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FEE Tax Day

Simple, fair, coordinated –
tax Utopia in the EU?

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Does Europe need a common corporate tax? Academic views: CCCTB

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1. Brief evaluation of company taxation in Europe

- Great diversity of EU-wide company taxation
 - ↪ Nominal tax rates (10 – 38.7 per cent)
 - ↪ Tax bases (but: financial profits = starting point)
 - ↪ Number and types of local taxes
- Taxation of foreign income: Coexistence of residence and source principle
- Problems
 - ↪ Violation of fundamental economic goals of EC Treaty (economic efficiency, Art. 2 EC)
 - ↪ Obstacles to cross-border activities within the EU (businesses)
 - Compliance costs
 - Disputes and double taxation (cross-border loss relief, group financing, transfer prices, reorganisations)
 - ↪ Tax administration, protection of tax bases and conflicts with EU Law (member states)

2.1 CCCTB - Principles-

(1) Computation of taxable income at the level of each group member according to a harmonised set of rules (CCTB = common corporate tax base)

(2) Consolidation of individual income to group income

(3) Allocation of combined income to group members located within the EU according to a formula



Source principle

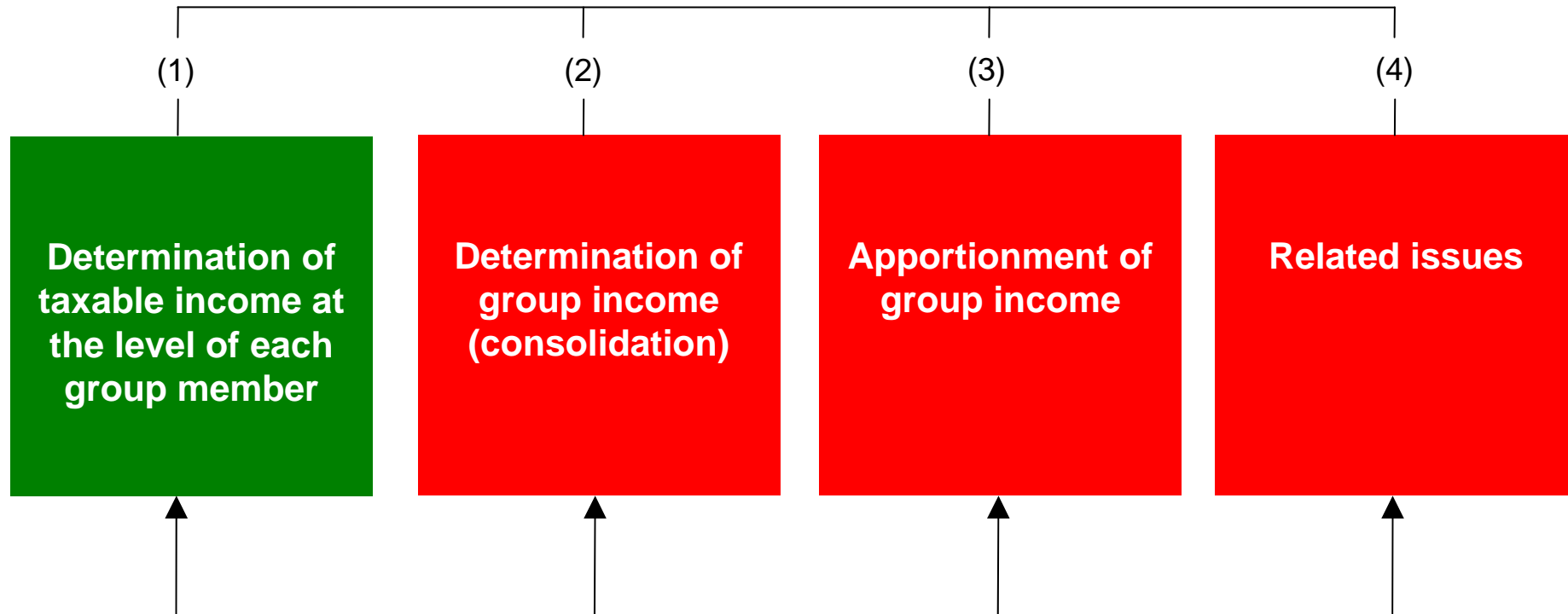


Each Member State's own tax rate

2.2 CCCTB - Advantages -

	Approaches to EU company taxation with different degrees of co-operation		
Reduction / elimination of tax obstacles to cross-border EU-wide activities	- Harmonised tax base with one set of tax accounting rules (= CCTB)	- Harmonised tax base with one set of tax accounting rules - Cross-border loss relief	- Harmonised tax base with one set of tax accounting rules - Consolidation - Formula Apportionment
Compliance costs	Achieved	Achieved	Achieved
Cross-border loss relief	Not achieved	Achieved	Achieved
Financing	Not achieved	Not achieved	Achieved
Transfer prices	Not achieved	Not achieved	Achieved
Reorganisations	Not achieved	Not achieved	Achieved

