Further reform of corporate taxation rules

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Isabel BENJUMEA BENJUMEA (PPE, ES) on further reform of corporate taxation rules.

Members recalled that although tax policy remains a Member State responsibility, the single market requires a certain level of tax cooperation and harmonisation complete, improve and further develop it. It is crucial to adopt a common approach on tax policies is crucial for addressing harmful tax competition and profit shifting, fighting against tax avoidance and evasion.

The report took note of the package put forward by the Commission on tax simplification for SMEs and BEFIT and the need to adopt solutions at EU level that are well designed, taking into account existing systems in the Member States and do not impose additional, disproportionate and unnecessary burdens on businesses, in particular SMEs.

Members deplored the fact that national tax systems, tax administrations and, in general, differences in the broader public administration of the countries have an impact on the burden of compliance, particularly for SMEs, as they have to cope with up to 27 different tax systems. The Commission is called on to make the best use of the EU's existing forums to ensure a coherent implementation of EU tax legislation across Member States.

Reducing the burden of compliance on EU companies, particularly SMEs

The report revealed that, according to the Commission, the estimated tax compliance costs for large multinational enterprises (MNEs) amount to about 2 % of taxes paid, while for SMEs the estimate is about 30 % of taxes paid. The Commission is called on to design tax policies in a way that makes them easy to implement for smaller companies, **lowering the costs that they bear and reducing their administrative obligations** under tax legislation.

The Commission should present an overall evaluation of previous actions taken on corporate taxation since 2011 and to publish a thorough impact assessment on the best options to ease the administrative burden on businesses, particularly SMEs, to map all differences in transposition in the EU, and identify areas for simplification and to ensure that businesses already under strain have a reasonable timeframe to implement policies.

Member States are called on to:

- consider engaging in policies of full expensing for capital investments and to make capital allowance provisions permanent in order to improve real investments, in particular investments in research and development and to reach the climate targets, as well as to assist Europe's competitiveness;

- relieve the burden on companies, especially SMEs, for instance through temporary tax measures to mitigate the increase in energy costs and to use the additional revenues based on higher energy prices to provide direct and targeted relief to help the most vulnerable citizens and the middle class.

The Pillar Two Agreement

The report welcomed the fact that the two-pillar solution was agreed at the OECD/G20 Inclusive Framework on the allocation of taxing rights and the application of a minimum effective tax rate of 15 %

on the global profits of MNEs and the adoption of the Pillar Two Directive implementing the international agreement in EU law.

Members noted that Pillar One and Pillar Two rules are only applicable to MNEs with a turnover above the thresholds and most companies, notably SMEs, are therefore exempt from this agreement. They took noted of the Commission’s efforts to build BEFIT on the international pillar 2 agreement and the EU’s Pillar Two Directive.

The Commission took noted note that the Commission reiterated its acknowledgment that BEFIT is also relevant from an own resource perspective. Members recalled that Parliament has expressed support for new own resources linked to corporate taxation such as the common consolidated corporate tax base (CCCTB), digital services tax and, most recently, for the ‘Pillar One’-based own resource in the context of the OECD inclusive framework on Base Erosion and Profit Shifting (BEPS). Members recalled furthermore its call for a EU-wide Financial Transaction Tax (FTT) and to evaluate, as further options an excise duty on the repurchase of shares by corporations as proposed in the US Inflation Reduction Act and a common and standardised withholding tax framework.

Towards a coordinated and simplified company taxation regime (BEFIT)

The report noted that the BEFIT initiative and the SME support package on taxation are complementary and both aim to improve simplification for businesses. The Commission is invited to propose measures to help all Member States move towards a simplified, efficient and competitive tax system in order to reduce the administrative burden on businesses, especially SMEs. Members noted that simplifying refund procedures, deductions and disputes are other ways of reducing the administrative burden, particularly for SMEs.

The report noted the Commission's intention to work on a BEFIT proposal, with a view to designing a new single EU corporate tax rulebook and a common tax base of income taxation for businesses. It called on the Commission to ensure that the new proposal provides clarity and predictability for businesses and facilitates cross-border economic activity.

Members consider that the implementation of a single tax rulebook may help reduce the scope for harmful tax competition and tax avoidance between Member States while simplifying corporate tax rules in the EU.

Given that companies doing business across the EU have to deal with different tax laws and tax authorities, Members highlighted the idea of a one-stop-shop allowing for the filing of one consolidated tax return as a possible way of reducing administrative burdens and minimising tax obstacles to the Single Market.

According to Members, all the very large firms operating in the EU should come within the scope of the future BEFIT proposal. They called on Commission to make sure that the specific demands of SMEs are met, by keeping BEFIT optional for SMEs, especially those not doing cross-border business.

Members recalled that corporate spending on research and development was equal to only 1.5 % of EU GDP in 2020, compared to 2.6 % in the United States and Japan, according to the European Investment Bank’s 2022/2023 investment report. This shortfall could reduce the EU’s long-term competitiveness. The Commission is called on to conduct an impact assessment on the use of new technologies to improve the speed, efficiency, reliability, transparency and resilience of tax-related administrative procedures.