



One Europe, one tax?

Plans for a Common Consolidated Corporate Tax Base

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The European Commission plans to submit a proposal by the end of 2008 on harmonising the corporate income tax base. Multi-jurisdictional corporations could apply this to their economic activities in the EU as an alternative to national regulations.

With the Common Consolidated Corporate Tax Base (CCCTB) companies could potentially cut their tax compliance costs. However, this is more likely to work to the advantage of large enterprises. Smaller companies will arguably be out of their depth in choosing the optimal course between the previous national and the European system. In contrast the CCCTB will cause higher administrative costs for the public sector authorities in the participating countries.

A CCCTB involves considerable curtailment of the Member States' tax autonomy. Unlike direct taxes, indirect taxes such as turnover tax and special taxes on consumption are already subject to extensive harmonisation provisions at Union level. Since decisions relating to taxes in the EU require unanimity, the chances of a CCCTB being realised for the EU-27 are rather small.

The CCCTB concept is not a self-contained approach; rather, it allows various methodological designs. Not only are these technically extremely sophisticated, they can also seriously distort investment decisions.

The CCCTB requires an allocation mechanism with which to 'share out' an enterprise's consolidated tax base among the Member States. Ultimately, the necessary apportionment formula will determine allocation of the tax revenues. This contains potential for considerable conflict.

An apportionment formula involves incentive effects for both companies and Member States. These crucially hinge on the apportioning factors chosen – e.g. capital or the payroll. Ideally, a formula of this kind should therefore combine several factors to minimise negative incentive effects.

Ultimately, the CCCTB safeguards the principle of taxation at source. However, truly neutral taxation is unlikely since the Member States remain at liberty to set their own national tax rates.

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1. Why harmonise corporate income tax in the EU? The status quo

What does CCCTB mean?

CCCTB stands for **Common Consolidated Corporate Tax Base**. It has established itself as a working title in European Commission publications. The proposal comprises creation of a uniform EU-wide tax base permitting the consolidation of profits and losses. So far, the European Commission envisages offering companies the CCCTB as an additional option, enabling them to choose between the previous national system and the new regime.

Subsidiarity principle

The subsidiarity principle is used in various different contexts and has its origins in Catholic social teaching. With regard to the structure of a state, the principle holds that, wherever possible, collective or state services should be provided by the smallest unit closest to the human individual. Central government should swing into action only when lower levels of government are no longer able to handle problems or tasks. When applied to the EU, this means that ideally the Member States or their lowest competent layers of government should carry out state duties. The subsidiarity principle is legally enshrined in Article 5 of the Treaty Establishing the European Community and in a separate Protocol (No. 30) to the EC Treaty. The latter commits the EU bodies to act by this principle.

The European Commission plans to submit a proposal by the end of 2008 on harmonising the corporate income tax base (CCCTB). The path chosen is the outcome of a working programme launched in 2004 and represents the conclusions drawn from the findings of an extensive study published in 2001. As well as comprehensively analysing company taxation throughout the EU, the study originally examined four different models for the harmonisation of corporate income tax. Ultimately, the CCCTB model emerged as the approach favoured by the Commission.

In the light of this, what can we expect from the Commission's proposal? What are its advantages and drawbacks? And what chances of realisation does it stand?

There are moves towards harmonisation in the European Union in all spheres of day-to-day life. Some critics are inclined to view harmonisation at the level of the EU as something of an end in itself, particularly in terms of the principle of subsidiarity. Subsidiarity is one of the fundamental tenets on which the institutions of the EU operate. From the outset, the Member States have considered tax policy to be very much a national affair – especially as regards direct taxation –, and that also holds good for company taxation. Decisions on tax policy require unanimity. Moreover, unlike indirect taxation, the Treaty Establishing the European Community (TEEC) cannot be interpreted as creating a direct harmonisation imperative. Rather, the *raison d'être* for legislative convergence is based purely on the general harmonisation imperative contained in the TEEC. This is set out primarily in Articles 94 to 97, which address the convergence of such laws, regulations or administrative provisions as directly affect the establishment or functioning of the internal market.

Big differences in the tax burden

The tax burden is a crucial factor in a company's decision on where to set up base, and one that Member States can influence directly. Therefore it is not surprising that the nominal tax load differs considerably between the individual States (see map on page 4). However, this is only one possible measure of the tax burden – albeit the most important and the one that sends out the strongest signals. Depending on viewpoint and methodology, there is a whole raft of different load measures.

First, we can make a distinction according to whether the burden relates to economic aggregates (e.g. the ratio of total corporate tax revenues to gross domestic product or total tax revenues) or company-specific data (e.g. taxation rates based on company data).

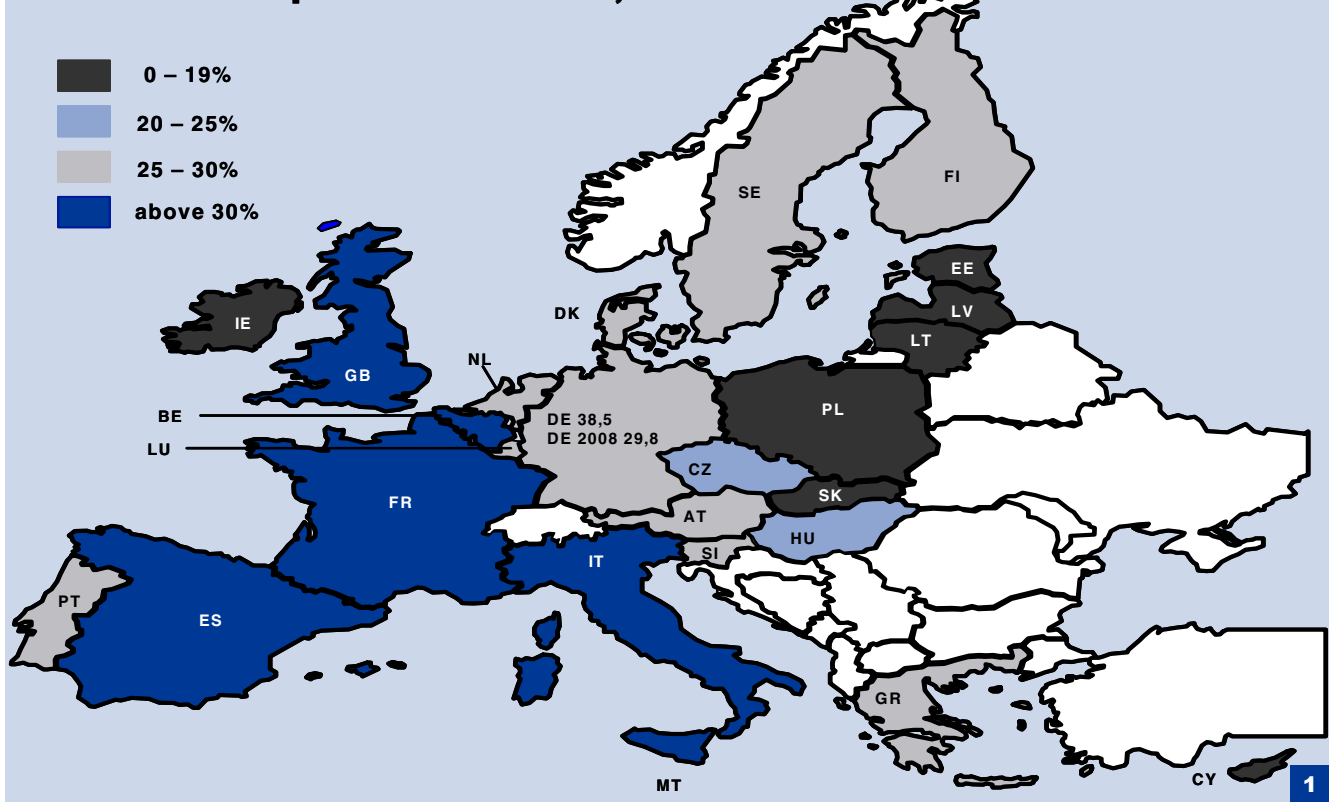
Second, we can distinguish between calculation of the tax burden with reference to actual payments (e.g. implicit rates of taxation on capital or labour) or on the basis of notional measures (e.g. the effective average tax rate) that reflect, for example, the burden of a hypothetical future investment project.