- Implementation issues -



Interrelations



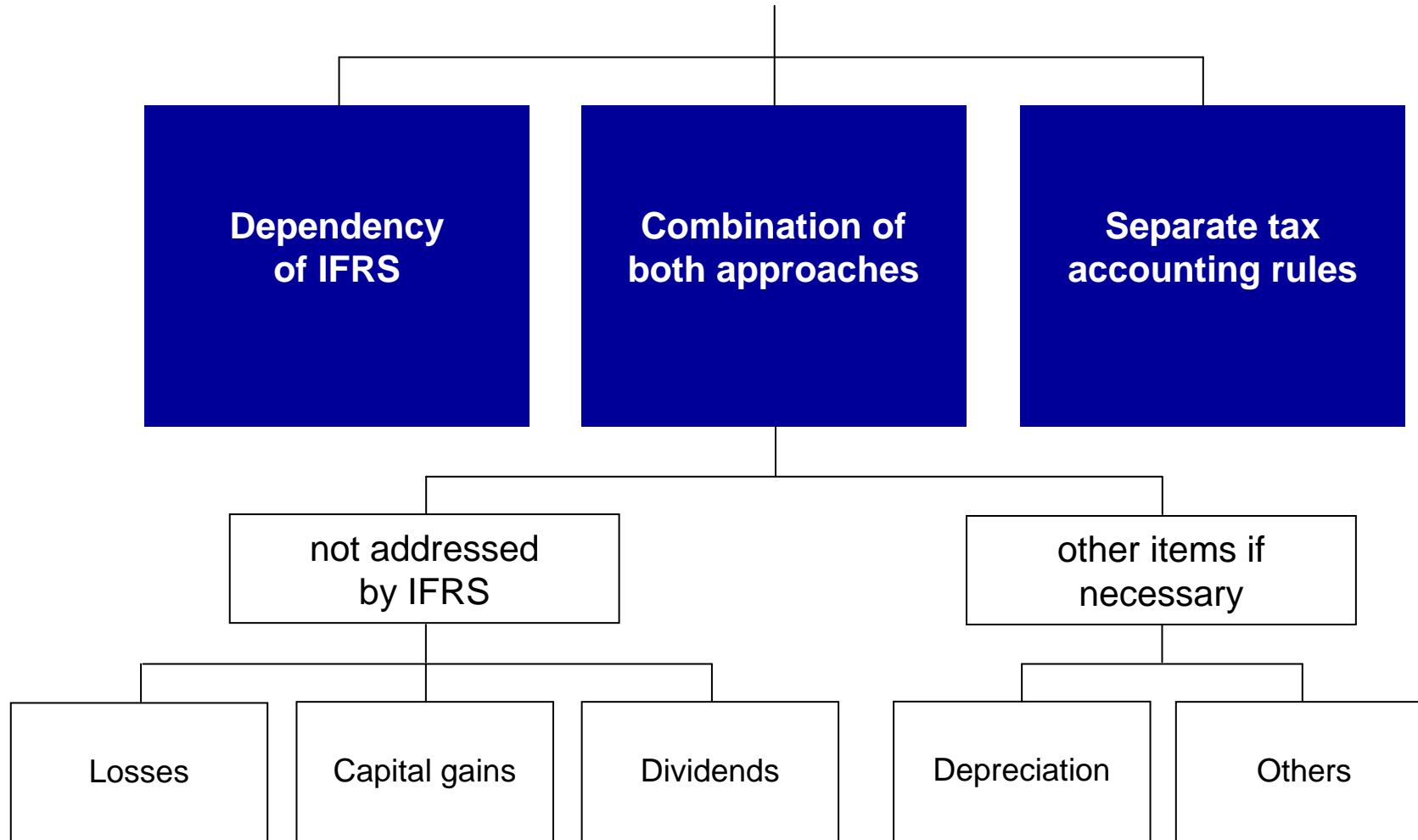
widely agreed (see Common Consolidated Corporate Tax Base Working Group, CCCTB: possible elements of a technical outline, CCCTB/WP057)



