

Local and Regional Corporate Taxes across the EU

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1. Executive Summary

The European Commission's Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB) is seen by the Commission as a means of tackling some major fiscal impediments to growth in the Single Market, in line with the priorities set in Europe 2020.

Little consideration appears to have been given to the implications of the legislation for local and regional authorities (LRAs), either in the Commission's proposal or in the accompanying impact assessment.

- Corporation tax is a tax levied on the profits generated by a company.
- How the taxable profit is calculated, and the tax rate that is charged, vary from one country to another.
- The purpose of the proposal is to address the complexity that arises from this situation by
 - a) a common and consolidated corporate tax base on which to levy a corporate tax
 - b) the possibility for enterprises to make a single tax submission.
- Enterprises may continue to have separate tax assessments in each Member State.
- A system is proposed for allocating the tax base among Member States in which a company is active.
- In order to gauge correctly the impact on LRAs, it is important to have a clear idea of the scope of the proposed common tax base.
- Article 2 of the draft text makes it clear that the proposals primarily concern 'companies' and not the predominant forms of unincorporated business - sole traders and independents.
- Consequently, some taxes on businesses that are of importance for LRAs are not covered by the proposed directive, including general business taxes, such as the *Gewerbesteuer* in Germany and the *Imposta Regionale sulle attività produttive* in Italy.

LRA competences in the field of corporate taxation

- A local or regional interest in corporate taxation might arise in the following situations:
 - Where local or regional authorities can decide on the tax base
 - Where local or regional authorities can decide on the level of local/regional corporate taxes
 - Where local or regional authorities receive revenue from corporate taxes
 - Where local or regional authorities can decide on reliefs against corporate taxes.
- *No instances have been identified where LRAs can decide on the tax base.*
- Only in Portugal, is there a situation where LRAs can increase the rate of a corporate tax.
- A more common situation is where LRAs share in the revenue raised at a rate determined nationally.
- The Portuguese IRC is a case where LRAs may grant relief to promote the local or regional economy.
- The only definition of the corporate taxes to be covered by the CCCTB proposals is by reference to particular forms of business in each Member State and the list of taxes annexed to the proposed text.

Impact of the CCCTB Directive

- Comparisons of the tax base to be established under the CCCTB rules and the existing national bases is difficult, mainly because of the complexity of the latter. In general, however, the CCCTB is simpler and is likely to be broader.
- Various estimates have been made of the likely overall impact, including those presented in the Commission's Impact Assessment.
- The Commission expects that the measure would be highly beneficial for businesses through the reduction of administrative burdens, high tax

compliance costs and double taxation, and the opportunity for businesses to offset losses.

- The Commission cites survey evidence pointing to a reduction in the range of 7% in compliance costs under CCCTB.
- The Commission's own impact assessment studies estimated that while five EU Member States would see a rise in their GDP as a result of CCCTB, in four of them GDP would fall by 1% or more.
- There would also be significant effects on tax revenue. A study by Ernst & Young estimated that while ten Member States would gain revenue, five would lose at least 5% of their revenues.
- It is this effect that is likely to be the most significant in the short term for LRAs, since the four Member States where LRAs share in the revenues of national corporate taxes (the Czech Republic, Denmark, Germany and Austria) are also among those where a fall in revenue is expected.
- The fall could be significant in the case of Denmark (up to 8%), Germany and the Czech Republic and more marginal in the case of Austria.
- There may also be differential effects in terms of the administrative burden of the single tax administration if a disproportionate number of companies decide to submit their tax returns in countries where LRAs have a role in the tax administration.

2. Introduction

The European Commission's Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB)¹ was released on 16 March 2011 along with an impact assessment². The proposed legislation is seen by the Commission as a means of tackling some major fiscal impediments to growth in the Single Market, in line with the priorities set in Europe 2020. However, little consideration appears to have been given to the implications of the legislation for local and regional authorities (LRAs) either in the Commission's proposal or in the accompanying impact assessment. The purpose of this briefing is to contribute to addressing this oversight, by setting out some of the implications of the proposed legislation for LRAs.