Different measures

– macroeconomic parameters vs.
company-specific data

– actual payments vs.
notional parameters

Nominal corporate tax rates, 2006



Corporate tax revenues of only minor importance

Country	Corporate tax/ total tax revenues	Corporate tax revenues/ GDP	Total tax revenues/ GDP
BE	8.9	4.0	45.4
DK	7.3	3.6	49.7
DE	5.2	1.8	34.7
FI	7.6	3.4	44.5
FR	6.3	2.8	44.3
GB	9.3	3.4	37.2
IE	11.3	3.4	30.5
IT	6.9	2.8	41.0
LU	14.6	5.5	37.6
NL	9.8	3.9	39.4
AT	5.4	2.3	41.9
SE	7.3	3.7	51.1
SK	8.3	2.4	29.4
ES	10.8	3.9	35.8
CZ	12	4.6	38.5
HU	5.8	2.1	37.1

Source: OECD, 2005

2

Opinion is far from unanimous on the authoritativeness or suitability of the various methods. Depending on the ‘spin’ an individual or organisation wishes to put on their message, this or that indicator will be more convenient and consequently produce different readings on the actual level of the tax burden in, say, Germany. Thus, the corporate income tax rates published annually by the OECD regularly register a comparatively moderate tax burden for Germany. As the table shows, the ratio of corporate income tax revenues to gross domestic product in 2005 worked out at 1.8% (in Ireland it is almost twice as high). This is borne out by the figures for the implicit tax rates on capital income and corporate income from Eurostat and the European Commission.¹ According to these, the 2005 tax load in Germany was a moderate 19.3% (against 29.2% in Ireland). This does rather contradict the figures on the notional tax burden, which assign Germany a rank in the top third. In 2005, the effective tax burden stood at 36% (against a mere 14.7% in Ireland).

There are various starting points when selecting these different approaches and explaining the choice made.² In the main, advocates of notional comparisons contend that ratios built around actual payments do not deliver a meaningful basis for investment decisions. Another argument is that the different tax and contribution systems make it very difficult to compare ratios. The converse objection is that since notional ratios reflect only the calculatory tax burden and not the taxes actually paid, they cannot take into

¹ On the latter, see European Commission (2007). Taxation trends in Europe. 2007 Edition. p. 309.

² See, e.g. Schratzenstaller, Margit (2004). Zur Ermittlung der faktischen effektiven Unternehmenssteuerlast. And Spengel, Christoph (2004). Aussagefähigkeit von Indikatoren der effektiven Steuerbelastung. Both in Schratzenstaller, Margit et al. (2004) (Ed.). Perspektiven der Unternehmensbesteuerung.



Sharp drop in company tax rates

Country	Tax rates		Change since 1995**
	Effective 2005	Nominal 2006*	
BE	29.7	33.9	-6.2
DK	25.2	28	-6.0
DE	36.0	38,65 (29,83)	-18.2
FI	24.6	26	1.0
FR	34.8	34.43	-3.3
GB	28.9	30	-3.0
IE	14.7	12.5	-27.5
IT	32.0	37.25	-15.0
LU	26.7	29.63	-11.3
NL	28.5	29.6	-6.0
AT	23.1	25	-9.0
SE	24.8	28	0.0
SK	16.7	19	-21.0
ES	36.1	35	0.0
CZ	22.9	24	-17.0
HU	17.9	20.52	-2.1

* Central government plus regional and local authorities

** Change in nominal rate in percentage points

Sources: ZEW, EUROSTAT

3

Distorted allocation of resources

Shifting profits

account tax planning, tax evasion and tax optimisation models. But irrespective of the model chosen, it can safely be said that the tax burden varies considerably in some cases and that tax competition does therefore exist in the EU.

High costs of compliance – Economic distortion – Political management problems

In the debate on harmonisation of company taxation, focusing on corporate income tax is certainly justified. As a rule, it is mainly larger companies that operate multi-jurisdictionally and are closely integrated across national borders. They are usually run in the form of corporations.³ It is important to consider from the outset, however, that restricting harmonisation to specific types of company cannot guarantee neutrality of legal form.

In terms of both nominal tax rates and the tax base, tax rules differ very substantially in the Member States. These differences are the result of a lengthy evolutionary period during which tax systems were, for a long time, geared purely to a national economy. Tax regimes have not kept in step with increasing international integration. Notwithstanding the EU internal market, this gives rise to a host of difficulties for companies engaged in EU-wide trade and commerce, reflected chiefly in high compliance costs, i.e. the costs that a taxpayer incurs through observing tax rules. If, for example, a German company is active in all EU Member States, it is now obliged to cope with 27 different tax regimes. To make matters worse, these often contain regulations on the calculation of profits under both commercial and tax law. The expense this involves has a particularly pronounced impact on smaller companies and may possibly prevent them from engaging in EU-wide activities at all. But reliable estimates are scant as quantification is extremely difficult.⁴

One objective of EU policy is the efficient allocation of resources, with as few distortions as possible obstructing the movement of goods, services and capital within the Community. A subordinate aim of this strategy is tax neutrality. Ideally, to achieve optimum allocation of resources taxation considerations should not influence companies' investment decisions. At present, as we have already seen, there are big differences in the corporate tax burden within the European Union. Following the 2008 tax reform, Germany will occupy a middling position. The disparity in corporate income taxation acts as an incentive to internationally operative undertakings in particular to slant their business decisions towards the location with the most amenable tax regime. In practice, moreover, internationally ranged corporations are able to exploit tax differentials without actually relocating real economic activity, chiefly by shifting profits. Now, tax structuring (on the part of both companies and the States involved) that takes advantage of different tax levels is not expressly banned by the EC Treaty, as prohibitions against limitation and discrimination do not kick in until the individual basic

³ Germany is an exception here. Business partnerships (Personengesellschaften) are not only the most frequent legal form, accounting for some 80%, there are also quite a number of very large internationally operative partnerships.

