Impact assessment accompanying the re-launched CCCTB proposal

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RePEc https://ideas.repec.org/e/pni10.html

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2016 CCCTB proposal

Context

CCCTB – how does it work?

2011 and the 2016 proposals for a CCCTB

Impact assessment

Problem definition, objectives, options

Types of analyses

Main conclusions

Context of the CCCTB 2016 proposal

- *Fair and efficient taxation: priority of the Commission*
- *Several initiatives adopted in Council*
- *Transparency*
- *Anti-avoidance rules*
- *Taxing activity where it takes place*

Current State of Play

<u>16th March 2011:</u>

*College adopted Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (**CCCTB**)*

- **<u>26th October 2016:</u>**
  Re-launch initiative adopted by the College: 2 proposals for Directives on a common tax base and a CCCTB
- **Proposal of 2011 was withdrawn at the same time as the re-launch proposals were adopted.**

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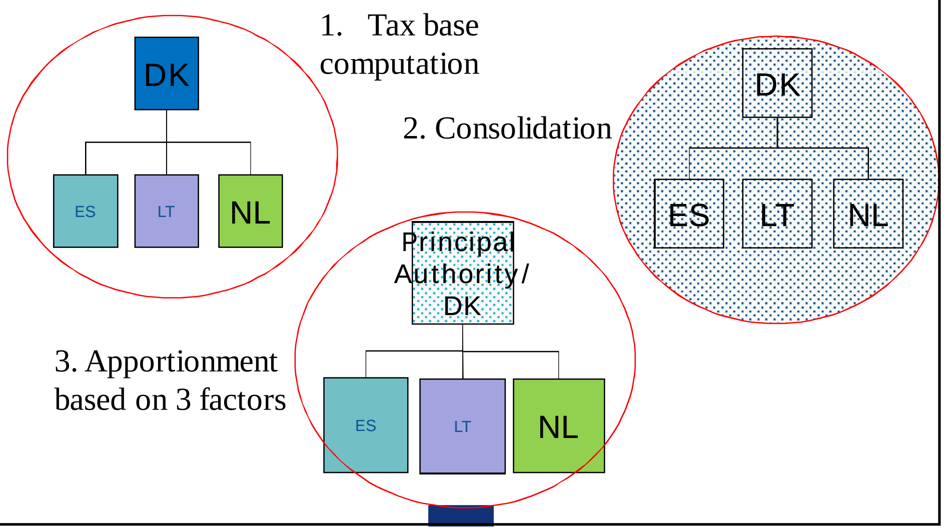
Consolidation



What is new since 2011?

- ***Technical modifications*** *to reflect the outcome of discussions with Member States on specific topics since 2011*
- ***Mandatory scope*** *for companies with a group turnover above EUR 750 million globally*
- ***Agreed anti-tax avoidance elements*** *feature in the framework of the common tax base*
- ***Super deduction for R&D expenses***
- ***Allowance for growth and investment*** *on equity increases*
- ***Staged approach***
- ***Temporary cross-border relief***

Intervention logic

Problems	Objectives	Policy options: CCCTB	Scope (mandatory CCCTB)	Debt bias solution	R&D incentives
Cross-border corporate tax avoidance	General Objective 1: **Enhancing the fairness of the tax system**		x		
	Reduce cross-border tax planning		x		
	Level playing field between domestic and multinational companies		x		
	Ensure that companies pay a fair share of the tax burden		x		
	Enhance general tax payer morale		x		
Single market: tax obstacles, compliance costs	General Objective 2: **Stimulating growth and investment**	x	x	x	x
	Reduce administrative burden	x			
	Eliminate double taxation risks, cross-border discriminations and restrictions	x			
Debt bias in taxation	Taxation neutrality for investment and financing decisions			x	
Underinvestment in R&D	Creating more incentives to invest in the EU			x	x

Options

No further action (baseline)

Scope*: optional for all companies; compulsory for some with opt in for others; compulsory for all*

R&D*: No action, super allowance*

Debt bias*: No action; non-deductibility of interest; allowance for corporate equity; allowance for growth and investment; allowance for corporate equity*