LRAs derive income from a range of taxes on businesses, often sharing in revenue that is raised nationally. The object of the Commission's proposals, however, is a relatively restricted area of business taxes. It concerns corporation taxes.

Corporation tax is a tax levied on the profits generated by a company. How the taxable profit is calculated, and the tax rate that is charged, vary from one country to another and this complexity can indeed pose considerable problems for enterprises trading in different Member States in the form of double taxation, administrative burdens and high tax compliance costs. Simplifying the system for enterprises could contribute to reducing the barriers to cross-border trade.

The Commission's proposal, however, does not propose in any way moving towards a single tax rate for enterprises. It is clear that this is a matter for Member States. Rather it proposes two developments:

- 1) a common and consolidated corporate tax base on which to levy a corporate tax
- 2) the possibility for enterprises to opt for a single submission to deal with all their tax liabilities.

Note that enterprises may if they wish continue to have separate tax assessments in each Member State where they have corporate tax liabilities.

¹COM(2011) 121/4

²Commission Staff Working Document Impact Assessment, Accompanying document to the Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB) SEC(2011) 315 final

The proposals would introduce a single set of rules for calculating the taxable profit for companies in the EU with a simplified regime for expenditure that can be set against revenue in calculating taxable profit. Intentionally, the regime has been made relatively favourable to research and development, but otherwise there is little scope in the basic provisions for the allowances and incentives that characterise some national (and regional) tax systems.

The other main feature is that taxpayers that opt for the CCCTB regime will only have to file a single tax return with the tax authorities of one EU Member State for their activities in the entire EU to be covered (one-stop-shop system). A single consolidated tax return will be used to establish the corporate tax base, after which all EU Member States in which the company or CCCTB group is active would be entitled to tax a certain portion of that base, according to a specific formula based on three equally-weighted factors: assets, labour and sales. In this way the tax base is supposed to reflect the relative importance of significant economic activity in each of the Member States in which a company operates. A corollary of this system, however, is that responsibility for the primary processing of tax returns will rest with the Member State in which the single tax return is submitted.

The European Commission aims for the current proposal to be approved (unanimously) by the Council of the European Union in 2013, after consultation of the European Parliament. EU Member States should have transposed the proposal into national law by two or three years after adoption. An option exists under the EU/TFEU Treaties for an ‘enhanced cooperation’ procedure as a measure of last resort, if the Member States currently indicating their opposition continue to maintain their stance. This would allow a group of at least nine Member States to proceed with CCCTB, assuming that a qualified majority is obtained.

Distinguishing characteristics of ‘corporate taxes’

It is important to be clear about the scope of the CCCTB, if the implications for LRAs are to be gauged properly.

The taxes that are covered by the proposed directive are defined in Article 2 of the draft text, which refers to the corporate forms to which it should apply. Article 2 then states that the company will be subject to one of the corporate taxes listed in Annex II or ‘to a similar tax subsequently introduced’. All these taxes have certain characteristics.

The first thing to note is that the taxes to be covered by a CCCTB are primarily taxes on corporate bodies – ‘companies’ – as opposed to businesses in general or

other types of business that do not have a corporate form. More precisely, the types of organisation that are covered are those that are listed in Annex 1 of the proposed directive and this list does include various business forms that are not strictly companies. However, the point is that a large number of smaller business organisations – sole proprietorships and ‘independents’ – are excluded. Consequently some taxes on businesses that are of importance for LRAs are not covered by the proposed directive, including general business taxes, such as the *Gewerbesteuer* (Trade tax) in Germany, the *Imposta Regionale sulle attività produttive* – IRAP (Regional tax on productive activities) in Italy and the *Impôt commercial communal* (Communal trade tax) in Luxembourg.