not all issues even addressed and analysed

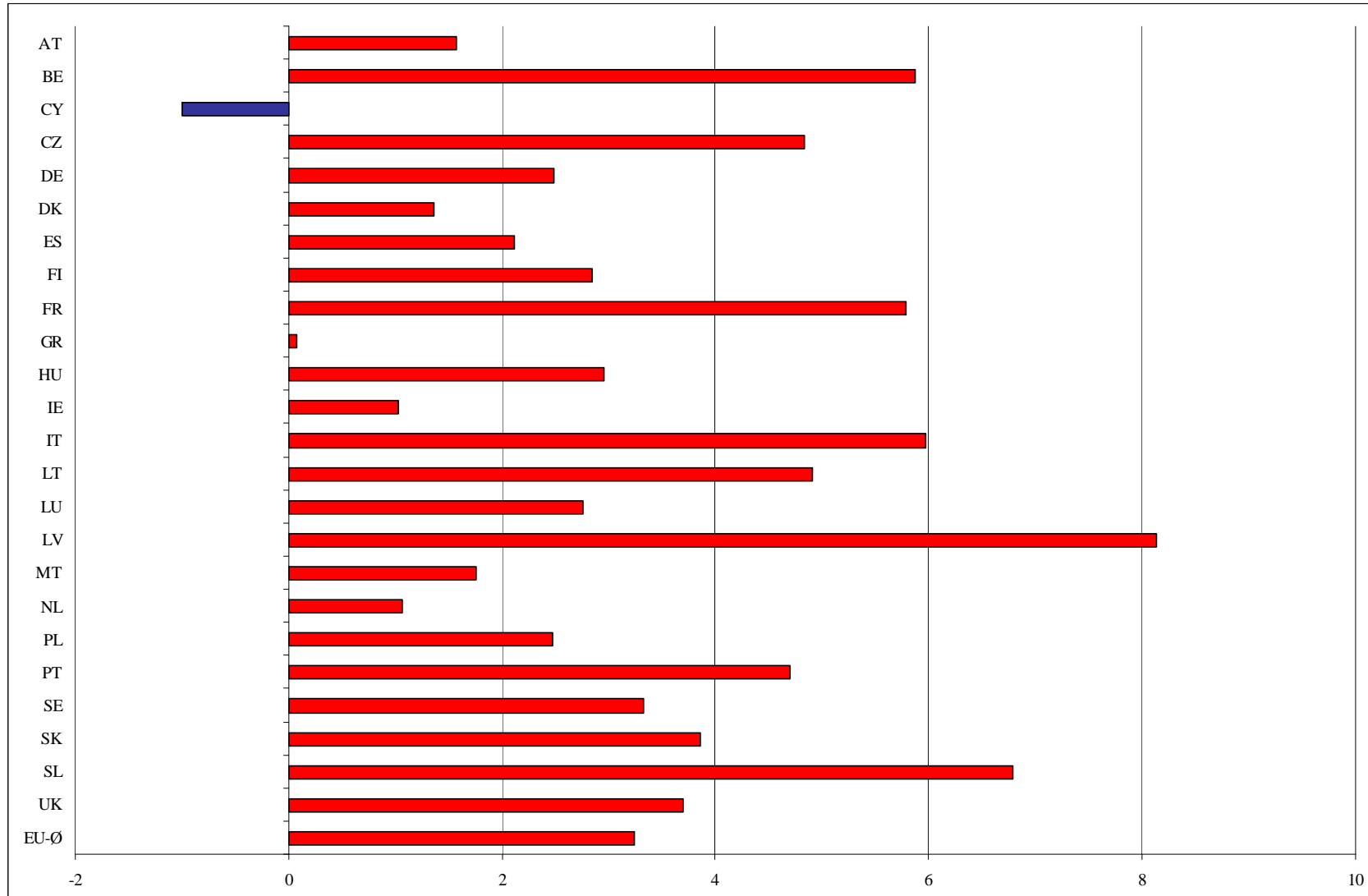
2.3.1 Implementation issues

- Determination of taxable income at the level of each group member -



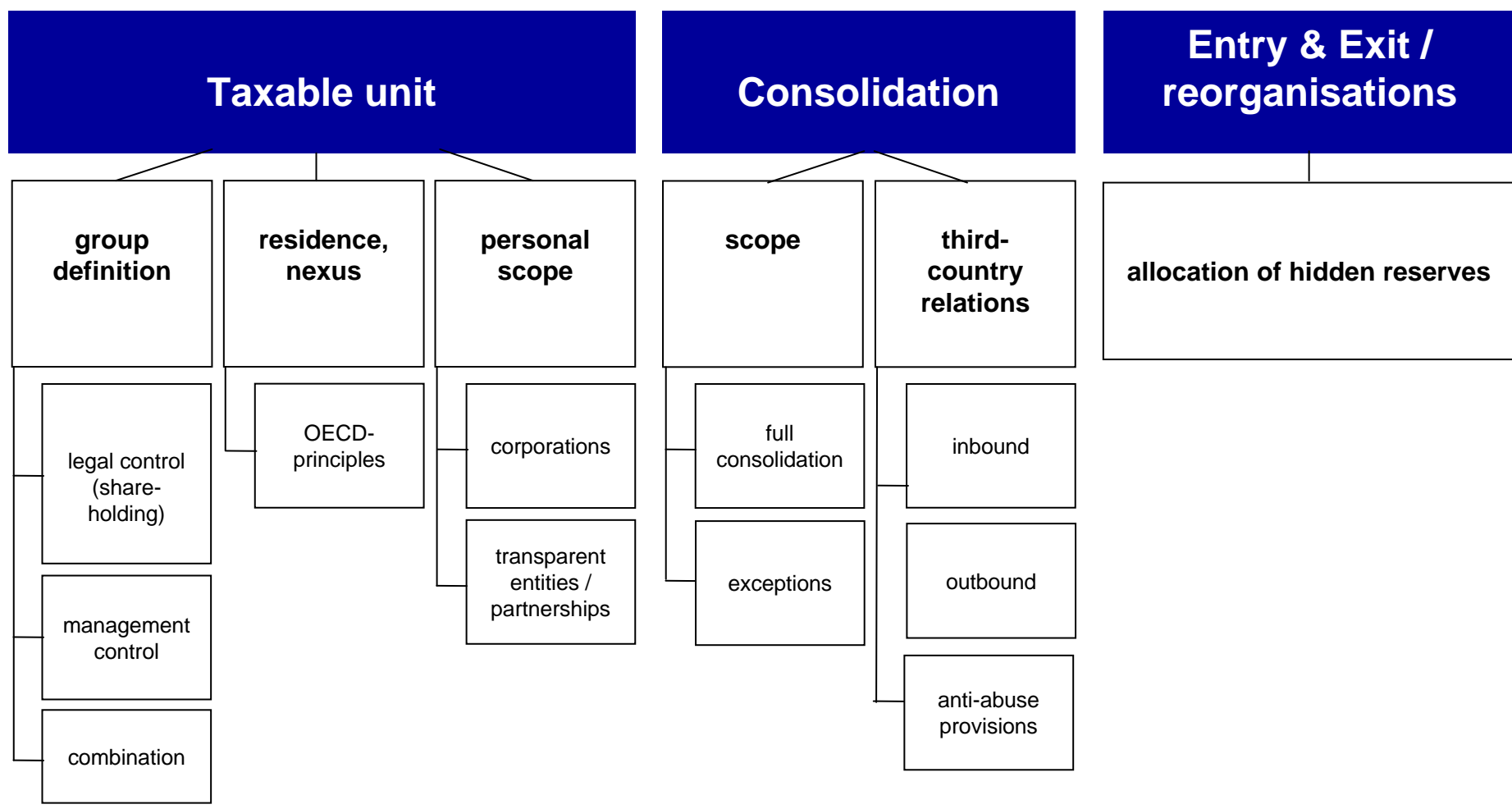
- Determination of taxable profits in case of a harmonised tax base according to the proposals of the CCCTB-WG (WP057)-
- depreciation /capital allowances
 - buildings: straight-line 40 years
 - intangibles: straight-line 5 years
 - machinery (5-10 years): pooling at 20%
 - office & furniture (4-9 years): pooling at 20%
- stocks
 - production costs: full-costs without
 - r&d expenses
 - production overhead costs
 - simplified valuation: FiFo
- occupational pension schemes
 - market interest rate
 - projection of increases of salaries
- losses
 - no carry back
 - unlimited carry forward (no constraints)