⁴ A survey by the European Commission in 2004 (in which 700 companies from 15 States took part) concludes, for example, that compliance costs for large companies correspond to roughly 2% of taxes paid and to 0.02% of sales, respectively. For small and medium-sized enterprises (SMEs) the ratios work out at roughly 31% of taxes paid and 2.6% of sales. However, these results are not really representative and exhibit some statistical uncertainty. What is more, the variables also contain Value Added Taxation compliance costs. See European Commission (2004). European Tax Survey. Taxation papers. Working Paper No. 3/2004.

Tax competition can cause revenue problems for States...**... but can also rein in rampant government activity****Investment decisions should not be distorted****Transparent and simple taxation needed**

liberties set out in the EC Treaty are affected.⁵ But the problem of tax distortions resulting from the differential tax burden and the associated inefficiencies remains.

As a direct consequence, States are finding it increasingly difficult to generate revenues from taxes on profits, respectively corporate income tax. This touches directly on the question of just how great the consequences and scale of tax competition are. Tax competition is credited with a number of advantages and disadvantages. The two most prominent arguments are the fear of erosion of the taxation base and the political control function of tax competition as an effective remedy against rampant government activity. Each view is supported by its own theoretical models.⁶ There is no hard and fast empirical solution to the issue. So far, however, there is no evidence of ruinous tax competition either. The ratio of corporate income tax to gross domestic product and to the total tax take has remained relatively stable – with the odd exceptions – at a low level. At the same time, nominal tax rates have fallen sharply.

2. Roads to reform

2.1 Possible goals for reform of European company taxation

Evaluations of any proposal on the harmonisation of corporate income tax or its assessment base will differ depending on the objectives of taxation reform and on what it is supposed to deliver. The previous section examined various evaluation levels, although it is not possible to draw a clear line between each of these.

The objective of tax neutrality, i.e. efficient and incentive-neutral taxation, is a general requirement of any tax regime. Investment decisions should not be distorted. In this context, tax competition appears in a critical light. It is equally important to avoid double taxation or non-taxation of incomes. Many an author is inclined to infer the objective of tax neutrality, in terms of the situation in the EU, from the EC Treaty. In respect of the Common Market, the European Commission sees the establishment of a CCCTB as contributing to greater efficiency and hence to growth and employment. It therefore also interprets it as helping to implement the Lisbon strategy.⁷

Indirectly linked to this is the aim of ideally simple and transparent taxation. This should involve the minimum possible compliance costs for companies and the minimum possible administrative costs for the tax authorities. The proposal for a CCCTB is guided essentially by this precept. Companies are faced with costs and obstacles in this context partly because of the very limited scope for cross-border loss compensation. Moreover, in order to determine the basis for taxation for the Member States involved, intra-group transactions within corporate groups have to be simulated, by means of transfer pricing systems, as though they had taken place

⁵ It is here that the European Court of Justice appears as judge and guardian with its individual case rulings. In its latter-year judgements, the Court has increasingly assumed a role as a driver of direct tax harmonisation. This has not met with universal approval. The Member States in particular fear substantial shortfalls in tax revenues as a result. On the role of the ECJ see Kokott, Juliane (2007). In BB, 62nd Volume. No. 17. pp. 913ff.

⁶ For an overview see, for example, Feld, Clemens and Gebhard Kirchgässner (2001). Vor- und Nachteile des internationalen Steuerwettbewerbs. In Müller, Walter et al. (2001) (Ed.). Regeln für den europäischen Steuerwettbewerb.

⁷ See European Commission (2005). Implementation of the Community Lisbon Programme. The Contribution of Taxation and Customs Policies to the Lisbon Strategy. Communication from the Commission to the Council and the European Parliament dd. 25.10.2005. COM(2005)532 final, notably pp. 4-6.

The taxation of cross-border incomes

When a State taxes the worldwide income of a taxpayer resident within its jurisdiction, we use the term *residence principle*.

When a State levies taxes only on incomes obtained within its jurisdiction, we use the term *source principle*.

As a rule, national governments' reluctance to waive tax revenues leads to clashes between their respective taxation claims. This happens, for instance, where two States both practice the residence principle. In its specific application, each jurisdiction's claims therefore have to be reconciled by means of certain procedures that do not breach the principles as such. To do so, under the residence principle the tax paid in another jurisdiction is counted towards the tax paid in the country of residence, i.e. deducted from it (*credit method*). The source principle corresponds to the *exemption method*, under which a State waives incomes earned outside its jurisdiction by taxpayers resident in its territory.

In taxation practice, the residence principle and source principle are not applied uniformly. This is thus also true of the credit method and exemption method. Usually, a hybrid form of both principles exists. Not until then does the different tax burden assume relevance for States and companies. For if a pure-play residence principle were practised, for tax purposes it would not matter to enterprises from one State where they located their investment, since they would ultimately always be subject (through the credit method) to the burden of taxation in their State of residence. The only way companies could then escape that burden would be by completely relocating the parent company.

Comprehensive implementation of the residence principle with...**... full imputation as an alternative**

between independent enterprises dealing at arm's length. In practice, the close integration of individual parts of the group is making this increasingly difficult and often leads to conflicts.

It is also necessary to secure to the states an appropriate share of the tax base and guarantee them tax revenues. For each State uses part of its tax receipts to provide public goods that companies also use. Consequently, the allocation of tax revenues is one of the key issues on which debate over the CCCTB centres.

Finally, any regulation must be scrutinised as to whether it sufficiently accommodates the idea of subsidiarity.

2.2 An ideal solution in theory?

Differences in the tax burden are only one aspect in an appraisal of tax competition. That these differences are of any significance at all and enable companies and States to take advantage of them with tax structuring is ultimately due to the way international taxation is designed, most specifically to the coexistence of the residence and source principles.⁸

Were the residence principle to be implemented consistently (with full, cross-border imputation of corporate income tax), equal treatment of domestic and foreign income (capital export neutrality) in Europe would be guaranteed and, most importantly, shifting profits would no longer be an interesting option. But in tax practice this is seldom the case. For another factor that comes into play with corporations is the independent legal personality of their individual subsidiaries, which effectively shields these from the parent company for tax purposes. If the subsidiary retains its profits instead of transferring them to the parent company based in another State, the parent has no means of obtaining direct access to these earnings. Where different tax regulations are in force, this so-called 'shielding' or 'separation effect' can then give rise to a tax advantage for the corporation or shareholder. Most importantly, this is what makes international tax structuring possible in the first place. The flip side is that it is not so easy to consolidate profits and losses within one company.⁹ That is why, in the context of debate on a harmonised tax base, there are also moves to introduce an appropriate consolidation facility, as the name of the model pursued indicates.