Secondly, the CCCTB refers to taxes on company profits – in broad terms – and not on other aspects of a company’s operations such as turnover or assets of various kinds. It will be seen that the tax base targeted is not precisely company profits as understood, for instance, in the 4th and 7th Company Law Directives, but the point at this stage is that the taxes that the proposals would affect are again different from other taxes on businesses that are important for LRAs that target, for instance, company assets, such as property values.

Thirdly, at least implicitly, the proposals concern national taxes, though some of them, as will be seen, do have local and regional elements.

The net effect of these distinctions is that although there is scope for extending the list, the proposals essentially concern a relatively narrow list of taxes and these are listed in Annex II of the draft directive.

Reference to LRAs

As has been said, the Commission’s proposals assume that corporate taxes are set at a national level and there are no references to a situation where such taxes might be determined at a regional or local level. Annex II does, however, refer to a number of corporate taxes in which there is a local or regional interest. The nature of this interest will be explained in the next chapter.

The situation is further complicated from the LRA point of view by the listing of other taxes with a local or regional interest in Annex III of the proposed directive. The purpose of this list is to define the taxes that cannot be regarded as expenses and that therefore cannot be deducted from revenue in calculating taxable profits. In other words these are taxes that are payable out of profits. Technically, they are referred to as ‘non-deductible taxes’ under Article 14 of the proposed directive. They include some local and regional taxes on businesses.

3. Competence of LRAs across the EU in the field of corporate taxation

In principle, a local or regional interest in corporate taxation might arise in the following situations:

- Where local or regional authorities can decide on the tax base
- Where local or regional authorities can decide on the level of local/regional corporate taxes
- Where local or regional authorities receive revenue from corporate taxes
- Where local or regional authorities can decide on reliefs against corporate taxes (usually as an incentive).

For this briefing, the main sources of information on taxes where one of these interests arise are the ‘Taxes in Europe’ database of the European Commission³ and the 2010 Worldwide Corporate Tax Guide, published by Ernst and Young.

3.1 Corporate taxes with a local or regional interest

Decisions on the tax base

Our investigations have not revealed any instance where LRAs have a major say in the determination of the tax base for corporate taxes. All such tax systems are established by national legislation and uniform definitions are usually determined at this level. The only exception to this is that there are a few instances where LRAs may grant tax relief to certain groups. This is considered as a separate item below.

Decisions on the level of local/regional corporate taxes

In terms of the tax rates, there are some instances where LRAs are able to make decisions directly. However, again these powers are mostly exercised within a framework established nationally, often with the LRAs having the power to vary rates around a level established by the national government.

³ http://ec.europa.eu/taxation_customs/taxation/gen_info/info_docs/tax_inventory/index_en.htm

The sole country identified where LRAs have the power to vary rates currently is Portugal. In terms of developments in this position, the most notable change is in France, where the powers of LRAs have been reduced. With a local business tax (*taxe professionnelle*), LRAs used to be able to determine the rate charged, subject to a ceiling on each business of 3.5% of annual value added. However since 1 January 2010, this tax has been replaced with the *Contribution économique territoriale*, a business tax where the rate is determined by the national government. The tax base and any reliefs had always been determined by the central government. It should also be mentioned that in the UK, there is a discussion currently about the taxation powers of Scotland, Wales and Northern Ireland and a political situation that is evolving rapidly. It may be that these authorities will at some point be able to levy a corporate tax on businesses.

Portugal:

Imposto sobre o rendimento das pessoas colectivas — IRC (Corporate income tax)

Covered by CCCTB: yes

Tax base: determined by central authority

Reliefs: determined by central, regional and local authorities

Rate: determined by central, regional and local authorities

Listed in Annex II of the proposed CCCTB Directive

There is a national rate of 25% levied. Local authorities may levy a surcharge of up to 1.5 %.

