible that the Member State of the headquarter does these calculations.

⁹ Assets valued at the tax written down value without intangibles, financial assets and stocks.

¹⁰ The data for simulating the 'sales by destination' factor may be taken from the VAT statements of the companies.

Question 14: Could tax administrations calculate the apportionment of the taxable bases for the different apportioning mechanisms suggested, of the companies affected by an optional CCCTB system -under the assumptions of this scenario- and report the results aggregated by Member State?

Scenario 2.2: A Common Consolidated Corporate Tax Base with all EU-based companies adopting it

26. The other scenario that could be analysed is a Common Consolidated Corporate Tax Base that all EU-based companies would adopt. This alternative would imply the estimation of the corporate tax bases of all EU-based companies according to the new CCCTB rules, including ‘consolidation + apportionment’ for the companies qualifying for consolidation. Thus, for the evaluation of the impact of this scenario on national corporate tax bases the following information would be required: (i) total number of companies subject to corporate taxation within each Member State and current size of corporate tax bases at an aggregate level (by Member State)¹¹ and (ii) the size of corporate income that would become taxable in each Member State after the implementation of an 'all in' CCCTB system (when all EU-based firms applied the new tax code, ie as defined in CCCTB/WP057 -or further possible revisions of this paper- to compute their taxable bases). The latter can be calculated adding to the national tax bases calculated for the case of Scenario 2.1 (an optional CCCTB assumed to be applied by groups qualifying for consolidation) the new tax bases –calculated according to the new CCCTB code- of all the other companies in each Member State (not qualifying for consolidation)¹².

Question 15: Could tax administrations calculate the possible size of the new national taxable bases, when all the companies within their territories were to apply the new CCCTB tax code?

The following table summarises systematically the information sought in the previous paragraphs for the assessment of a CCCTB alternative policy option:

¹¹ This information is equivalent to that described in the 'all in CCTB' scenario 1.2 above, and therefore not explicitly requested here again.

¹² Note that the set of 'all companies not qualifying for consolidation' in a Member State mentioned here does not necessarily coincide with the set of 'all companies not members of an EU multinational group' as defined under par. 12 above.

Table 2. Alternative policy option: An optional Common Consolidated Corporate Tax Base (CCCTB) (in brackets the number of the question in this paper where the relevant information is requested)

	Number of relevant companies within the Member State X	Aggregate current national tax bases of relevant companies (millions of euros)	Aggregate CCCTB-based national tax bases of relevant companies (millions of euros) ¹³
Scenario 2.1: Only (but all) EU groups qualifying for consolidation (>75%) opt for CCCTB	(9)	(10)	(11), (12), (14)
Scenario 2.2: All EU-based companies adopt CCCTB	(5)	(6)	(15)

II. B. Methodological Remarks

27. The above is a description of the ‘ideal’ real tax data that should be gathered to evaluate the impact on national corporate tax bases of a move to any of the alternative policy options. From a methodological point of view, there could be several approaches to undertake this task. One of them would be to calculate such information for the whole economy (i.e., *all* qualifying companies in the first type of scenarios or *all* EU companies subject to corporate taxation in the second type of scenarios). This is obviously a very hard task. Another methodological approach, still entirely meaningful for the purposes of this IA, could be to carry out the corresponding calculations for a representative sample of companies in each scenario. The choice of such representative samples of firms for each scenario should take into account companies’ sizes, sectors, etc.

Question 16: Which sort of the described methodologies do you think would be best to estimate the information sought in the above tables 1 and 2: (i) assessment of all concerned companies in each economy; (ii) assessment of a sample of representative companies?

28. A common point to all the former scenarios is that, whenever possible, a breakdown between Small and Medium-Sized Enterprises (SMEs) and Large companies, should be made in the analysis. SMEs are meant to receive special attention in the IA and in the reform, for being particularly hit by cross-border tax obstacles.

¹³ Final results to be reported after calculations of the three steps described: (i) tax bases before consolidation; (ii) consolidation; (iii) apportionment.

II. C. Other remarks

29. As mentioned earlier (paragraph 4), in addition to the use of 'real tax data', other approaches to estimate the effects of the tax reforms on national corporate tax bases can be adopted. One is the use of accounting or financial data of EU companies as a proxy for tax data; another could be the use of economic models that assess the impact of tax reforms on the aggregate corporate tax bases, for the whole national economies. These sorts of models may even be already in place and used by national tax administrations for assessing the effects of domestic tax reforms on their aggregate corporate tax bases.

Question 17: When tax reforms are introduced in your Member State, which sort of instruments do national tax administrations normally use to assess the impact of these reforms on the domestic national tax bases?

