# IMPLEMENTATION OF THE COMMON CONSOLIDATED CORPORATE TAX BASE– ITS IMPACT ON THE EU MEMBER STATES

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***Abstract:*** *The Common Consolidated Corporate Tax Base for the companies aims to harmonize the taxation base for the companies within the European Union, which will re-launch the single market and support the accomplishment of the Europe 2020 Strategy. An important objective of the Common Consolidated Corporate Tax Base is to increase the correctness of the fiscal system by approaching some cause of tax avoidance by the multinational companies. The added value of the Common Consolidated Corporate Tax Base consists in a higher mobility of capitals within the European Union by decreasing the costs of ensuring the conformity and the cross-border fiscal obstacles. The Common Consolidated Corporate Tax Base will make the European Union more attractive for investments and business, because the investors are no longer required to analyse the dispositions of several fiscal systems when investing in the European Union, which will decrease the compliance costs and the administrative costs as well. At the same time, the Common Consolidated Corporate Tax Base improves the transparency about the real situation of levying the companies from the member states and establishes a more fair fiscal competition within the EU, which increases EU competitiveness worldwide.*

***Keywords:*** *Common Consolidated Corporate Tax Base, fiscal system, tax base, profit tax.*
***JEL classification:*** *H26, H32.*

## 1. Introduction

The *Common Consolidated Corporate Tax Base (CCCTB)* is a political proposal of the European Commission, which aims to harmonize the tax base for the companies within the EU. This also includes the consolidation and assignment of the fiscal base of the groups of societies.

The *Common Corporate Tax Base (CCTB)* aims to harmonize the tax base for the companies within the EU but doesn’t include the fiscal consolidation element of the CCCTB.

The theoretical elements which form the common consolidated corporate tax base are as follows:

• *Tax base* – amount of a company profit to be taxed. The tax base is calculated as follows: incomes of the company minus the amounts due to tax exemptions and deductions, such as wages and depreciation. Each member state has different rules to calculate the tax base. A single tax base for the EU means that the companies will have to observe just one set of rules when making the calculations.

• *Consolidated* – consolidation means adding all the profits and losses of a company/group of companies from different member states, to make a net profit/loss for all the activities within the EU. The result will be used to set the final tax base for the company or group.

• *Common* – means a single set of rules to apply throughout the EU.

CCCTB is a unique set of rules which the companies operating in the EU may use to calculate the taxable profits. Thus, a company or group of companies will have to observe just one system of calculating the taxable income within the EU, not different systems of rules from the different member states where they operate. Furthermore, according to CCCTB, the societies operating in several EU member states will have to submit just one fiscal statement for all their activities throughout the EU.

The common consolidated corporate tax base allows the companies or groups of companies to consolidate their profits and losses within the EU, thus taking into consideration their cross-border activities. A single, consolidate fiscal statement is to be used, and the member states where the company operates will tax part of this consolidated base, according to a specific formula with three factors of equal value (assets, workforce and sales). The operations will be done through the fiscal authorities from the mother EU member state of the company (via the system of single offices).

The proposed EU directive set clear rules on: the way in which the companies can decide to use the CCCTB; how to submit the fiscal statements; the harmonization of the different forms and coordination of the audits. The fiscal statement for all the activities within the EU will have to be submitted to the fiscal administration from the mother EU member state of the company, and that member state will have to coordinate all the proper inspections and take all the necessary actions following the submission of the statement.

## 2. Theoretical aspects regarding the common consolidated corporate tax base

Within the context of globalization, production factors mobility can generate pressures on the governments to reduce fiscality, so that their countries remain attractive. Under these circumstances, the divergences between the EU member states can intensify, increasing the controversies about the limits if the national sovereignty in matters of direct fiscality, corporate taxation particularly. It is thus stringent to achieve fiscal coordination within the EU, but one must not oversee that the social preferences of each country requires independency in creating the national fiscal policy.