In the Autonomous Region of Azores the tax liability is reduced by 30%, while in the Autonomous Region of Madeira nominal rates are 20% and 10%. Companies operating in less developed inland areas may qualify for a reduced rate of 15%.

In 2008, the total tax raised was EUR 6 235 million, which represented 3.74% of GDP and 10.20% of Portuguese tax revenue. The local authorities receive around 6% of the total.

The conclusion has to be that LRA powers in relation to the rate of taxation are relatively limited and are generally within a framework established at a national level.

Situations where LRAs receive revenue from corporate taxes

A more common situation in relation to corporate taxes is one where LRAs share in the revenue raised, but the determination of the amount raised is in the

hands of the national authorities. Sometimes the LRA interest of this kind is rather substantial. In Germany, for instance, the overall tax rate for the *Körperschaftsteuer* (Corporate income tax) is 29.8% and the Länder governments (who collect the tax) are entitled to around 50% of it. In 2008, the total tax raised was EUR 16 750 million, which represented 0.67% of GDP and 1.7% of German tax revenue. The Länder received around EUR 8.3 billion.

There are four Member States in total where LRAs receive some of the revenue from corporate taxes levied directly by the national authorities. This situation can be summarised as follows:

Table 3.1 Corporate taxes where LRAs receive some of the revenue

Country	Tax	
CZ	Daň z příjmů právnických osob (Corporate income tax)	The central government receives about 70% of total receipts and the municipalities and regions about 30% depending on their population. In 2008, the total tax raised was CZK 153 291.0 million – 4.15% of GDP and 11.49% of tax revenue.
DK	Selskabsskat (Corporation tax)	The nominal rate is 25.0%. 13.41% of the total revenue is distributed among the local authorities. In 2008, the total tax raised was DKK 36 320 million – 2.09% of GDP and 4.33% of tax revenue. Local authorities received around DKK 4 800 million.
DE	Körperschaftsteuer (Corporate income tax)	The overall tax rate is 29.8 %. The federal government and Länder governments are entitled to around 50% each. In 2008, the total tax raised was EUR 16 750 million, which represented 0.67% of GDP and 1.7% of German tax revenue. The Länder received around EUR 8.3 billion.
AT	Körperschaftsteuer (Corporate tax)	Regional and local authorities receive revenue from this tax. There is a flat rate of 25%. In 2008, the total tax raised was EUR 6 335 million – 2.24 % of GDP and 5.25% of tax revenue.

All of the taxes listed above are to be found in Annex II of the proposed CCCTB Directive.

In some countries, for example Spain and Portugal, some regions have lower rates of corporate tax, within a national regime.

Decisions on relief

As mentioned above, there are also situations in which an LRA may make decisions on granting relief in certain circumstances where incentives are needed to promote the local or regional economy. This is the case with the Portuguese IRC.

Other taxes on business profits that provide LRA revenue

A possible source of confusion on the applicability of the CCCTB proposals arises because there are other local or regional taxes on business profits that corporations have to pay. However, these are taxes on all businesses rather than companies and are not covered by the proposals.

These include:

Table 3.2 Local or regional taxes on business profits not affected by the CCCTB proposals

Country	Tax	
DE	Gewerbesteuer (Trade tax)	<p><i>Tax base:</i> determined by central authority <i>Reliefs:</i> determined by central, and regional authorities <i>Rate:</i> determined by local authorities A tax on profits, which local authorities in part determine. It is in fact a municipal tax and the most important direct source of the funds for local authorities.</p>
IT	Imposta Regionale sulle attività produttive – IRAP (Regional tax on productive activities)	<p><i>Tax base:</i> determined by central authority <i>Reliefs:</i> determined by central, and regional authorities <i>Rate:</i> determined by central, and regional authorities IRAP is a regional tax on businesses and is not covered by the CCCTB proposals. Each Italian region has its own specific IRAP law, although the framework has been</p>