- Change of effective tax burden (per cent) (small corporation, manufacturing sector, 10 periods) -



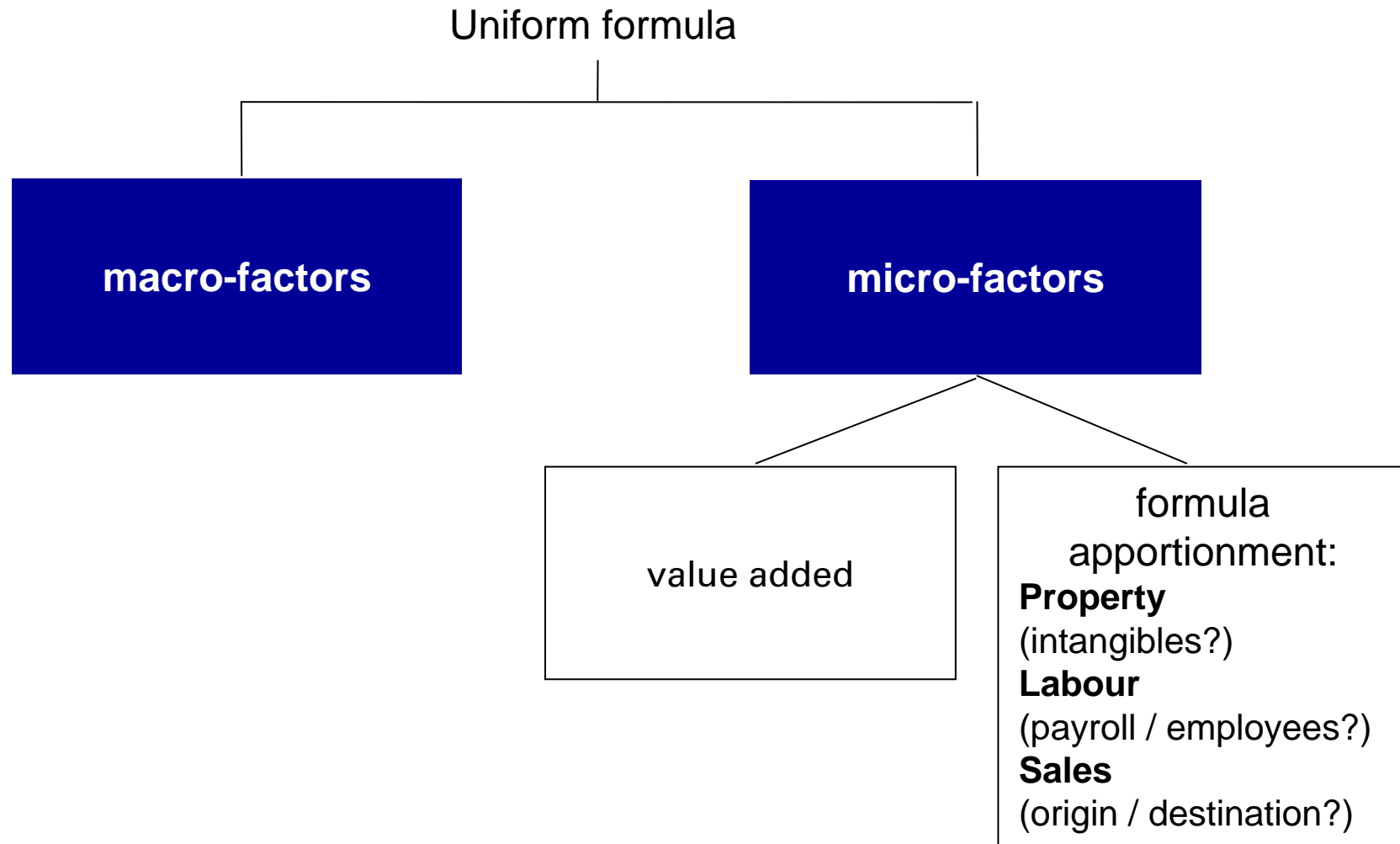
2.3.2 Implementation issues

- Determination of group income (consolidation) -



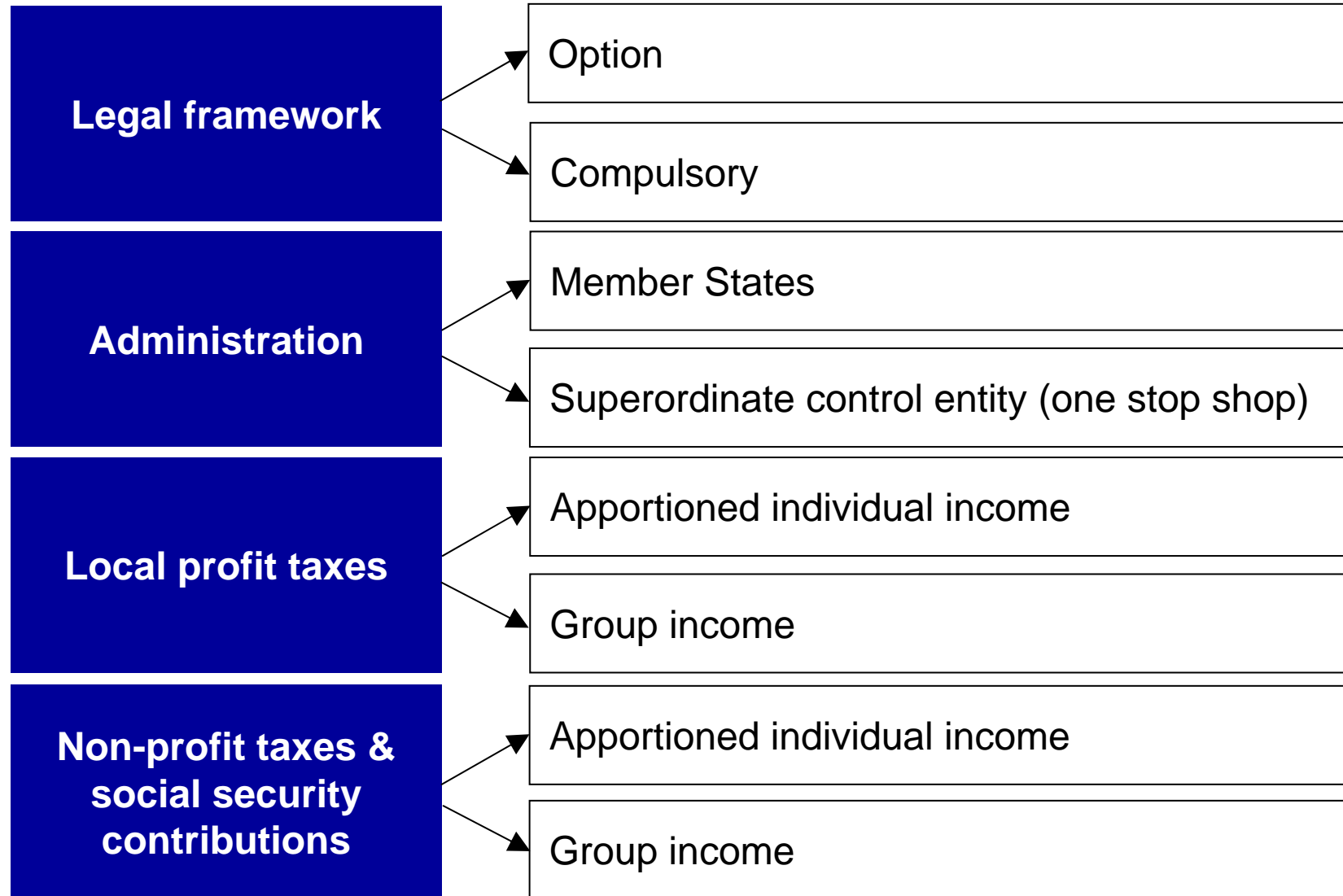
2.3.3 Implementation issues

- Apportionment of group income -



2.3.4 Implementation issues

- Related Issues -





3 Results

1. The present tax situation in the EU reveals that there is no proper functioning of the Common Market and that obstacles to cross-border activities of businesses and conflicts with EU-law exist.
2. A CCCTB as proposed by the Commission might abolish obstacles to cross-border activities, reduce conflicts with EU-law and increase national tax autonomy.
3. An implementation of a CCCTB needs harmonised EU-wide rules for the determination of profits, consolidation and apportionment.
4. The Commission has announced to release a proposal for a CCCTB. However, with respect to consolidation and apportionment, not all relevant issues have yet been addressed and analyzed.
5. Therefore, it is recommended to start with the harmonisation of tax accounting rules (CCTB). Consolidation and apportionment of group income should be addressed at a later stage.



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