The globalization of the world economy, the progress achieved in trade liberalization and in the expansion of the flows of capital made it easier the mobility of goods, services, workforce and capitals across the national borders. In consequence, the taxpayers have multiple possibilities to avoid high taxation in a country by moving the source of taxation in countries with lower taxation levels, so that the opportunities of economic growth move from one country to another.

If the capital is mobile and the taxation level differs from one country to another, the multinational companies can use a full set of strategies for fiscal optimization (transfer of the profits to areas with lower taxation, establishment of financial departments in fiscal paradises to finance the investments by credit lines within the group). Such tax avoidance strategies generate losses of revenue to the countries with high taxation levels and disadvantage the SMEs involved in competition on the same market.

The company operate now designs aiming to join the higher mobility of the capital with the increasingly frequent cross-border transactions between associated companies. Therefore, the concepts defined for fiscal purposes, such as place of residence, usually used to answer the needs of rather closed economies, prove improper most times, to respond the challenges of trading on an integrated market. Therefore, the cohabitation of heterogeneous fiscal norms which change frequently is an obstacle for the companies competing on the international market. Furthermore, the national fiscal systems are increasingly vulnerable to the tax evasion mechanisms. The transfer of revenues and the treaty shopping are facilitated within the context of a high mobility of the production factors.

Within this context, the companies with cross-border operations in the EU still encounter obstacles such as:

• *Additional cost to conform to the legislation*, because of the necessity to observe the various national fiscal systems and the rules in matter of transfer prices;

• *Double taxation*, which appears when the same income is taxed by comparable taxes in two or more states;

• *Over-taxation,* which appears when cross-border activities create taxation duties which would not have appeared within the strictly national context (for instance, the associated companies from different member states or their headquarters don't have the right to repatriate the losses, while the consolidation of losses of the companies established in a single member state reduces the taxable profit and the fiscal burden).

Currently, the existence of different taxation systems in the different EU member states create possibilities for aggressive fiscal planning, affecting the moral condition of the taxpayers and the fiscal equity. This generates high compliance costs and hampers investments. Most national fiscal systems are favourable to financing by indebting to the detriment of financing by own capitals, which increases the level of the debt and affect the resilience of the economy. Furthermore, compared to other large economies, the EU companies don't invest sufficiently in research/development.

These problems are determined by the internationalization of the companies and the increasing mobility of the profits. The taxation base is decided at the national level, which encourages the EU states to protect the taxation base unilaterally, and to draw mobile profits. The unilateral measures cannot solve the essential problems since they increase the complexity, preventing even more the evolution of the single market and adding obstacles to the investments and economic growth.

The existence of complex ownership relations between the companies' resident in the EU and those residents outside the EU requires clarification of their status. There are several sensitive combinations whose treatment must be differentiated:

• *Several community companies controlled by an extra-community entity*. In this situation, it is advisable to apply the system; otherwise CCCTB enforcement might be avoided by the EU companies by simply moving the controlling entity outside the EU;

• *A community mother society with a subsidiary in a third country, this subsidiary controlling, in turn, a community base company*. In this situation, the community entities should be submitted to CCCTB if the proportion of ownership is large enough to be defined as legal property, but the consolidation of tax base while excluding the intermediary entity might raise technical difficulties.

These corporations might choose levying according to the CCCTB. This option can be achieved by notifying the competent authorities at least three months before the beginning of the fiscal year. This option will be valid for five years and will be renewed automatically for three-year periods unless official notification is received from the corporations; consolidation will be done compulsory for the incomes and expenditures of all the members of a group of companies.

The introduction of a large and complex set rules and provisions which to ease the cross-border trade and the removal of fiscal obstacles (over-taxation or no compensation for the losses) on the domestic market is a difficult task because of the requirement for unanimity for the fiscal legislative proposals. CCCTB proposal is constructed as an optional properly prepared approach (studies, meetings of the group of experts, public consultations) during a period of several years.