Country	Tax	
		<p>determined nationally. Regions can vary the tax rate by 1 percentage point around the national rate of 3.90 % and also grant specific deductions and allowances. It is paid in the region where the production activity is located and is levied on those engaged in commercial business. It is charged on the net value of production resulting from the business pursued within the region.</p> <p>In 2008, the total tax raised was EUR 36 045 million and this represented 2.29% of GDP and 5.35% of Italian tax revenue. It is not possible to calculate the amounts received by the regional authorities, but this could be up to 25% of the total.</p>
LU	Impôt commercial communal (Communal trade tax)	<p><i>Tax base:</i> determined by central authority <i>Reliefs:</i> determined by central authority <i>Rate:</i> determined by local authority</p> <p>A tax on trading profits of businesses. The rate of 3% of profits is fixed centrally with an additional municipal factor of between 2 and 4.5 applied. In the case of Luxembourg-City, this implies a nominal rate of 7.5%. This tax is in addition to the national corporate income tax (rates ranging from 20% to 21%)</p> <p>In 2009, the total tax raised was EUR 588 million, which represented 1.557% of GDP. Local authorities are the beneficiaries of all the revenue from this tax.</p>

These taxes are all listed in Annex III of the proposed directive, as taxes that cannot be deducted from revenue as expenses.

3.2 Summary

By way of summary, in no Member State are LRAs in a position to determine the tax base for corporate taxes, with the exception of some variations in the reliefs that are granted in their area. In Portugal, local authorities can vary the rate of a corporate tax, within narrow bands and within a national framework.

The main interest for LRAs in relation to the possible changes brought in by the proposed CCCTB Directive is in its potential effects on revenue in those Member States where LRAs share the revenue from corporate taxes with the national government (without determining the amount raised).

In Germany, Italy and Luxembourg, there are local taxes on business profits, but since these relate to all businesses, rather than companies, they are not corporate taxes, are not listed in Annex II of the proposed CCCTB Directive and are therefore not covered by its provisions.

4. Impact of the CCCTB Directive on LRAs

The definition of a corporate tax

The CCCTB is a system of common rules for computing the tax base of companies that are tax resident in the EU and of branches of third-country companies that are located in the EU. Specifically, the common fiscal framework provides rules to compute each company's (or branch's) individual tax results, the consolidation of those results, when there are other group members, and the apportionment of the consolidated tax base to each eligible Member State.

The proposed directive does not define a corporate tax as such, merely saying in Article 2 that the provisions of the directive would apply to companies established under the laws of a Member State, where the 'company'

(a) takes one of the forms listed in Annex I (essentially a business organisation covered by the 4th and 7th Company Law Directives⁴)

(b) is subject to one of the corporate taxes listed in Annex II or to a similar tax subsequently introduced.

The provisions also apply to companies with similar forms established in third countries.

In broad terms the taxes listed in Annex II are taxes on company profits, and the subsequent definition of the tax base in the provisions of the proposed directive is very much directed at the same revenue source. However, the definition of the tax base used is clearly *sui generis*. It represents a simplified equivalent of national definitions of revenue and allowable expenses that determine national corporate tax bases. It has not been possible for the Commission to make a direct link with the definitions of profit used in the Company Directives⁵, although what is proposed is not incompatible with these definitions. A specific list of revenue and permissible expenditure items is set out in the proposed directive and separate calculation will therefore be necessary for companies wishing to take advantage of the directive (if it is adopted), in order to establish their tax base for CCCTB purposes.

⁴ Directives 78/660/EEC8 and 83/349/EEC9.

⁵ As in footnote 4.

Comparison with existing tax bases

Beginning to establish the potential impact of the introduction of a CCCTB, by examining the differences between the calculation of the CCCTB and of the national corporate tax bases, is a rather complex operation, even if the exercise is restricted to those corporate taxes where LRAs have a particular interest. Again it is worth recalling that the main LRA interest in the proposed changes arises for those LRAs that share in the corporate tax take of their national authorities.