In so far, consistent implementation of the residence principle combined with the imputation of subsidiaries' income to the parent company (i.e. breaching the shielding effect) would theoretically be a possible alternative to a CCCTB. This option would retain the separate calculation of profits, and differences in tax rates would not give rise to distortions in investment decisions. But that still leaves relocation of the entire company to another country as a last resort. There is no such thing as the perfect solution – except, that is, to advocate full harmonisation, which is an unrealistic option.

⁸ There is a wide discussion on whether the exemption method or the credit method should be used. This is tantamount to the question whether capital import neutrality or capital export neutrality should be preferred. With regard to an efficient taxation, capital export neutrality would be the better decision. See Homburg, Stefan (2007), p. 308.

⁹ While the parent-subsidiary Directive has brought improvements at the European level, it has not remedied the problems once and for all.

2.3 Different parameters of action conceivable for tax harmonisation

Tax harmonisation can refer to...

tax rates or...

the tax base or...

... an entire tax system

Tax harmonisation can encompass a variety of areas. As the following chapter illustrates, in the past the European Commission has taken different approaches. We generally associate the term with the harmonisation of tax rates – the very aspect that many States perceive as a highly intrusive encroachment on their national sovereignty and usually reject. Even value added tax, which is broadly harmonised in Europe, features a minimum rate of taxation only.

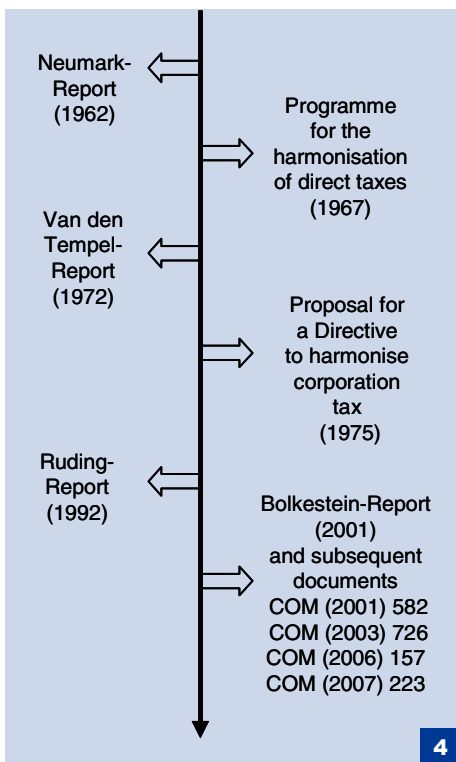
Tax harmonisation can also refer to the tax base. This means that the tax base – in the case of corporate income tax the determination of profit subject to taxation – is calculated in accordance with uniform rules. Different tax loads then stem purely from different tax rates. In Europe, this is again the case with value added tax, for which the tax base is broadly harmonised.

However, tax harmonisation can also aim to bring entire tax systems into line. This is significant in respect of company taxation, as there are various ways of linking corporation tax with income tax. This results in different perceptions of the nature of corporation tax, for example as a tax in its own right (the so-called classical system in which there is no connection with income tax at the shareholder level) or as a payment in advance on income tax (as is the case with the full imputation system). The system consisting of income tax and corporation tax can thus equally be the subject of tax harmonisation endeavours. However, the CCCTB approach currently pursued refers only to the tax base.

3. Development so far in Europe

Issues concerning taxation, or the harmonisation of taxation, can justifiably be described as a never-ending story in the history of European integration. Confined initially to indirect taxation (over time, comprehensive harmonisation of value added tax has been achieved), direct taxes – here in particular company taxation in the form of corporate income tax – have also appeared on the Member States' fiscal agenda. The European Commission has launched several platforms for comprehensive harmonisation solutions in the past. Initial moves for more extensive harmonisation of company taxation were evident as early as 1962 with the Neumark Report. One proposal was for a uniform system of company taxation with split rates, providing for a minimum 15% rate of taxation on distributed profits. Further sorties by the European Commission followed.

Over the years, however, the harmonisation of company taxation fluctuated in scope, i.e. in its range. In each case, the European Commission adopted a different tack. Up to 1990, moves towards harmonisation always sought to standardise corporate income tax almost entirely. Following the Guidelines on Company Taxation (1990) and the Ruding Report, the focus shifted onto individual structural elements and the Commission abandoned its policy of comprehensive harmonisation. One outcome of this approach was the triple package consisting of the merger and parent-subsidiary Directives and the Arbitration Convention in which legally binding





Comprehensive harmonisation approach

vs. harmonisation of specific areas only

Originally four different models with varying harmonisation scope

What is behind the names of the various models?

Strictly speaking, – with the exception of Home State Taxation – the individual models are merely variations of the same concept.

1. Home State Taxation

Under this model, each company, irrespective of the Member State of the single market in which it conducts its business activity, calculates its tax base purely with reference to the regulations applying in the country in which it has its head office or administrative seat.

2. Common Consolidated Corporate Tax Base

Under this scheme, the creation of a new (optional) EU-wide tax base – in addition to the national tax base and separate determination of profit – would mean that companies needed to comply with only one set of rules for their entire operations.

3. European Union Company Income Tax

The idea behind this approach is the development of a new uniform corporate tax model for the internal market that would apply optionally and in parallel to existing national regulations. All or part of the revenues from this could accrue to EU institutions.

4. Single Compulsory "Harmonised Tax Base"

This model would replace the national tax systems and imply the introduction of a compulsory harmonised tax base throughout the EU. The single corporate tax concept would be binding on all enterprises, regardless of their size or multi-jurisdictional operations.

Different sub-variants are possible within the various models but these are not discussed here.

agreements on corporate taxation were set out for the first time.¹⁰ In principle, the European Commission has reverted since 2001 to its original concept of comprehensive harmonisation. With presentation of the Bolkestein Report and two related Communications in 2001, the Commission once again gave priority to a comprehensive solution. But the guiding principle was always to remove obstacles to EU-wide economic activity.

Originally, four models were discussed in the Bolkestein Report: home state taxation, an optional common consolidated tax base, a mandatory harmonised tax base, and the model of a European Union company income tax. Direct comparison of these models is possible only on a limited scale as they all represent a different harmonisation status, i.e. the individual Member States' tax sovereignty is restricted in differing degrees by each model.

Since 2001 – with presentation of the Communication COM(2001)582¹¹ directly following the Bolkestein Report – the European Commission has pursued the CCCTB model. Specific preliminary work began late in 2004 on a proposal for a Directive, which is scheduled for presentation by the end of 2008. The establishment of working groups involved representatives of the Member States in this ambitious project. In contrast, the pilot project of home state taxation for SMEs disappeared from the radar screen.

The proposal for a trial arrangement originally announced for 2007 is now no longer feasible. Member States have too little interest in it, all the greater is their interest in a CCCTB.