## 3. Main objectives of CCCTB system

CCCTB will contribute to the re-launch of the single market and to the accomplishment of the Europe 2020 strategy. CCCTM objective is to cut the administrative costs and to remove the fiscal obstacles on the domestic market. CCCTB is a fiscal policy measure which simplifies the fiscal norms, cuts the compliance costs and removed the fiscal obstacles for the companies working cross-border.

a) The most important objective of the CCCTB is to enhance the correctness of the fiscal system, by approaching some of the main causes of tax avoidance by the multinational companies. The specific objectives supporting this general objective are: significant decrease of the possibilities for cross-border fiscal planning; establishment of more equitable conditions for the national and multinational companies; make sure that the companies pay an equitable share of the fiscal burden; consolidate the general moral condition of the taxpayers, which is seriously undermined, currently, by a strong perception that the international actors are largely ducking taxation.

*b) Improving the business environment* by removing the obstacles to taxation on the single market. This objective is important in order to maintain or even increase EU company's competitiveness and is one of the priorities of the European Commission which stresses on job consolidation, economic growth and higher investments and the single market. The specific objectives supporting this goal are: simplify very much the very complex international taxation system, to reduce the compliance costs and the administrative burden, eliminate the double taxation within the EU and remove the existing discriminations and restrictions.

Following the conclusions of the financial crisis, there are two more objectives that should lead to the reform of the tax system within the EU:

*c) Provide a profit taxation approach*, which doesn't denaturises the investments and the financing decisions;

*d) Create incentive to invest in the EU*, among which supporting research, development and innovation in order to protect and increase the current level of welfare.

There is a compromise between the general objectives. Decreasing the costs for the companies and stimulation of investments through more attractive allocations and deductions might be, sometimes, hard to conciliate with ensuring an actual tax by decreasing the possibilities of tax planning. Furthermore, this might also have an impact on tax collection. Therefore, the two general objectives will have to be balanced. The objective of stimulating the growth and the investments should be in agreement with the objective of increasing the correctness of the fiscal system, and it should not lead to more opportunities of fiscal planning.

**Table 1. Impact of tax planning on effective average tax rates**

| % | Mean | Min | Max | Average EU 28 percentage reduction |
|---|---|---|---|---|
| **Effective average tax rate domestic case** | 21.1 | 9 | 38.3 | n/a |
| **Effective average tax rate after cross-border tax planning via** | | | | |
| **Hybrid financing** | 13.7 | 4.3 | 26.6 | -36.3% |
| **Intellectual property box (patent box)** | -1.6 | -3.7 | 1.8 | -108.3% |
| **Financing via offshore treaty** | 15.9 | 6.4 | 28.6 | -25.0% |

*Source:* ZEW(2015, 2016c) and own computations

The experience with some measures taken at the national level, to approach the prejudices about the debt and to promote research and development, show the necessity of a specific project to control the abuses on condition that the design framework and control of abuses get the right attention. The reforms in these areas would actually provide the opportunity of approaching tax evasion channels. For instance, approaching the debt prejudice might eliminate the opportunities for the groups operating abroad to transfer the profit through the debt instrument.

**4. Impact of the proposal of Directive on the CCCTB**

The effects which the proposal should have on the targeted beneficiaries are: give the companies the possibility to use a common tax system within the EU (common, consolidated tax base to determine the profit); introduce a single office-based approach for the fiscal statements and tax calculation; allow cross-border compensation for the losses; decrease the compliance obligations regarding the transfer prices; reduce double-taxation or over-taxation; reduce the opportunities of abusive or un intended fiscal planning by the parallel application of several levying systems within the EU.

The experts analysed four main scenarios of policy compared to the inaction or status-quo scenario:

• *An optional common corporate tax base* (*optional CCTB*): the companies resident in the EU (and headquarters in the EU) may calculate the tax base according to a unique set of common rules within the EU, instead of using one of the national tax systems. The „separate accounting" (setting the prices for every single transaction according to the principle of „full competition") will still be sued for intra-group transactions, as this system would not involve the consolidation of the fiscal results (*option 1*).