The reasons why the calculations are complex are, first of all, that the rules governing the determination of revenue and allowable expenses have grown up over a long period and during this time there have been many incremental changes, often as a means of encouraging particular behaviour on the part of companies.

In Germany, for instance, the taxable (net) income of corporations is based on the annual financial statements prepared under German Generally Accepted Accounting Principles (GAAP), but after numerous adjustments for tax purposes. Similar situations apply in other Member States, but the types of adjustment made differ considerably in the detail.

Depreciation of assets, for instance, is generally a feature in calculating the tax base. In the case of the CCCTB, the rules for calculating the amount of depreciation allowed are much less complicated than is generally the case at a national level. Articles 32 to 42 set out these rules. A straight-line method is to be adopted, with fixed periods for longer-term assets – 40 years for buildings and 15 years for other long-life tangible assets. It is then proposed that other shorter-term fixed assets are pooled and an annual rate of 25% of their value applied.

Taking the German example again, rules for depreciation are considerably more detailed and complex. In principle, the rate of depreciation (usually straight line) is determined by the useful life of an asset, except in the case of buildings, where the rate is established in law. In practice, there is detailed guidance on the usual useful life of a whole range of assets, based primarily on tax audit experience. Deviation from published useful life requires justification by the taxpayer, but is possible. However, even applying the established guidelines is still a more detailed process than would be the case under the CCCTB regime. Similar situations apply in other Member States.

Other considerations show a similar tendency for the proposed CCCTB regime to be simpler in approach. In Germany again, for instance, it is possible to carry

back losses, up to a maximum of EUR 511 500, for one year. Under CCCTB, no loss carryback is to be allowed. In relation to research and development on the other hand, the CCCTB regime aims to be generous and all costs are deductible.

The net effect of the more straightforward approach of the CCCTB proposal is generally that the tax base would be extended, mainly because fewer allowances are envisaged. This initially might be taken to imply an increased tax take. However, this assumption is not necessarily warranted, since in addition to the difficulties in estimating impacts arising from the complexity of national regimes, there are a number of different potential reactions to a new regime, the effects of which are currently unknowable. First, since the proposal is that movement to the common regime should be voluntary, it is not known how many companies would actually choose to adopt it. It can be assumed that companies will not adopt it if there is extra tax to pay and this exceeds any savings that might arise from simplified procedures. Secondly, the reaction of the national authorities in terms of tax rates is not known, since this remains in their hands. Any extension of the tax base may be compensated for by a reduction in the tax rate.

Overall impact

Various estimates have been made of the likely overall impact. The Commission has presented an Impact Assessment to accompany the proposal for the CCCTB Directive⁶, which includes estimates based on a series of studies carried out for the Commission.

Overall, the Commission expects that if the CCCTB approach were to be adopted by a large number of companies trading across the EU, the reduction of administrative burdens and high tax compliance costs and in the incidence of double taxation would be highly beneficial, as would the opportunity for businesses to offset losses in one country against profits in others. The reduction in costs for companies and the strengthening of the Internal Market are expected to lead to general economic benefits.

The Commission cites survey evidence pointing to a reduction in the range of 7% in compliance costs under CCCTB and states that this is expected to have dynamic effects, including an increase in investment. Currently, a large enterprise is calculated to spend over EUR 140 000 (0.23% of turnover) in tax related expenditure to open a new subsidiary in another Member State. The CCCTB will reduce these costs by EUR 87 000 or 62%, according to tax experts participating in the Commission's study. For a medium-sized enterprise, the

⁶ European Commission (2011b).

estimate is that savings are even more significant, with costs falling from EUR 128 000 (0.55% of turnover) to EUR 42 000 or a decrease of 67%.

The expectation that a simpler regime would reduce costs has led organisations such as the European Association of Chambers of Commerce (‘Euro Chambers’), the SME organisation UEAPME and accounting bodies such as the ACCA (Association of Chartered Certified Accountants)⁷, to support the proposals in principle.