Staged approach*: with/without cross-border relief*

Type of analyses

- *Learn from economic literature*
- *Two ZEW studies on impact on effective tax rates of : (a) cross-border tax planning, (b) debt bias reforms*
- *Joint work with JRC on developing and updating CORTAX, a computable general equilibrium model*
- *Additional ad-hoc analyses – quantitative and qualitative*

Assessment

Important to ***balance the two general objectives****: fairness and stimulating growth and investment*

Economic arguments important but so are fairness aspects

Using quantitative analysis where possible

Focus on the new elements

Scope

Preferred option: Compulsory application to groups with consolidated turnover above EUR 750 million

- *Compulsory application required to deliver on the fairness objectives*
- *Compulsory for all companies was not considered a proportionate intervention*
- *Threshold coherent with other EU initiatives*
- *Share of groups: 1.6%*
- *Share of unconsolidated turnover: 64.2%*

R&D incentives

R&D Tax incentives study (2014): design and efficiency of incentives

Current level of tax incentives on average around 133% of R&D expenses

Based on a conservative elasticity of 0.8 (10% reduction in costs 8% increase in business R&D)

Range of 133%-200% preferrable to maintain or further encourage R&D investment at a reasonable cost

Preferred option for R&D incentives

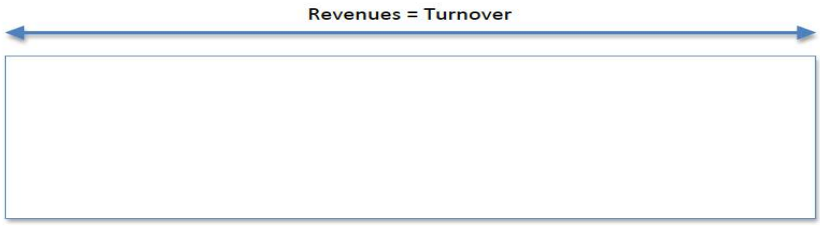
*1. **Immediately fully deductible**, except for R&D costs related to immovable property which go to depreciation;*

*2. An **additional 50%** of the R&D costs up to the first EUR 20 million, and **an additional 25%** above EUR 20 million is deductible in the same tax year, except for the cost related to movable tangible fixed assets;*

*3. For **start-ups** the additional amount for expenses up to EUR 20 million is an **additional 100%**.*

European Commission

Normal Return and Economic Profit



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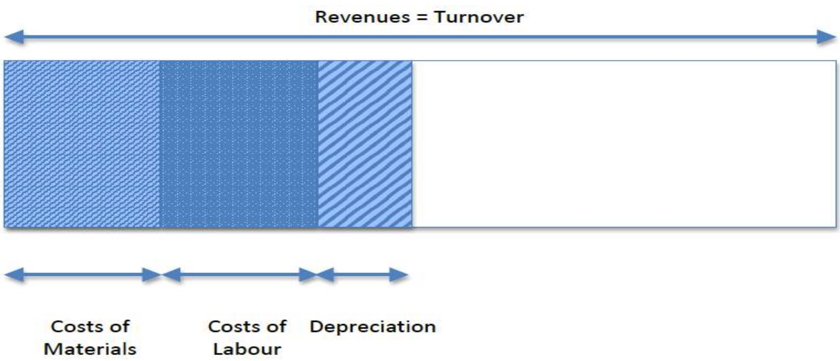
European Commission

Normal Return and Economic Profit



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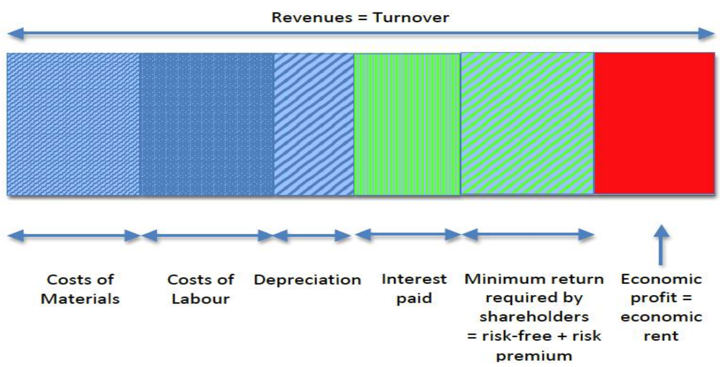
European Commission