• *A mandatory common corporate tax base* (*mandatory CCTB*): all the companies resident in the EU (and headquarters in the EU) should calculate the tax base according to a unique set of common rules within the EU, instead of using one of the national tax systems. The new rules would replace the existing national taxation systems. In the absence of consolidation, the distribution of the profit within the intra-group transactions will still be done according to the principle of „separate accounting" (*option 2*).

• *An optional common consolidated corporate tax base* (*optional CCCTB*): an alternative to the existing national taxation systems and use of the „separate accounting" to distribute the incomes of the associated companies would be a set of common rules to set a consolidated tax base for the EU. Therefore, the fiscal results of each group member (companies' resident in the EU or with headquarters within the EU) would be aggregated to form a consolidated tax base, and redistributed according to a present mechanism based on a formula. Within this scenario, the companies' resident in the EU or with headquarters within the EU, owned by companies with headquarters outside the EU, might use the CCCTB, on condition they meet the eligibility criteria to form a group and that all the group members decide to use the common rules (*option 3*).

• *A mandatory common consolidated corporate tax base* (*mandatory CCCTB*): The companies' resident in the EU or with headquarters within the EU, owned by companies with headquarters outside the EU should use the CCCTB rules to the extent they meet the eligibility criteria to form a group (*option 4*).

The economic results of the impact analysis show that removing the tax barriers would allow the companies to make solid economic decisions. The options regarding the optional or mandatory CCCTB would lead to higher prosperity. The optional CCCTB is preferable for several reasons. The main two reasons verified when the impact is evaluated are: the estimated impact on workforce employment is more favourable; it avoids imposing all the companies within the EU (irrespective whether they operate in one or several member states) to change the method of calculating the tax base.

The analysed reforms are potentially associated to important long-term dynamic effects among which reducing the incertitude and (real and perceived) costs for the companies operating under several jurisdictions. This will increase the cross-border investments within the EU, both due to the expansion of the European and foreign multinationals, and to new investments in other EU member states made by strictly national companies. The removal of the additional compliance costs associated to the obligation to observe various fiscal norms within the EU and to operate under several fiscal administrations ("single office" principle) will improve the capacity of the companies to expand abroad. This perspective should be particularly advantageous for the SMEs, which are affected by the high compliance costs.

Although the analysis shows that the impact of introducing the CCCTB on the global fiscal revenues depends on the political options of each member state, it is important that the EU member states pay increased attention to the income effects, particularly within the context of the difficult budgetary situation confronting many member states. The new rules on the common tax base will lead to a broader average EU base than it currently is. If there are economic losses which to be compensated cross-border, then consolidation within the CCCTB aims to compress the common tax base.

Actually, the impact on the revenues of the EU member states will ultimately depend on the options of national policy regarding the mix of fiscal instruments or taxation rates. It is difficult to estimate the exact impact on each EU member state. The directive has a clause to analyse the effect of this impact after five years. The introduction of a consolidated common tax base for the tax on profit within the EU cannot be done by unilateral (national) or bilateral (cross-border) measures and agreements between the member states.

The added value of the CCCTB resides in a higher mobility of the capitals within the EU by decreasing the compliance costs and the cross-border fiscal obstacles. At the same time, CCCTB ensures that the activities of the multinational companies within the EU do not avoid a fair level of taxation. A common approach for a common corporate tax base within the EU contributes to restoring the relation between taxation and creation of value.

The evaluation of the different options lead to a preferred option: mandatory CCCTB for the large companies, accompanied by a "deduction for growth and investments" and by a deduction for research and development. The deduction for growth and investments is a deduction for the financing costs by indebting and by own capital, within specific limits, to avoid the abuses and fiscal planning. The deduction for research and development aims to maintain at least the existing fiscal incentives for research and development.

The implementation of the preferred solution is expected to increase the equitable character of the fiscal systems and to create conditions for equitable competition by the efficient removal of the incentives favouring the aggressive fiscal planning within the EU. Thus, it will be easier to make sure that the companies pay equitable taxes, and the moral condition of the taxpayers will improve. Furthermore, the cross-border fiscal obstacles would be effectively removed within the EU. The alterations which affect the financing decisions are reduced via the deduction for growth and investments, which levels the financing through indebting with the financing by own capital. The fiscal incentives for research and development will not only be maintained, but consolidated and optimised.