4. The proposal for a CCCTB in detail

4.1 The basic concept and problem areas

The basic idea underlying the CCCTB concept is to calculate the profits (or losses) of a corporate group that maintains subsidiaries and/or permanent establishments in more than one Member State on the basis of standardised rules. This would include the possibility of offsetting profits and losses to produce a consolidated overall result. The total profit calculated this way would then have to be allocated by means of an apportionment system (i.e. with reference to certain key variables) to the Member States in which the group is active. The Member States could then apply their national tax rates to this allocation in order to calculate the tax due. Nominal tax rates would thus be the sole determinant of the tax liability. This approach replaces the hybrid system of source and residence principle described above with the source principle. Equally, the issue of tax credit method or exemption method no longer arises as profits and losses are combined into an overall result. However, this merely

¹⁰ The merger Directive, for example, is intended to have a positive impact on the creation of corporate groups, while the parent-subsidiary Directive aims to improve the current taxation situation for corporations. Another result was the Code of Conduct for business taxation. With this – legally not binding – political obligation Member States ensure to roll back existing tax measures that constitute harmful tax competition and to refrain from introducing new ones. For this purpose several criteria have been developed to identify those measures to find regulations which provide non-residents with a more favourable tax treatment than residents. See Council (1997), (98/C2/01). Conclusions of the ECOFIN Council Meeting on 1 December 1997 concerning taxation policy.

¹¹ See European Commission (2001), Towards an internal market without tax obstacles, A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities, Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee dated 23.10.2001. COM(2001)582 final.

defers the problem of allocation of the tax revenues to an apportionment formula that has yet to be devised.

The pros and cons of the concept proposed become clear only on closer examination of the related implementation issues. These include the following:

— **Definition of a common tax base.**

For this, it is necessary to determine uniform regulations on depreciation, provisions, the taxation of dividend payments within a group and also loss offsets. Current arrangements here differ vastly among the individual Member States. The MS must also reach consensus on the relationship between commercial law and tax law and on such valuation principles as the realisation or imparity principle. There is widespread agreement in discussion both at the European level and among economists that a broad tax base with low tax rates would be most efficient. When defining the tax base, the MS must also agree on how to treat local income taxes (such as the local business tax in Germany) or social security contributions: for being able to deduct these from the tax base would decrease the total tax base available for allocation and therefore the tax revenue.

Many technical details to be settled...

— **Which companies may/must use the CCCTB? Are businesses to be given an option?**

This calls for a decision on whether the CCCTB model is to be restricted only to internationally operative corporations and, most importantly, on whether companies are to have a choice, i.e. whether they will be obliged to adopt the CCCTB system if the Member State offers the concept, or whether they may continue to apply the nationally valid system.

... which many ultimately involve considerable incentive effects

— **Which companies belong to a group, and what happens when individual units switch corporate groups?**

The simplest arrangement would be to define a percentage ownership threshold. For example, a minimum ownership threshold of 50% would rule out the possibility of a corporate unit being based in two different groups of companies at the same time, which would not make sense. Logically, minority shareholdings could not then be included in the CCCTB system.

Adjustments necessary in administrative and court proceedings

— **How is the tax administered? Who levies it and how can a Member State enforce its entitlement to tax? What happens in cases of dispute; is a supreme European tax court necessary?**

So far, the tax collection process has been a largely national affair and the interaction of national internal revenue services a lengthy and arduous procedure for the taxpayer, for example in connection with the transfer pricing already mentioned. Existing methods of cooperation between fiscal administrations (e.g. administrative assistance procedures) are not sufficient. With the establishment of a CCCTB major changes would be inevitable. Were it decided that only the tax administration of the parent company's country of residence should record the tax, steps would have to be taken to ensure that the tax administration could check particulars on income in other Member States and enforce them if necessary in a court of law.



Third country issue is the biggest problem

— **How is income from third countries treated, and how are subsidiaries of a parent company that do not belong to the participating CCCTB countries taxed?**

To treat these in the same way as their European competitors, the subsidiaries could likewise be permitted to calculate their profits in accordance with the regulations of a CCCTB. Even so, separate profit calculation would still be necessary for allocation, as other non-Member States could not be included in a system of formula apportionment.¹²

Apportionment system a major obstacle

— **How are the tax base – and hence the tax revenues – shared among the participating Member States?**

This is a pivotal – if not, indeed, the most significant – discussion point of the CCCTB. The complicated nature and non-neutrality of international taxation stems essentially from the issue of appropriate apportionment of the tax base and the tax revenues resulting therefrom. The debate on the necessary allocation of the tax base has only just begun at Community level.¹³ Depending on the apportionment formula, different incentive effects and impacts on tax revenues are created, which are ultimately not likely to differ much from the problems with the status quo.

The many different structuring options...

As this brief outline of the issues that need to be addressed in the model approach shows, there are many technical details to be clarified. Individual tweaks to the overall design can in turn give rise to new negative incentive effects triggering evasive reactions. Our comments on two elements in the following – optionality of the rules and the apportionment mechanism – will highlight this, for a harmonisation approach such as the CCCTB does not constitute a self-contained and unequivocal system in itself.

... make different versions of the CCCTB possible

Optionality beneficial for big companies but...

4.2 Does optionality make sense?

The issue of optionality of the rules has emerged as a significant discussion point: Should companies be at liberty to choose whether they use the CCCTB or not? As far as big, internationally operative companies are concerned, the answer is very clear: one option more is always better. In case of doubt, they can always go for the system that benefits them most. Even if having a choice does appear attractive at first sight – with the better and more efficient system competing for selection, so to speak – there are grounds for criticism nonetheless. For one, only big enterprises have sufficient human resources to determine by trial and error what the ideal system is for them. Small and medium-sized businesses will presumably soon reach their limitations here. For another, a key rationale behind the proposal is to reduce compliance costs, propagated by the business community in demands for a “one-stop-shop” solution¹⁴. If this is meant seriously, optionality between separate calculation of profits and a CCCTB cannot be a genuine alternative. In this context it would have to be established whether the choice of one specific

... problematic for small and medium-sized businesses

¹² This is no longer just an issue within the EU. The American Chamber of Commerce to the European Union, for instance, has spoken out against non-discrimination of subsidiaries with parent companies from non-participating countries. See AmCham EU (2006).

¹³ See European Commission (2007), Implementing the Community Programme for improved growth and employment and the enhanced competitiveness of EU business: Further Progress during 2006 and next steps towards a proposal on the Common Consolidated Corporate Tax Base (CCCTB). Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on 02.05.2007. COM(2007)223 final.

¹⁴ This is taken to mean that companies will then have to deal with only one tax base and one tax administration.

Apportionment system and optionality compatible

Division of the tax base...

... as fiscal equalisation scheme at the European level

Possible ways of dividing the tax base

Benefit formula: Since the state can lower production costs for companies by providing public services, profits should be allocated relative to the use of these services. In practice, however, it is virtually impossible to implement this equivalence concept perfectly; ultimately, any formula apportionment is tantamount to a kind of value added tax.

Factor Location Formula: In this case, the apportionment of profit would be based on where the physical factors of production are located. This, too, is hardly practicable.