Normal Return and Economic Profit



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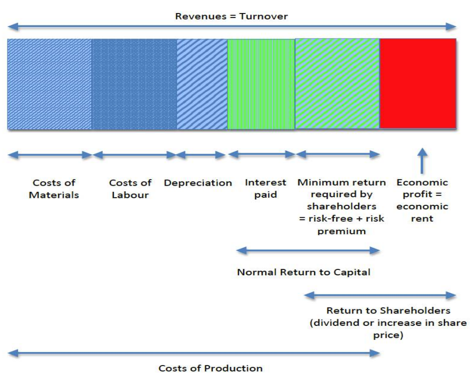
European Commission

Normal Return and Economic Profit



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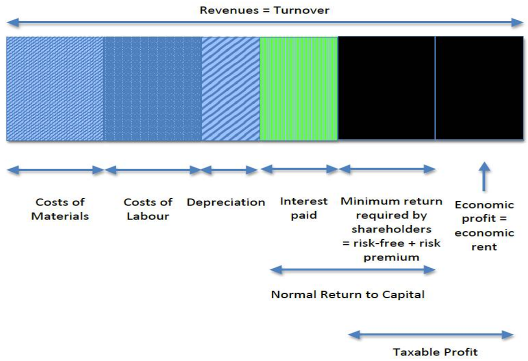

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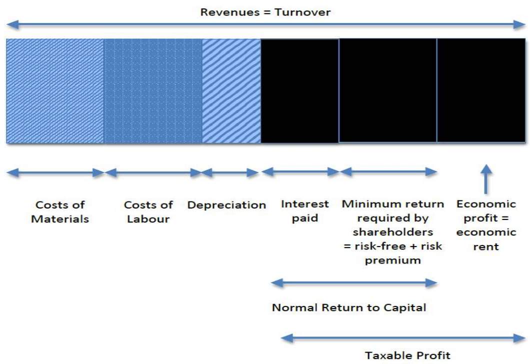
Taxation under CBIT



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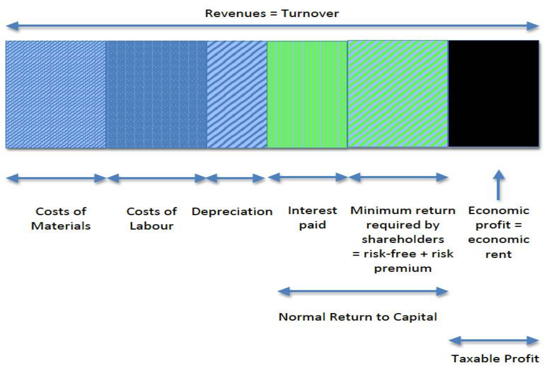
Taxation under ACE / AGI



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Solution for the debt bias

Balance between two general objectives best achieved by the Allowance for growth and investment

%-change unless stated otherwise (compared to baseline scenario)	(1) CCCTB central scenario	(2) CCCTB with no interest deductibility	(3) CCCTB with Allowance for corporate equity	(4) CCCTB with Allowance for growth and investment	(5) CCCTB with Allowance for corporate capital
Cost of capital (change in percentage points)	-0.04	0.14	-0.32	-0.32	-0.14
Investment	0.57	-0.90	3.36	3.36	1.41
Share of debt-financed investment	1.53%	-4.37	-1.79	-1.79	-4.31
Wages	0.40	-0.02	1.26	1.26	0.71
Employment	0.19	-0.15	0.65	0.65	0.30
Welfare (%GDP)	0.07	0.13	0.18	0.18	0.16
GDP	0.16	-0.37	1.17	1.17	0.48

Preferred debt bias option: Allowance for Growth and Investment

- *A defined yield on **increases** in the **'AGI equity base'** is deductible.*
- ***'AGI equity base'**: difference between the equity of a taxpayer and tax value of participations in associates.*
- ***Increases**: difference between the 'AGI equity base' at present and on joining the common tax base; reference can go back up to 10 tax years & thereafter, moves forward by one tax year.*
- ***Decreases**: the defined yield on the decrease is taxable.*
- ***Defined yield**: Euro area 10-year government benchmark bond, increased by a risk premium of 2 percentage points.*
- ***Anti-avoidance provisions***

