Taxation of undertakings: a common consolidated corporate tax base CCCTB

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The European Commission has prepared this document in response to a number of recent developments. Most recently, the Parliamentary "Bersani Report" (see below) but also the setting up of the Common Consolidated Corporate Tax Base (CCCTB) Working Group in 2004. The purpose of this Communication is two-fold. Firstly, to report on progress to date on the CCCTB and secondly to draw attention to those areas where further political support and direction is desirable.

In presenting this Communication the Commission draws a link between the creation of a simplified corporate tax base and the Lisbon Agenda. The Lisbon Strategy is intended to play a key role in achieving competitiveness, growth and jobs in the EU. Eliminating tax obstacles, such as high compliance costs for cross-border operations and transfer pricing in the internal market, can contribute to these goals. The CCCTB, according to the Commission, promises a number of advantages. It would, for example, significantly reduce the compliance costs of companies operating across the internal market, resolve existing transfer pricing problems, allow for the consolidation of profits and losses, simplify many international restructuring operations, reduce some of the complexities arising from the co-existence of the classical and exemption approaches to international taxation (without extending into the personal tax field), avoid many situations of double taxation and remove many discriminatory restrictions. In addition, the CCCTB would contribute to greater efficiency, effectiveness, simplicity and transparency in company tax systems and remove the hiatuses between national systems.

Regarding progress to date, the Commission document discusses in detail the on-going work on the CCCTB Working Group. A distinction is drawn between the development of a common corporate tax base and a common rate. The Commission stresses that work being carried out does *not* include changes to the current level of Member State taxation. The level of taxation has not, and will not, form part of the discussions since this would involve discussion of the tax rate and the Commission does not intend to extend the work on the *base* to include work on the *rate*. The Commission also notes the encouraging development of Member State participation on the working group

As far as the "look" of the CCCTB is concerned the Commission distinguishes between a general objective and more specific actions. On a more general front, the Commission proposes that the CCCTB should be uniform and represent an overall simplification and broadening of the corporate tax base. As far as the details are concerned, work in the CCCTB Committee indicates that international standards should only be used as a tool in designing the base because they provide a common language and some common definitions. However, they should not form the norm given that they are not suitable to every situation and in light of the fact that they change frequently and often.

In other elements, the Commission, the European Parliament and the European Economic and Social Committee are convinced that the base should be introduced, from the outset, as a consolidated tax base. This approach, although ambitious, will bring the greatest benefits to the Internal Market. The Commission, together with the European Parliament, also continues to believe that the primary goal of the CCCTB should be optional for companies given that the primary goal is to improve the operation of the internal market rather than Member State domestic economies.

What next for the CCCTB? Internally, the Commission is committing the necessary resources to meet the ambitious work programme with a view to submitting a legislative proposal in 2008. Externally, the CCCTB Working Group has been established and provides the necessary mechanisms for discussions with Member State experts, administrations, academia and business.

In future workings on the CCCTB the Commission document notes that there are a few challenges which need to be addressed if work is to continue effectively. Firstly, there is a tendency for some experts to defend aspects of their current tax system rather than to seek a solution which could be applicable across the whole EU. Secondly, there is a tendency to postpone "difficult" elements and decisions. Thirdly, there is a growing discrepancy in the amount of resources which Member States are committing to the work, which may lead to delays in implementation. The Commission reminds its readers that it is precisely because there are so many differences between the existing national rules that there is a need for a single common solution. If each Member State were to insist on retaining its own existing rules then there could be no common base.

Further, the Commission cautions against adopting two quite different technical solutions that co-exist with national options. Such a scenario would sacrifice the principle of simplification – a central element in the establishment of a CCCTB.

In its Conclusions the Commission makes the following points:

- No formal link should be made between the definition of the CCCTB and corresponding international accounting standards (IAS/IFRS) given that not all companies are able to use them and given that the standards change frequently. The CCCTB legislation should be a self-standing document containing all the necessary definitions for determining taxable profits.

- The best approach for the CCCTB remains that of an optional tax base for companies, with consolidation and a shared approach between the Member States central to its creation.

- To continue working closely with the Member State experts given that the Commission's eventual legislative proposal needs to be accepted by the Member States. Co-operation with business and academics will also continue in its current format.

- The quality of further work will depend on the active involvement of Member States and the Commission.

- The introduction of a simple, modern and transparent common consolidated tax base will necessarily involve each Member State making some changes otherwise the benefits of a common base will not be realised, hence the importance of open-mindedness and flexibility by all participants in this process.

The Commission would welcome political support and direction from the Member States for the Conclusions outlined above.