A positive impact from the CCCTB is not anticipated by everyone, however. Even the Commission’s own impact assessment studies estimated that while five EU Member States would see a rise in their GDP as a result of the introduction of CCCTB, in four of them GDP would fall by 1% or more. Belgium, Germany, Italy, Luxembourg and Malta are the countries whose economies would grow, whereas Ireland would experience a fall in GDP of 3% – the biggest among the 27 EU Member States.

In addition, a study by Devereux and Loretz⁸ of the Centre for Business Taxation suggests that EU-wide tax revenues could drop by 2.5% if, as is intended, the regime were to be voluntary (mainly due to cross-border loss relief). This could be compensated for by changes in the tax rates, but the variation across countries is large and depends on the choice of the apportionment formula. A study by Bettendorf and colleagues⁹, on Corporate Tax Harmonization in the EU, comes to similar conclusions and does not anticipate substantial welfare gains for Europe.

Part of the differences of view on the macro-economic impacts to be anticipated appears to arise from differing perceptions of the extent to which procedures would actually be simplified as a result of the proposals. Translating accounts under national GAAP into the accounting used for the CCCTB and then applying the CCCTB tax principles may be more complex than it appears initially and raise doubts about the benefits to be derived by companies.

Of more immediate significance for this briefing, however, are the possible effects on the distribution of taxation revenue across Member States. The Irish government, which is particularly sensitive to any proposed changes in taxation regimes, commissioned a study from Ernst & Young¹⁰ that looked into this question. A significant conclusion was that while CCCTB proposals would be broadly revenue-neutral overall, substantial changes in country-by-country tax

⁷ ACCA (2010).

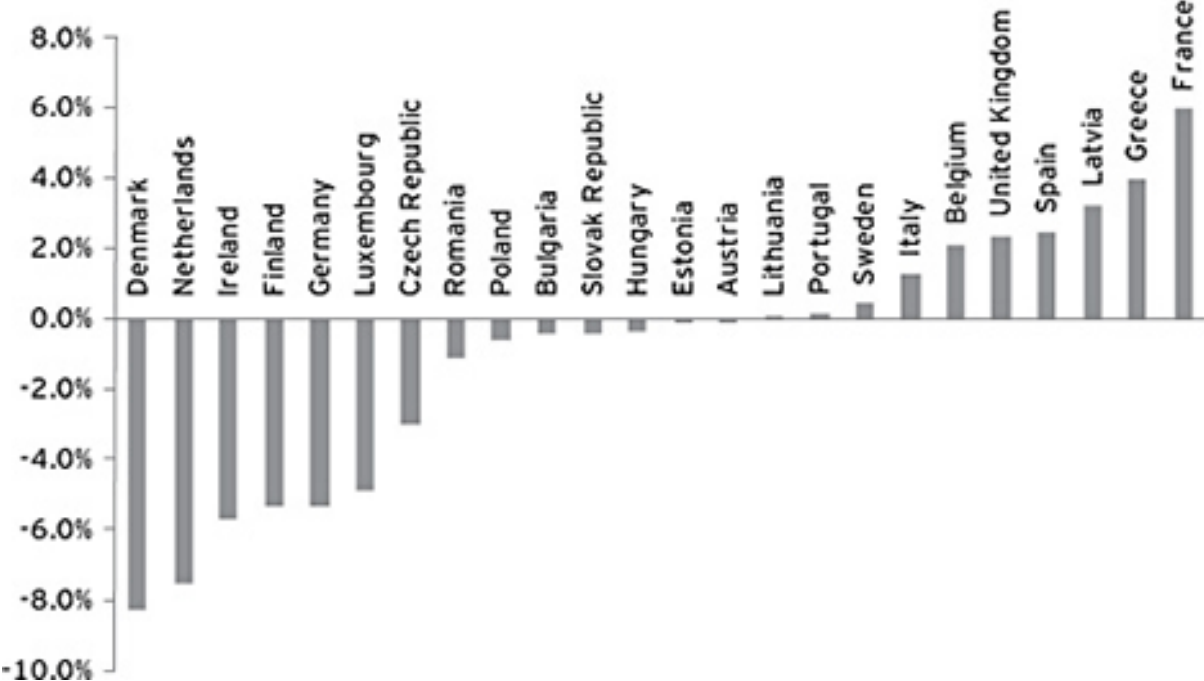
⁸ Devereux, Michael P. & Loretz, Simon (2010).

