Common Consolidated Corporate Tax Base (CCCTB)

2011/0058(CNS) - 16/03/2011 - Legislative proposal

PURPOSE: to establish a system for a common base for the taxation of certain companies and groups of companies and lays down rules relating to the calculation and use of that base.

PROPOSED ACT: Council Directive.

BACKGROUND: Companies which seek to do business across frontiers within the Union encounter serious obstacles and market distortions owing to the existence of 27 diverse corporate tax systems. These obstacles and distortions impede the proper functioning of the internal market. They create disincentives for investment in the Union and run counter to the priorities set in the Europe 2020. Tax obstacles to cross-border business are particularly severe for small and medium enterprises, which commonly lack the resources to resolve market inefficiencies.

A key obstacle in the single market today involves the high cost of complying with transfer pricing formalities using the arm's length approach. Furthermore, the way that closely-integrated groups tend to organise themselves strongly indicates that transaction-by-transaction pricing based on the 'arm's length' principle may no longer be the most appropriate method for profit allocation. The possibility of cross-border loss offsets is only made possible in a limited number of circumstances within the EU, which leads to over-taxation for companies engaged in cross-border activities.

In addition, the network of Double Tax Conventions (DTCs) does not offer an appropriate solution for the elimination of double taxation in the single market, as it is designed to operate in a bilateral context at the international level, rather than within a closely integrated setting.

The Common Consolidated Corporate Tax Base (CCCTB) is an important initiative on the path towards removing obstacles to the completion of the Single Market and was identified in the Annual Growth Survey as a growth-enhancing initiative to be frontloaded to stimulate growth and job creation.

IMPACT ASSESSMENT : the Commission considers **4 main policy scenarios**, which are compared with the 'no action' or 'status-quo' scenario (option 1):

- an optional Common Corporate Tax Base (optional CCTB) (*option 2*) ;
- a compulsory Common Corporate Tax Base (compulsory CCTB) (*option 3*);
- an optional Common Consolidated Corporate Tax Base (optional CCCTB) (*option 4*);
- a compulsory Common Consolidated Corporate Tax Base (compulsory CCCTB) (*option 5*).

The economic results of the impact assessment show that the removal of the identified corporate tax obstacles would allow business to make sounder economic choices and thus improve the overall efficiency of the economy. **The optional CCCTB is preferable for two main reasons** (i) the estimated impact on employment is more favourable and (ii) the enforced change by every single company in the Union to a new method of calculating its tax base (regardless of whether it operates in more that one Member State) is avoided.

CONTENT: it is proposed to establish a CCCTB which is a **system of common rules** for computing the tax base of companies which are tax resident in the EU and of EU-located branches of third-country companies. Specifically, the common fiscal framework provides for rules to compute each company's (or branch's) individual tax results, the consolidation of those results, when there are other group members, and the apportionment of the consolidated tax base to each eligible Member State.

The CCCTB will be available for all companies whatever their size. The system is optional. Since not all businesses trade across the border, the CCCTB will not force companies not planning to expand beyond their national territory to bear the cost of shifting to a new tax system.

The common approach proposed would ensure consistency in the national tax systems but would not harmonise tax rates. Each Member State will be applying its own rate to its share of the tax base of taxpayers.

Harmonisation will only involve the computation of the tax base and will not interfere with financial accounts. Therefore, Member States will maintain their national rules on financial accounting and the CCCTB system will introduce autonomous rules for computing the tax base of companies. These rules shall not affect the preparation of annual or consolidated accounts.

Under the CCCTB, groups of companies would have to apply a single set of tax rules across the Union and deal with only one tax administration (**one-stop-shop**).

- A company that opts for the CCCTB ceases to be subject to the national corporate tax arrangements in respect of all matters regulated by the common rules.
- A company which does not qualify or does not opt for the system provided for by the CCCTB Directive remains subject to the national corporate tax rules which may include specific tax incentive schemes in favour of research and development.

The proposal includes a complete set of rules for company taxation. It details who can opt, how to calculate the taxable base and what is the perimeter and functioning of the consolidation. It also provides for anti-abuse rules, defines how the consolidated base is shared and how the CCCTB should be administered by Member States under a 'one-stopshop' approach.

To assist Member State tax administrations in the run up to the implementation of the CCCTB it is planned that the FISCALIS EU programme will be mobilised to assist Member States in the CCCTB implementation and administration.

A major benefit of the introduction of the CCCTB will be a **reduction in compliance costs for companies** . On average, the tax experts estimated that a large enterprise spends over EUR 140 000 (0.23% of turnover) in tax related expenditure to open a new subsidiary in another Member State. The CCCTB will reduce these costs by EUR 87 000 or 62%. The savings for a medium sized enterprise are even more significant, as costs are expected to drop from EUR 128 000 (0.55% of turnover) to EUR 42 000 or a decrease of 67%.

BUDGETARY IMPLICATIONS: the proposal has no implications for the EU budget.