3CTB Experts' Meeting

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Activity report

FEPS

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FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES
FONDATION EUROPÉENNE D'ÉTUDES PROGRESSISTES

Rational and Objective

The Foundation for European Progressive Studies (FEPS) together with the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament and the European Trade Union Institute (ETUI) organized an expert's seminar to discuss how to move forward with a Common Consolidated Corporate Tax Base (3CTB). The event took place at a critical point in time. The European Council is likely to take action on the matter in the first quarter of 2018 and the European Parliament is now asked to draft its opinion on the Commission's proposal.

The S&D Group, under the initiative of MEP Paul Tang who is rapporteur of the EP's Opinion on the 3CTB, together with FEPS and the ETUI gathered expertise from academia, trade unions, civil society organizations and other interested parties to substantiate a progressive position as well as input on technical and legal matters in order to promote an open discussion on the key feature of a potential European reform of corporate taxation. As this is a sensitive and complex dossier, it is important to gather all the support and expertise possible for this piece of legislation, which could contribute a lot to both European integration, tax justice and the fairness of our societies.

The attempt made in 2011 failed to gather sufficient support amongst European Member States, but the circumstances appear to have changed since then. The Lux Leaks and the Panama Papers contributed to the momentum for tax reform, putting the European Commission's proposal to harmonize corporate taxation in a different perspective in comparison with a few years back. The European Parliament only has an advisory role in the procedure, but the S&D Group, under the initiative and leadership of Paul Tang, the rapporteur of the EP report, is committed to play a substantial role in advising for improving the current proposal and defining a strategy, which can result in a successful political compromise.

Short Summary

In his intervention, MEP Paul Tang explained the rational and relevance of the project. He also introduced the participants to the institutional and legislative process that the Commission's proposals on the CCTB and CCCTB will face over the next few months. Particular attention was devoted to lessons learnt from the previous Commission's proposal dated 2011 and now withdrawn.

Through a series of talks with stakeholders in different member states, Mr Tang has found that the support for reforming corporate taxation in Europe pins down to three motivations that touch different political sensitivities and government priorities: fairness, efficiency and modernisation of the tax system.

First and foremost, fairness appears as the leading rationale to push for a prompt and thorough reform.

Experts, particularly from Eurodad and CNCD, highlighted popular demand and expectation for reform. It was noted that taxation issues are no longer seen as a matter for experts only, rather citizens are increasingly aware of tax issues because they feel unfairly affected. Media coverage about the Panama papers, other tax scandals and the Apple case in Ireland have largely contributed to bring the issue of corporate taxation to the attention of the general public.

To increase the fairness of the taxation system in Europe, it is self evident that tax neutrality should not be protected by law. Rather, the 3CTB application should be seen as a means to attain a 'fairer', i.e. higher, contribution by corporations to public revenues.

There was general agreement among the experts that the BAPS based on the work of the OECD is an important but imperfect exercise; it is not able to solve all problems and, for instance, big corporations continues to pay more taxes in the US rather than in the EU.

The issue of efficiency is essentially related to ensuring that the market and the incentives to invest are not distorted. In this respect, it was made clear that bringing a European dimension and at least a certain level of harmonisation in the tax base would avoid distortions in the single market and allow member states to better deal with multinational corporations. The benefits of a EU action on corporate taxation are not yet clear or accepted in all member states. Experts highlighted the need to better understand what would be the consequences on national revenues and to prove that there are gains in the medium and long term. Loss of sovereignty will also constitute a great obstacle to gain support from some member states, as governments also see corporate taxation as a way to implement fiscal policy through incentives and deductions for investment in R&D, renewables, etc.

Lastly, certain governments look favourably at the proposed reform as they see it as a way to modernise corporate taxation. That is particularly the case for the digital presence of companies which needs to be tackled. Corporate tax regimes in Europe have been largely designed for a world that is very different from the one where firms operate nowadays. Globalisation and digitalisation do require an update of the corporate taxation systems. Additional aspects of modernisation are the treatment of R&D investment and the equal treatment between equity and debt, as the latter is favoured at the moment.

Professor Richard Murphy, City, University of London, explained the novelty that the Commission brought to the debate with its new proposed definition for a common tax base. It was highlighted that it bypasses the concept of profit and focus instead on transactions, i.e. operating profit.

That implies that there is no need to find a political agreement on a common definition of profit but rather it opens to the possibility of agreeing first on what revenues are to be considered, and postpone or leave open a debate about how to treat financial expenditure (capital spending), interest and R&D investment. In other words, an approach based on transactions allows avoiding a comprehensive agreement that would be difficult to reach in a timely fashion.

Among the participants, there has been a lively debate about how to treat the investment in R&D and whether it necessitates a full deduction. The issue of application to multinational and SMEs was address in this context. In the past, rather than deductions on the whole R&D investment, deductions to the increase in R&D investment have been used in some member states. As it is cumbersome to define which expenditure belong to R&D and there is a concrete risk that firms end up considering different type of spending as R&D investment, experts seem to agree that the definition of the deduction needs to be strict and narrowed to R&D work. An investment that is linked to job creation and development of know-how.

Concerning the digital presence of firms, experts pointed out that it makes no sense to look at the volume of data and other metrics should be used.

Concerning the legislative process, some experts welcomed the Commission's decision to split the dossier into CCTB and CCCTB. Particularly, those in favour highlight that there is a concrete chance to define a common tax base and how it would be a good step in the direction of increasing transparency.

Experts also pointed out that there might be ways different than then community method to attain results in the field. On top of enhanced cooperation, Art. 116 TFEU may open to the possibility of employing qualified majority, as the current state of corporate tax represents a distortion to the single market.

Concerning consolidation methods it has been noted that the current Commission's proposal does not set grounds for a real consolidation but rather to an aggregation. In so doing, the Commission would leave open the possibility to companies to exploit different accounting policies across the EU. It is therefore necessary to clarify that the current proposal by the Commission is not a solution to tax competition, as the tax base will still have the incentive to move across different member states to find the most favourable accounting practice.

It also implies that efforts must be also directed to harmonising accounting standards. **Tommaso Faccio, Nottingham University** presented various methods for consolidation.

Danuše Nerudová, Mendel University, presented a quantitative study on the relationship between EU Own Resources and the potential revenues from the CCCTB. The study "Sustainability-oriented Future EU Funding: The case of a C(C)CTB" is available for free download.

The experts' meeting concluded with the idea of launching an international policy-relevant conference on how to better harmonise corporate tax in Europe in early 2018. Experts will also remain in touch to discuss potential collaboration on research projects.

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