Source of Profits Formula: The idea is that countries apportion profits based on where these originated, i.e. the share of economic activities that lead to the profits has to be determined. An apportionment formula should consequently contain factors that reflect the geographic source. This approach has been in use for some time in the United States and Canada.

Source: Musgrave, Peggy (1972). International Tax Base Division and the Multinational Corporation. Public Finance/Finances Publiques. Volume 28. p. 394ff.

regime is final or whether the decision can be revisited, and if so, how this would then be accomplished in practice.

Incentive effects also play a part. If the CCCTB meets the objective of a broad tax base already indicated, it will automatically have less appeal than any comparatively narrow national tax base. In such an unlevel playing field, the CCCTB would be the loser from the outset.

The question of optionality initially has no immediate impact on a necessary apportionment system, as parallel application would create two different revenue pots. One would result from the combined effects of the national systems. Tax revenues, or the tax base, would accrue in accordance with the international taxation principles currently in force, while revenues – respectively the tax base – from CCCTB companies would be apportioned. It would further depend on individual structuring whether the Member States influenced corporate decisions by their configuration of the national tax base.

4.3 Allocation of the CCCTB to the participating countries

Arguably the trickiest item in the proposal for a CCCTB will be the establishment of an apportionment system. Here, the European Commission is treading quite uncharted territory, for basically nothing less is required than a kind of revenue sharing regime at European level that would fairly divide the tax take, or to be more precise the tax base, among the Member States. The debate on fiscal equalisation scheme in Germany underscores the potential for conflict over this that exists even within one single country.

It is necessary to apportion the tax base because companies operating under a CCCTB regime combine the profits of all their subsidiaries into one tax base. Since this will enable full offsetting of profits and losses, all else being equal, overall tax revenues are likely to fall for this reason alone. The basic problem for the participating Member States is that following consolidation it would no longer be possible to trace what proportion of profit was generated in which country. This would have to be determined ex post, because the Member State concerned could only apply the nationally set tax rate to this portion in order to calculate the tax revenues to which it was entitled. The corporate group's total tax bill would therefore consist of the sum of the individual tax burdens calculated thus. What might a suitable apportionment formula look like?

In theory, various approaches are conceivable, ranging from a Benefit Formula through a Factor Location Formula to a Source of Profits Formula. Only the last has met with acceptance in practice. Ideally, the individual formula factors should reflect as closely as possible the geographic source of the tax base (i.e. the share of profit subject to taxation), because ultimately the aim is source-based taxation with the consequent apportionment of tax revenues involving as few incentive effects as possible for both the MS and the participating companies. A formula of this kind is the approach favoured by the European Commission in the context of a CCCTB. The next step would be to clarify the potential factors, how they are measured, and finally how they can be weighted in the formula. Here, too, different contours are possible. Basically, a distinction can be made between microfactors and macrofactors. With the latter, macroeconomic ratios (consumption, gross domestic product) or sector variables are taken as the allocation yardstick, in which case there is no direct connection with the companies' operations. Company-specific determinants such as capital, payroll and turnover/sales serve as microfactors. Both alternatives have their

Microfactors vs. macrofactors	advantages and drawbacks. The European Commission gives preference to an apportionment formula based on microfactors. ¹⁵
Capital and...	If microfactors are taken as the basis, precisely in the case of corporations it would seem obvious to include the factor capital in an apportionment formula since the profits earned result, so to speak, from the rate of return on the capital employed. However, it is by no means clear how assets are valued. In particular, problems very frequently occur with the valuation of intangible assets, for which there are often no market prices. And even where market prices do exist, e.g. for real estate, valuations frequently differ, leading to difficulties. Focusing purely on the factor capital also leads to distortions in investment decisions, as companies could then be tempted to switch to the factor labour. What is more, many elements of capital (e.g. in current assets or intangibles such as patents) are very easy to shift from one jurisdiction to another, which would act as an open invitation to companies to take evasive action (tax structuring).
... labour/payroll as supply-side factors	Corporate profits are generated by labour as well as capital. One way to determine the factor labour is with reference to the payroll. But even here, recording and valuation problems can arise, due mainly to the variation in remuneration methods (e.g. stock options). However, the payroll is relatively robust against tax structuring, given that changes in tax payments arise only when workers are relocated entirely.
Turnover/sales on the demand side	The factors discussed so far are supply- or production-side factors. To include the demand side as well, turnover or sales can also be taken into consideration. Logically, these are linked to the place of sale. But they are not very common internationally as a profit allocation measure, although they are extremely popular as an apportionment factor in arrangements between the federal states in the US and Canada. The problems familiar from turnover tax with the place at which the service is rendered – e.g. in electronic commerce – also arise with the apportionment system.

Existing examples: US and Canada as role models?

Both countries have many years' experience with formula apportionment, although the regulations differ not inconsiderably. In the United States Wisconsin became the first state, in 1911, to introduce corporate income tax and an apportionment formula. By 1960, the large majority of federal states had established formula apportionment. In 2006, all states but four applied an apportionment formula. However, there are no uniform profit calculation and valuation rules; although most states take the Federal definition as the basis, they subsequently modify this, giving rise to wide variation. The same applies to the regulations specifying which companies belong to a group; profit and loss offset is, however, possible. Normally a three-factor apportionment method using the factors capital/property, payroll and turnover/sales is applied. However, the factors are weighted differently. For a long while, the so-called "Massachusetts Formula" (all factors are entered in equal fractions) was the standard, but in recent times this has changed considerably. Many states have begun weighting sales more heavily. This highlights the original system's negative allocative effects. Another major problem that has arisen in practice is the valuation of assets entered into the formula as capital. This has led to most intangible assets not even being included.

In Canada, the provinces – unlike the United States – depart hardly at all from the Federal definition. But nor is there any possibility of consolidating legally independent business units. Moreover, the provinces apply a uniform apportionment formula containing only sales/turnover and the payroll as equally weighted factors.

Both countries permit exceptions for certain sectors, but on varying scales. This is because the apportionment formula was originally devised for commercial and industrial enterprises. Consequently, banks in the US, for example, can apply different definitions of capital.

Summarising the results of both examples, neither can serve as a direct role model. Without the possibility of consolidation, the proposal for a CCCTB forfeits a key benefit for companies. Different apportionment formulae for the Member States would lead to unsatisfactory allocation of tax revenues and cause negative incentive problems.

¹⁵ For the progress achieved so far see the latest publication by the European Commission CCCTB WG (2007). Working Document CCCTB\WP\052\doc\en

An apportionment formula featuring the three factors sales/turnover (V), capital (K) and labour/payroll (L) can (if all three factors are weighted equally) take the following general form.

$$G_i = \left[\frac{1}{3} \left(\frac{V_i}{V} \right) + \frac{1}{3} \left(\frac{K_i}{K} \right) + \frac{1}{3} \left(\frac{L_i}{L} \right) \right] G,$$

with $\sum_i^n V_i = V, \sum_i^n K_i = K, \sum_i^n L_i = L,$

A numerical example makes the context clear

The following examines a German corporate group with subsidiaries in France and the Netherlands. Given that these business units together earn 100 monetary units, these then have to be divided among the three countries. For each country, it is now a matter of determining the respective factor shares, i.e. the share of the payroll, capital and sales in the total.

