THE EU COMMON CONSOLIDATED CORPORATE TAX BASE (CCCTB)

presented by

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Background:

- Administrative burden
- Compliance costs
- Legal uncertainties

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Present system:

- 27 different tax rulebooks
- 27 different tax administrations
- Complex system for taxing intra-group transactions
- Cross-border loss offset

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Present system:

- Huge costs & complexities for large business
- Deterrent to smaller business

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- 16th March 2011
- Proposal
- EU Common Consolidated Corporate Tax Base
- CCCTB for short

- One-stop shop system
- Replaces need to file tax returns in different EU member countries

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- Potential cost saving - € 2 billion p.a.
- Set-up savings for new business – € 1 billion p.a.
- Make EU more attractive for non-EU investors

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- One set of tax base rules
- One consolidated tax return
- One tax administration (that of the EU parent)

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Basis of calculation:

- Accruals basis
- Domestic research & development credits not allowed
- Dividends, gains from share disposals outside group & foreign PE profits not taxed

Basis of calculation:

- Interest & royalties taxed, with credit for withholding tax
- Intra-group transactions ignored, with no withholding taxes
- Business re-organisation profits/losses ignored

Basis of calculation:

- Depreciation 25% pa over 4 years
- Losses carried forward indefinitely, but not back

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- Anti-abuse measures

  e.g. limit on deductibility of interest

On entry:

- Revalue assets and liabilities per national rules
- National losses can be carried forward against future allocated national profits

Eligibility to consolidate based on:

- Control > 50% voting
- Ownership or profit entitlement >75%

- Corporate base shared among each EU state in which group is active

The formula is:

$$\text{Taxbase Co A} = \left[\frac{\text{Labour}^{A}}{\text{Labour}^{Group}} + \frac{\text{Assets}^{A}}{\text{Assets}^{Group}} + \frac{\text{Sales}^{A}}{\text{Sales}^{Group}} \right] * \quad \text{CCCTB}$$

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Member states still set own tax rates which are applied to the result of the formula

Open to EU member Groups and non EU Groups with EU subsidiaries

- CCCTB will be optional
- Minimum stay-in 5 years
- Thereafter 3 years at a time
- Must be applied to all EU subsidiaries, i.e. “all-in” or “all-out”

- Cross-border loss relief is built-in
- Transfer pricing will not apply!

When does it happen?

- Long and complex procedure
- May be adopted by only 9 members voting
- Latest expectation is not before 2013/2014

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- The Irish begin the revolt!
- E&Y – CCTB will result in:
  - Higher compliance costs (+13%)
  - Higher effective tax rates
  - Uncertainty regarding tax rates
  - Will damage EU as a place to invest

- Study by Oxford University in UK
  - Predict 3% fall in Irish GDP if CCCTB adopted

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