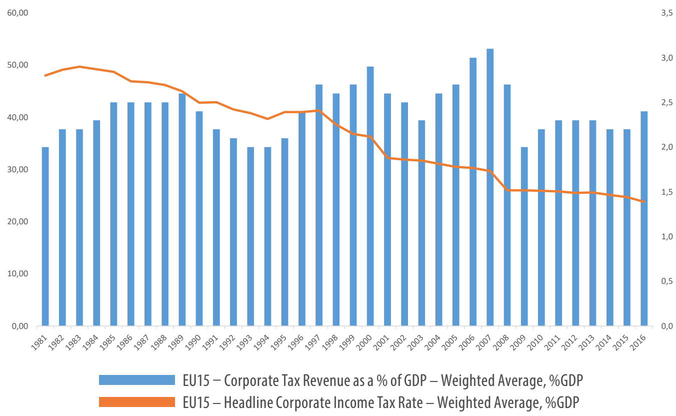
European Economic and Social Committee
Employers Group

Corporate Taxation for the future: competitive, simple and predictable

In tax systems, less is often more!

- **Taxation in the EU must encourage domestic and cross-border business activities, job creation, investments, entrepreneurship and economic growth.**
- **Taxation rules need to be clear and simple in order to avoid divergent interpretations and, as a result, costly disputes and double taxation.**
- **Open, transparent tax competition between EU countries is crucial for further economic growth.**
- **Corporate taxes generally create numerous and severe economic distortions and are to a large extent shifted to workers, consumers and suppliers.**
- **Corporate income tax should be based on profit and not on revenue. In general, the corporate tax rate should be low and the base should be broad.**
- **Lowering the corporate tax rate results in more investments and more taxable revenue. Economic data show that lowering the tax rate is often self-financing because of the resulting larger tax base. More investment opportunities become economically viable when the tax rate is reduced and are therefore more likely to be taken up.**
- **Corporate tax revenue has been a stable contributor to overall tax revenue for the last 40 years – around 2.5% of GDP.**
- **Corporations pay many other taxes, environmental levies, taxes on inputs such as energy, taxes on transportation, property taxes etc. In addition, companies act as an unpaid tax collector for governments.**



Source: OECD

What kind of taxation encourages economic growth?

Taxation within the EU must be competitive and encourage domestic and cross-border business activities, job creation, investment, entrepreneurship and economic growth. A tax system must be predictable and provide certainty for taxpayers. Consequently, taxation rules need to be clear and simple in order to avoid divergent interpretations leading to costly disputes and double taxation.

Corporate taxation should be based on profit and not on revenue (income). The distribution of profit between countries should be based on where a company's activities create value. Tax systems should minimise administrative costs for both business and authorities by being simple and coherent.

Requirements for taxpayers to provide information should be proportionate. Tax administrations need to ensure that information obtained about taxpayers is kept secure.

Taxation should apply equally to different forms of business activity and be based on the rule of law. All taxpayers should be treated equally, without bias or preference.

Countries must agree on where profits arise and only tax them once. This is particularly important in an increasingly digitalized economy. Innovation, production and key functions such as headquarters, location for strategic functions, financing and risk taking must be allocated and taxed in respective countries in an adequate way. The profit does not only materialise when sales are made but throughout the entire chain of business activities.

Tax competition

Member States should be able to reap the benefits of their own economic policies, in particular in the area of taxation. The rules on non-discrimination and the four freedoms enshrined by the Treaty ensure that the conditions for a Single Market are in place. Open and transparent tax competition is crucial for further economic growth and should be accepted.

Corporate taxation – a growth-killer

The OECD considers corporate income tax to be the most harmful tax for economic growth. Corporate taxation reduces the return for the investor, making fewer investments economically viable, and is shifted onto workers, consumers and suppliers.

Taxes levied at the shareholder level must also be taken into account, in particular for closely held companies. Investment decisions are based on corporate taxes as well as on taxes levied at the shareholder level.

Lowering the corporate tax rate results in more investments and more taxable revenue. Economic data show that lowering the tax rate is often self-financing in the long run because of the resulting larger tax base.

In addition, much more in the way of labour and consumption taxes can be collected as the number of people employed and their consumption increase thanks to the lower corporate tax rate. The decision on how to design the tax system should be taken by Member States. In general, the corporate tax rate should be low and the base should be broad. This will limit distortions between firms and sectors. A level-playing field is important.

Double taxation resulting from limitations on the possibility in a corporate group, of offsetting losses against profits and tax disputes between countries for companies active in several countries, has led to a European proposal to introduce a Common Consolidated Corporate Tax Base (CCCTB). The net profit of the group would then be taxed only once and the tax revenues would be allocated to countries that apply the CCCTB.

Corporations pay many other taxes, including environmental levies, taxes on inputs such as energy, taxes on transportation, property taxes etc. In addition, companies act as an unpaid tax collector for governments.

Corporate taxes – facts and figures

While corporate tax rates have declined over the past decade, corporate tax revenue as a share of GDP has increased slightly. There is no race to the bottom for this tax, which is the most harmful for growth. Tax rates seem to converge in a middle range – at or below 20%. Corporate tax revenue has remained stable for the last 40 years – around 2.5% of GDP. Corporate tax revenue is a small contributor to overall tax revenue but is important in providing incentives to invest and hire. A substantial part of the corporate tax is shifted to workers, consumers and suppliers.

Corporations, in particular those that are active in many countries, have been accused of not paying their fair share of taxes and of eroding resources which are much needed for government spending programmes. Aggressive tax planning resulting in tax-motivated transactions with little or no economic substance is not conducive to a sustainable economic growth.

Corporate taxation in the EU amounts to some EUR 400 billion annually. The size of the EU economy is around EUR 18 000 billion. Base erosion and profit shifting (BEPS) behaviour on the part of European companies has been estimated by the OECD and the Commission to amount to EUR 50-70 billion, *before* any anti-tax avoidance measures are implemented. This is equivalent to only 0.3% of GDP. Even if all the tax was collected, it would only be a very small contribution to public spending. Measures taken against BEPS are nevertheless important, yet have added to complexity.

TO BE AVOIDED:

- Double taxation and unintentional non-taxation should be avoided. Effective mechanisms need to be put in place for dispute resolution. We need mandatory, binding arbitration in taxation to ensure that companies are only taxed once.
- Measures that increase the complexity of a taxation system or put an additional administrative burden on companies should be avoided.

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