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The Allowance for growth and investment…

...has a strong anti-avoidance framework

- *It rewards actual financing decisions (not past decisions) and minimises incentives for tax planning by applying to changes in the equity stock.*
- *To prevent "cascading" of the allowance, participations in associated companies are deducted when computing the relevant amount of equity.*
- *The overall limit on the deductibility of debt and equity financing costs further limits abuse possibilities.*
- *Possibility to strengthen the anti-abuse framework in the future through delegated acts.*

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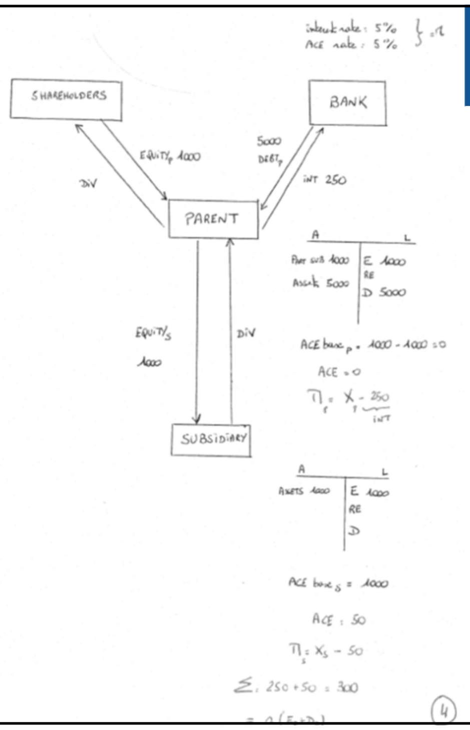
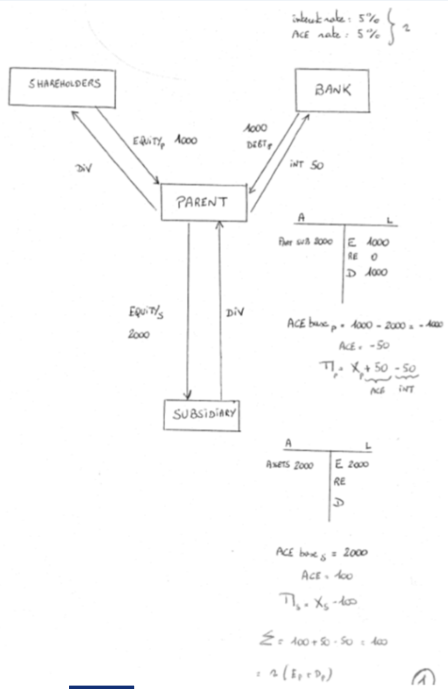
Cascading



Cascading



CCCTB Re-Launch

FAIR	COMPETITIVE ***Better for Businesses***
Mandatory for all large groups	Reduced costs and red tape
No mismatches or transfer pricing abuses	Legal certainty and stability
No preferential regimes or selective rulings	Cross-border loss offset
Taxation linked to real economic activity	Incentives for R&D
Highly transparent	Incentives for equity financing

CCCTB - Summary

- *Staged approach (harmonisation first, then consolidation)*
- ***Mandatory scope*** *for companies with a group turnover above EUR 750 million globally*
- ***Super deduction for R&D expenses*** *(150%/200% up to EUR 20 mn, 125% above EUR 20mn)*
- ***Allowance for growth and investment*** *on equity increases over 10 years at risk-free rate plus 2%.*
- *Temporary cross-border relief*
- *Technical modifications to reflect the outcome of discussions with Member States on specific topics since 2011*
- *Agreed anti-tax avoidance elements feature in the framework of the common tax base*

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Impact on tax revenues

- *Quantitative analysis:*
  - Our main model quantifies the impacts of the proposed harmonisation, consolidation and formula apportionment.
  - Calibration at EU level works very well, MS level is more difficult, including due to data limitations
  - Not able to capture properly the closure of some tax avoidance channels
  - Not able to capture properly the R&D provision (separate quantitative analysis); AGI with limitations
  - Need to make an assumption on tax rates
- *Qualitative analysis:*
  - Closure of debt shifting channel, end of patent boxes, hybrid mismatches will have positive revenue impacts