Question 18: Do you agree that in the absence, within a sensible timeframe, of the type of information described earlier regarding 'real tax data', the alternative ways of assessing the impact of the reforms on corporate tax bases (accounting data or economic modelling) would be adequate approaches? If not, what other approach/es would you suggest to carry out the best (and also proportionate) IA?

30. The discussion so far has assumed purely short-run effects (and thereby it is based on the estimation of the possible effects for existing companies), but some other dynamic effects that would affect the size of the cake of corporate taxable profits in the EU in the long-term can be expected. Thus, an analysis of the long-run effects on the size of the cake should take into account: (i) the number of EU companies which are now purely domestic but may be driven by the tax reforms to operate cross-border in the Internal Market, thereby becoming EU multinationals and improving competition in the Internal Market; (ii) the number of new cross-border start-ups facilitated by the new tax conditions implied by the reforms; (iii) the foreign investments that may be attracted into the EU by the more favourable tax conditions, which may generate some additional corporate tax bases; etc. An estimation of such effects is however meant to be more properly addressed within the context of macroeconomic modelling. The Commission Services have launched a Call for Tender for a study on the economy-wide effects of reforms at the EU level of corporate income taxation systems to evaluate those long-term impacts (OJ S134 - 163990).

III. The assessment of the effects of alternative policy options on national tax administrations' costs

31. Another type of information on which MS tax administrations could contribute to improve the quantitative calculations for the IA is the data regarding the tax administrations' costs linked to the reforms.

32. A move from the current situation to any of the alternative options for reform of the corporate tax systems at the EU level will have some impacts on tax administrations' costs. These impacts depend on the administrative details of the alternative policy options (for that, see Presentation on the Administrative Framework at the CCCTB WG meeting on 13 March).

33. In general, it can be said that any of the alternative policy options will entail some new administrative costs for Member States' tax administrations. These include: one-off costs like the costs of familiarising tax employees and taxpayers with the new system, etc; other recurring costs like the need of coordination with other administrations, audits, litigations and other general administrative costs, etc. On the other hand, the alternative policy options consisting in a CCCTB system with consolidation and apportionment may save some of the current costs which tax administrations incur, like the costs of resolving disputes in intra-EU transfer-pricing cases or the general costs of monitoring intra-EU transfer-price setting by companies. Also, the difference between a scenario where only some companies opt in and the 'all in' scenario will also affect tax administration costs, as it is probably not the same running just one corporate tax system (the common one) or two different ones (i.e., when the national corporate tax systems remained in place for the companies that do not opt for the alternative tax schemes). Thus, it is of interest knowing the costs associated to the need of keeping two different systems simultaneously in the scenarios involving the assumption that only some groups would opt in.

34. To the knowledge of the Commission Services, no consistent and comparable quantitative estimations exist of how much these administrative costs may represent for national tax administrations, either by category or in total. If members of the Working Group know of sources of information where such costs are evaluated, their suggestions and recommendations would be of particular interest for the IA study.

Question 19: Last time you made a tax reform, which sort of methodologies did you use for assessing its impact on administrative costs? Are these assessments in the public domain?

35. To address the issue of collecting the information needed to measure accurately the main tax administration costs linked to a company tax reform with a common methodology, a draft questionnaire has been designed (**Annex to CCCTB/WP/058**). The questionnaire is targeted to national tax administrations. The questions are meant to collect quantitative data needed to assess the monetary costs and savings of the alternative policy options for tax administrations and compare them to the current situation. The draft of such questionnaire is attached for comments.

36. Member States' tax administrations would be invited to provide answers to the (final version of the) questionnaire after careful consideration of the different questions. When reporting on their assessment, particular care must be taken to indicate, succinctly but clearly, the working assumptions and methodological limitations. This will include assumptions concerning for example standard ratios of overhead costs by reference to labour costs, warning about the nature of the data presented (estimates *versus* exact measures) and indication of the margin of error, when necessary.

Question 20: Could tax administrations give their comments on the attached draft questionnaire? How much of the information requested do you think that could be estimated?

Question 21: Would any national tax administrations be willing to test the feasibility of answering the questionnaire?

IV. Other issues

37. On the basis of the information received (both for the tax data and the tax administrations' costs) the Commission Services would apply appropriate statistical treatment to its use for the IA. For example, when the data was not available for all Member States, extrapolation of the respondents' results could be done on the basis of the Member States' distribution of current collection of corporate tax revenues.

V. Other questions to Member States

Member States are invited to respond to the following questions in addition to the former ones:

Question 22: What other information do you have that could be useful for this IA?