	K	L	V
Germany	100	50	150
Netherlands	100	20	80
France	100	30	20
Total	300	100	250

The case in point thus produces the following results:

DE:

$$G_D = \frac{1}{3} \frac{100}{300} + \frac{1}{3} \frac{50}{100} + \frac{1}{3} \frac{150}{250} \approx 48$$

NL: $G_N \approx 28$

FR: $G_F \approx 24$

Each country would then apply the national tax rate to the individual shares. Adding these three individual tax bills would give the total tax payable by the group.

The apportionment would alter if, for example, sales were doubly weighted:

DE:

$$G_D = \frac{1}{6} \frac{100}{300} + \frac{1}{6} \frac{50}{100} + \frac{2}{3} \frac{150}{250} \approx 54$$

NL: $G_N \approx 30$

FR: $G_F \approx 16$

The index i stands for a particular country, e.g. Germany. The total apportionable profit of the corporate group G, which it has earned in different countries, is then shared out using the apportionment formula. In the present example, all three factors are entered at one-third each, but this need not necessarily be the case. The share of G accounted for by Germany is thus calculated as the sum of the individual factor shares of the total.

As already indicated, the choice of factors can have considerable incentive effects for companies and countries. Our example in the box shows the allocation of profit with three factors. Were the factors restricted to sales only, for instance, the distribution of profit would be heavily skewed in favour of Germany. The greater the weight assigned to the payroll, the greater the benefit to countries with a high wage level – but always subject to the proviso that companies do not react by relocating jobs. The fewer factors an apportionment formula contains, the greater impact changes in one factor have. There is more chance of influencing the tax burden, and decisions on production are distorted more in favour of factors not taken into account in the formula.¹⁶ From this, it immediately becomes clear that the aim should be a common formula: for if jurisdictions could set the formula themselves, they would have a very powerful incentive to exert positive influence on employment and investment by fine-tuning the weightings.¹⁷

Ultimately, a system of formula apportionment acts as an insurance against revenue losses. Countries are given an incentive to attract even unprofitable corporate investments by setting their rates of taxation as low as possible. Although this does not generate substantial tax revenues in itself, unlike the system of separate profit calculation it is still worthwhile for a country, which will obtain revenues as long as the group of companies is profitable as a whole. In an extreme case, it would suffice for the group to operate profitably in only one country, given that the other countries would still receive a share of the taxable base. Conversely, even unprofitable investment is worth a company's while in countries with lower tax rates, because apportionment enables them to assign part of their tax base to the lower tax burden. Selection of the formula

¹⁶ It was variously demonstrated in theoretical models over 25 years ago that corporate income tax degenerates into a factor tax on the factors contained in the apportionment formula. See McLure, Charles (1981). The Elusive Incidence of the Corporate Income Tax: The State Case. In Public Finance Quarterly. Vol. 9, No. 4. p. 395ff.

¹⁷ Empirical studies demonstrate this for the United States. In the past years, the proportion of states focusing on turnover/sales so as not to burden the factors labour and capital too heavily has increased dramatically. At the same time, there is evidence to prove that companies in America deliberately exploit tax rate differentials and attempt to shift factors into other states. For an overview, see Weiner, Joann (2006). Company Tax Reform in the European Union, Guidance from the United States and Canada on Implementing Formulary Apportionment in the EU.

factors must therefore have particular regard for the alternatives open to the players involved.

Tax competition will thus tend to intensify under an apportionment system. In the light of this, calls for a minimum tax rate come as no surprise.

5. Final assessment of the CCCTB

The European Commission is channelling enormous resources into pushing this ambitious project ahead. In addition to the original (main) working group, six sub-groups have since been set up, activating remarkable intellectual input. Meanwhile, more than 50 different working papers have been published on the various elements of the CCCTB discussed in the working groups. Added to this is the 1,000-page study dating from 2001 and various so-called “non-papers” (working papers prepared by the Taxation and Customs Directorate General). European industry associations have also produced opinion papers on individual technical features. The German press, the other Member States and the business community have so far devoted little attention to the issue.¹⁸

CCCTB lowers administrative costs for business

With reference to the aims set out in Section 2.1, the model for a CCCTB leaves mixed impressions. In respect of the criterion of simple and transparent taxation with ideally low compliance costs, the CCCTB could prove beneficial to companies. The model preferred so far envisages an optional, common tax base for corporations featuring consolidation and with it EU-wide offsetting of profits and losses. This makes a reduction in compliance costs likely and would remove many obstacles to businesses.¹⁹ However, the benefits can only unfold fully if the administrative framework conditions are right, i.e. if a company has to deal not only with a common tax base, but also with a single tax administration. But current deliberations on this topic in the working groups are still at an early stage. What precisely the Member States would let themselves in for is a matter of doubt. For as far as the MS are concerned, they can definitely reckon on rising costs to begin with, particularly if they have to administer two systems in tandem under an optional arrangement. The work that an apportionment system would entail is practically impossible to quantify. A glance at the German fiscal equalisation scheme and the still-outstanding transition to the CoOP or CMP²⁰ in turnover tax does not bode well. In relations with non-EU countries, the Union will be bound to continue the practice of separate profit calculation. This will lead to the parallel use of different systems, both for businesses and the Member States participating. Again, it will ratchet up administrative work – also for the business community – and blunt the cost benefit of the CCCTB. At the same time, incentive effects are likely here, too.

Higher administrative costs for the participating countries

Third-country regulations impose heavier administrative burden

¹⁸ A small paragraph in a position paper by the BDI Federation of German Industries on the EU's competitiveness summarises industry's wishes in brief: the introduction of an optional, simple and standardised tax regime with the CCCTB. Resolving transfer pricing problems, loss offsetting EU-wide and avoiding double taxation are quoted as the major objectives, in other words lower compliance costs. See BDI (2007). Europas Kräfte nutzen. Für eine wettbewerbsfähigere Europäische Union. p. 20.

¹⁹ How far small and medium-sized businesses might benefit depends very much – as already explained – on the question of optionality.

²⁰ Since 1993, a transitional system has existed for turnover tax, for which the tax base is broadly harmonised. This provides for a mixture of the country of destination principle (COD) and country of origin principle (CoOP). The latter would lead to the redistribution of tax revenues between the Member States. After fully 14 years, a clearing system to allocate the tax revenues reflecting the CoOP or the CMP (Common Market Principle) is still not in sight.