The costs involved by the proposal regarding the national fiscal revenues depend on the manner in which the EU member states adjust their taxation levels to the new tax base, on the value of the deduction for growth and investments and on the incentives for research and development. The compliance costs and the administrative costs of the preferred option are mostly related to the transition from the existing tax systems to CCCTB. These costs only occur once, though.

For the big companies affected by the mandatory element, the common tax base will be compulsory. This is a major change for the companies and creates more equitable conditions for competition within the EU. For the other companies, the use of CCCTB will be optional. Therefore, for these companies there is no immediate impact if they continue to use the national system. If the companies decide to apply the CCCTB, they consider that the system provides benefits, such as lower conformity costs and higher efficiency. Therefore, the impact is positive.

There are two direct effects on the revenues from taxation. First, CCCTB changes the rules for calculating the tax base, comparing to the national systems, reducing it for most EU member states. Second, the tax base of a multinational group is assigned to EU member states according to a formula which measures the economic activity on the basis of the workforce, social capital and sales. It is difficult to foresee exactly which will be the final changes, as the impact on sales also depends on the way in which the EU member states will adjust the taxation rates in response to the new taxation base, and on the behavioural response of the companies.

The parallel use of national taxation systems and of the CCCTB will increase the burden of the fiscal administrations, which will have to manage two taxes, even though they are similar, but the administration of the documentation related to the transfer prices will be much lower.

CCCTB will allow the EU to become more attractive for investments. The investors will not have to analyse and evaluate the differences and provisions of several fiscal systems when investing in the EU, which will decrease the costs of compliance and the administrative costs. The tax base accompanied by the incentives for research and development and a deduction for growth and investments will also enhance EU competitiveness because the investments will be more profitable and the economy will be more resilient.

CCCTB will be optional, which means that the companies which consider they might benefit from this harmonized system will choose to use the CCCTB, while other companies may continue using the national systems. This is a reasonable approach, as the companies not intending to expand beyond the national borders, therefore operating within a single system, will not have to switch, uselessly, to the new fiscal system. A mandatory CCCTB would infringe the principle of subsidiary, because it would mean that the measures introduced in the EU would cover, besides the activities undertaken at the European level, other, exclusively national, activities too.

The companies outside the EU, with branches or subsidiaries in a member state, will have the choice to use the CCCTB for their activities on EU territory; on condition they meet the same eligibility criteria as the EU companies.

The EU member states will continue to take decisions regarding their particular tax rates, including the companies using the CCCTB (since the CCCTB system covers only the tax base, not the tax rate). An EU member state might choose to apply a different tax rate for the CCCTB system if its national tax base system is extremely different and if it wants to maintain the tax rate (for instance, the real level of the tax paid after applying the rate, tax base and various deductions).

Another possibility is that the EU member states bring close enough their tax bases, relying on the common tax base, to avoid the coexistence of two different tax rates. Each EU member state will be free to decide the best approach for its national particularities.

The problem which generated most discussions refers to the formula of allocation, between the entitled member states, of the consolidated revenue determined through the decided tax base. It is necessary that this formula is transparent and simple, that it doesn't entail excessive compliance and administrative costs, that it reduces the possibility of the corporations to move the allocation factors from one location to another and that it doesn't create distortions within the business environment within the EU.

CCCTB will provide predictable norms, a framework for fair and equitable competition, lower costs and less bureaucracy. Thus, the EU will become a more attractive market for investments and business. The re-launch of CCCTB will also support the research and development, main vectors of the economic growth. The companies will be entitled to a substantial deduction regarding the costs for research and development, whose beneficiaries will be mainly the newly-established companies and the innovating companies which choose to participate in the new system.

It is important to highlight that no general conclusions are to be drawn on the final effect of the CCCTB on the revenues or on the budget situation of the various member states, because these will depend ultimately on the national policy options towards the mix of fiscal instruments or on the taxation rates.