⁹ Bettendorf, Leon et al (2009).

¹⁰ Ernst & Young (2011).

collections would occur. Five countries would lose at least 5% of their revenues. Ten would gain revenues.

Figure 3.1 Changes in corporate income taxes from adopting CCCTB



Source: Ernst & Young (2011)

Impacts on LRAs

It can be seen that the implications of introducing CCCTB for LRAs in Portugal – the only country where LRAs can vary the rate of corporate tax – would not be that dramatic, since in the case of Portugal the effects are expected to be broadly neutral.

The main negative consequences for LRAs, therefore, would be in those Member States where LRAs directly share in the revenues raised by corporate taxes – the Czech Republic, Denmark, Germany and Austria. This is because these four Member States are also countries that would suffer a fall in tax revenues – significantly in the case of Denmark (up to 8%), Germany and the Czech Republic, marginally so in the case of Austria. The national authorities may decide to respond to this loss of revenue by increasing tax rates, but in this case, while initially not suffering a fall in revenue, the LRAs might find over the longer term that there is an impact on location decisions and inward investment as these countries become less attractive locations for companies.

It has to be said that this effect on revenues would be in the absence of any compensation, either for the Member States concerned or for the LRAs. There is a safeguard clause (Article 87) in the proposed directive that allows for an alternative determination of the tax base if the basic allocation rules give rise to an unfair distribution, but this provision only applies at the level of individual companies. The assumption at this stage therefore is that LRAs in the four countries mentioned would lose out.

Otherwise, as has been seen, LRAs that derive revenues from taxes on the profits of all businesses would not be affected, since these taxes are not covered by the proposed directive.

Over and beyond the impact on tax revenues, there are other impacts that should be taken into account. LRAs would share in the consequences of the impact of the proposed changes on GDP, both negative and positive, though most might benefit over the long term from the effects of the measure in promoting the Internal Market.

More immediately, there may be differential effects in terms of the administrative burden of the single tax administration if a disproportionate number of companies decide to submit their tax returns in countries where LRAs have a role in the tax administration, as in the case of Germany. The likelihood is that countries which have the administrative headquarters of a relatively high proportion of companies that trade across the EU will have to assume a relatively high additional administrative burden. In principle, of course, other authorities involved in tax administration at all levels will make savings, because only one tax submission will be made instead of multiple submissions.

5. Conclusions

It appears that the apparent omission of any consideration of the local and regional dimension in the European Commission's proposals on a Directive on a Common Consolidated Corporate Tax Base arises largely because local and regional authorities are not in a position to determine the tax base for corporate taxes. Furthermore, with the single exception of a small variation in corporate tax rates by local authorities in Portugal, local and regional authorities are not able to determine the rate at which tax is paid.

Other taxes on business profits where there is a local or regional interest are not covered by the proposed directive, which is restricted to taxes on the profits of companies and similar forms of business organisation, largely with a separate legal identity.

The main interest that LRAs have in the Commission's proposals arises because in four further Member States, local or regional authorities share in the revenue derived from corporate taxes. These countries also happen to number among those that are likely to suffer from a fall in revenue, mainly as a result of the way that it is proposed to allocate the shares of the base that will be subject to national taxes.

Other effects may arise. In the more immediate term, there could be an issue for LRAs that participate in the administration of corporate taxes.

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