No incentive-neutral taxation	In terms of efficient and incentive-neutral taxation, the CCCTB performs less well. It meets the requirements of neither capital export neutrality nor capital import neutrality. This is partly because not all companies can benefit from the CCCTB, which will be an option for corporations only. Secondly, the Member States will initially continue to apply different rates of taxation. Companies from non-EU countries, companies operating within strictly national borders, business partnerships and – if the CCCTB is optional – two different taxation regimes for corporations will compete with one another in a single Member State. A big problem in this context is the apportionment system already described. In order to at least restrict allocative distortions, a common apportionment formula is necessary. Yet this still leaves the problem that the type of apportionment factors used will influence companies' decisions on investment as long as they are company-specific.
Member States likely to reject macrofactors	Although less susceptible in this respect, macrofactors would make considerable demands of the precision of the variables used. This is virtually impossible to achieve in practice. What is more, Member States will presumably have little interest in severing the corporate link with apportionment factors, as this would restrict companies' ability to influence the formula, and the MS would see their entitlement to an appropriate share of the tax base and tax revenues in jeopardy. Ultimately, a CCCTB featuring an apportionment system manifests the source principle. This would not run counter to international principles, but as we have seen, the apportionment system can also trigger escape routes for the Member States. A uniform rate of taxation, or at least a minimum tax rate, would be a possible remedy, but both stand very little chance of realisation in the EU.
Intensification of tax competition	Without a prior impact assessment (gauging the implications for tax revenues) the Member States will feel even less inclined to espouse such a solution. An impact assessment is planned in the course of a proposal for a Directive in 2008, and it will be interesting to see the results. At all events, it will crucially depend on the Member States' cooperation, since it is they who must provide the necessary data.
No impact assessment yet	
Impact on tax revenues unclear	In general, however, it can safely be said that if companies are given the option they will choose the new system only if they consider it expedient, that is to say if they believe the tax burden and/or compliance costs will be lower. For this reason alone, tax revenues will fall versus the status quo. So far, however, there has been hardly any research on this subject because too many unknowns have to be taken into account. A recently published study ²¹ seeks to perform this balancing act. On relatively rigid assumptions, ²² the decline is estimated at roughly 1% of total EU-wide corporate income tax revenues if companies have a choice of regime. While this might seem comparatively little, the differences across the various Member States are very great. Depending on the apportionment factor used (capital, labour and sales are examined separately), the winners (e.g. Slovakia and Hungary, whose tax revenues would jump 50%) and losers differ. Some MS even suffer general revenue losses regardless of the factor applied (Germany, Italy, Denmark and Luxembourg). In Germany, assuming that companies had optionality, many would not use the CCCTB since it would mean
Hardly any research	

²¹ See Devereux, Michael and Simon Loretz (2007). The Effects of EU Formula Apportionment on Corporate Tax Revenues. Oxford University Centre For Business Taxation. WP 07/06.

²² It is assumed, for example, that companies will not alter their behaviour and that the MS will leave their tax rates unchanged. The study encompasses two-thirds of tax payments. The period under review covers the years 2001 to 2005.

their having to pay tax on more of their profits.²³ But the situation would look different if a mandatory consolidated tax base were introduced: the total corporate tax revenue would rise by an average of 8% within the model framework. Big countries with high taxes would benefit most. The circumstance that countries with low wage costs lose tax revenues when applying the payroll factor is even more marked. However, these findings should be interpreted very carefully, particularly the scale of the effects, owing to the rigidity of the assumptions.²⁴ One thing is certain, though: the choice of apportionment factor has a hugely important impact on tax revenues.

CCCTB restricts participating States' autonomy

A CCCTB would rob the MS of the possibility of structuring the tax base themselves. This places the model in a rather negative light from a subsidiarity aspect. Given the conclusions reached in this paper, the question arises as to whether such a loss of autonomy is justified.

CCCTB meets the cost-cutting target mainly for companies

6. Conclusion

In principle, the concept for a CCCTB is a good idea, provided the Member States are prepared to accept the loss of autonomy. But the basic construction pursued at present is most likely to cut costs for companies, while the CCCTB concept works less well in respect of the objectives of tax neutrality and appropriate distribution of the tax take. However, the scale depends heavily on individual structuring. In its present form a CCCTB will seriously distort incentive effects – which is not what efficient and neutral taxation is all about. In all probability, tax competition will intensify and the pressure for a uniform – presumably lower – tax rate will increase. From the national states' point of view, demands for a minimum rate of taxation are not entirely unfounded. However, these issues will depend more on which Member States are prepared to sign up to the CCCTB project.

Allocation of tax revenues may be the stumbling block

The main problem – as so often with international taxation – is the equitable sharing of tax revenues among the Member States. The question of a suitable apportionment system could prove an insurmountable obstacle. The model would have huge implications for national tax revenues. That may be one reason why preliminary work on it has only just got underway in the EU-level working groups. They prefer to begin by discussing topics on which it is easier to reach a consensus.

Proposal by end-2008 doubtful

It remains to be seen what the specific proposal will actually look like, but it may be questioned whether this (plus an impact assessment) can be presented by 2008 as scheduled. Achieving consensus among 27 Member States looks set to be difficult. The role models for an apportionment system, the US and Canada, enjoy much closer integration and share a greater common identity than the Member States of the European Union.

²³ The redistribution effect is particularly great in the case of the factor labour. Applying the payroll, the tax take in countries with low wage levels falls sharply (e.g. in the Czech Republic, Hungary and Slovakia).

²⁴ A study by Fuest et al. arrives, for instance, at a significantly declining tax take. However, several methodological differences exist between these studies. See Fuest, Clemens et al. (2006). How would formula apportionment in the EU affect the distribution and the size of the corporate tax base? An analysis based on German multinationals. Discussion Paper Series 1. Economic Studies. No. 20. Deutsche Bundesbank.

Changes in the decision-making processes are necessary...**... to prevent regulatory rigidity****No arrangements for integration into income tax**

There is yet another aspect to consider. Tax legislation is subject to constant changes and developments. This is necessary inasmuch as the business world is developing dynamically. Ideas for new products and innovative technologies create a need to adjust taxation systems. On the other hand, constant amendments to tax legislation lead to a lack of continuity – with Germany since the end of the 1990s as an eloquent example –, and this can prove extremely onerous for taxpayers. Writing a system in stone can thus be equally as undesirable as constantly chipping away at it. As ever, it is a matter of finding a golden mean. As far as a common tax base is concerned, it would have to be possible in principle to adjust this to altered circumstances. How that can be achieved with the present structures and decision processes – notably the principle of unanimity – time alone will tell. But were implementation of a CCCTB successful, it might possibly also act as a new standard beyond the borders of the EU.

The final item is the question of the tax load on the shareholder in a corporation. This comes under the remit of income tax and is thus subject to policymaking by the individual Member States. Particularly important in this respect is how corporate income tax is integrated into income tax in general. Regulations on this differ from one Member State to the next. This issue – like the rate of taxation – will not be determined by a common set of rules within the framework of the CCCTB. Shareholders in a corporation make their capital available to that corporation and expect an adequate return. At big public companies, investment decisions may split into actual investment projects and the tax burden for the shareholders. But the situation is different for small and medium-sized businesses. Therefore the corporate income tax burden is not the last word in the more important consideration of the overall tax load.

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