The introduction of provisions regarding the common tax base not related to the cross-border consolidation of the losses might results, for most EU-based companies, a higher tax base than the current one. The size of this increase seems to depend mainly on the applied rules of depreciation. Anyhow, the common tax base would narrow the rather large current gap between the tax bases within the EU member states.

The CCCTB scenario also sets the manner in which the global tax base can be distributed among the EU member states where multinational companies operate, which requires defining *ad hoc* mechanisms of allocation. The use of financial accounts information as indicator for the taxable profits of the multinational groups, shows that the formula which includes the costs related to employees, assets and sales function of the destination, equally weighted, would lead to broadening the bases mainly in Central and Eastern Europe and in Germany, Spain, France, Greece and Italy. The results of the study show that the effect of changing the weight of the allocation factors on the relative allocation of the tax base between these countries would have decreased.

Overall, the joint effect of the new provisions on the tax base, but which are not related to consolidation (which tend to enlarge the tax base) and the introduction of the immediate cross-border consolidation of the losses (which tend to shrink the tax base) produced by CCCTB scenarios tends to preserve rather constant the aggregated fiscal bases compared to the current ones (for the particular companies).

The model developed to simulate the modification of the fiscal policies of the EU member states was expanded and improved to enable evaluating the impact. It is estimated that the removal of the cross-border fiscal obstacles will materialize in a lower number of irregularities in assigning the capital because, on the one hand, there will be a higher possibility to substitute the national investments with cross-border investments and, on the other hand, the overall EU attractiveness will increase for the multinational investors. The increased allocation efficiency should materialize in a higher productivity and in job creation, which also results from the scale economies that can be exploited on a larger market.

In order to optimize the benefits of a single set of norms in matter of profit tax throughout the EU which to set consolidated the tax base of the groups, the groups should be able to deal with a single fiscal administration ("main fiscal authority"). In principle, the main fiscal authority should have the headquarters in the member state in which the mother company of the group ("main contributor") resides for fiscal purposes. Within this context, it is essential to set common procedural norms for the administration of the system.

## 5. Conclusions

Tax evasion leads to a poor congruence between the jurisdiction in which the value is created and that in which the profits of the corporations are taxed. This contributes to an unfair distribution of the fiscal burden, next to the trend of the national governments to respond by levying less mobile fiscal bases, an additional benefit for the multinational companies.

The SMEs are confronted abroad with high costs for investments and growth because of the differences between the national fiscal systems. There are no conditions for a fair competition, because the SMEs cannot lower their fiscal burdens by fiscal planning which leads to alterations of the domestic market and which raise problems of correctness.

The current fiscal systems offer incentives to the EU member states to eventually engage in harmful fiscal competition in order to draw very mobile fiscal bases. As consequence of this fiscal competition, some member states will lose the tax bases, while other will gain from adopting advantageous fiscal dispositions to draw mobile fiscal bases.

Currently, the companies have to observe the different systems of calculating the taxable profit and must submit fiscal statements to the fiscal authorities from each EU member state where they operate. This situation creates high compliance costs, administrative burdens and complex readjustments. The complicate system of price transfer, currently in use for the intra-group transactions, is particularly costly and burdening for the companies operating within the EU and can generate disputes between the administrations of the different EU member states, leading to the double taxation of the companies.

CCCTB doesn't concern the taxation rate, and it is not intended to harmonize the taxation rates levied by the EU member states upon the companies. The member states will continue to decide on their own corporate taxation rates, being a sovereign right. When they don't cause distortions, the differences in the taxation rates maintain some level of fiscal competition within the domestic market. In exchange, CCCTB improves the transparency concerning the real situation of corporate taxation within the EU member states and upholds a more correct fiscal competition within the EU. CCCTB system is much more efficient in increasing EU competitiveness worldwide than any other measure regarding tax rates uniformization.

The recent orientations towards a common European corporate taxation policy aim to prevent the adverse effects of the fiscal competition, particularly of the "migrating" national taxation bases, by moving the corporate headquarters in countries with more friendly fiscal regimes.

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