Common Consolidated Corporate Tax Base (CCCTB)

ACCA POSITION STATEMENT

25 May 2010, REF: PAMR-PP-CCCTB

About ACCA
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

We have 71,000 members across Europe. Globally, we support our 140,000 members and 404,000 students throughout their careers, providing services through a network of 83 offices and centres around the world.

ACCA organises leading SME events across the globe, working with key local stakeholders, other international bodies and national Governments. 59% of our members work in, or for, small and mediums-sized enterprises (SMEs) on a daily basis and we have 100 years' experience in SME support, meaning we are well placed to comment on issues affecting them.

According to a study[1] by the IAB (the Belgian Accountants Association) and supported by the voice of the small businesses in Europe, UEAPME, 83% of small businesses say accountants are their most trusted source of advice and support.

Summary of key points
ACCA welcomes the recent commitment by European Commissioner for Taxation, Algirdas Šemeta, to make the adoption of a Common Consolidated Corporate Tax Base (CCCTB) one of his major aims for the next five years.

ACCA shares the Commission's view that simplifying procedures, improving efficiency and reducing compliance costs in taxation matters are integral to strengthening the Internal Market. A clear, simple and user-friendly CCCTB would help enhance the competitiveness of European businesses and attract investment, as underscored in the new *Europe 2020 Strategy*, the successor of

[1] IAB-Unizo-FVIB, 2004.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

the *Lisbon Strategy for Growth and Jobs*. While focusing on large companies, it would also potentially help SMEs operating across- borders.

ACCA believes, however, that some issues still need to be addressed: particularly in relation to the rules for the determination of the tax base; IFRS versus national GAAP debate; optional implementation and consolidation; uniformity of the tax; apportionment; international aspects; and compensatory measures.

In addition, the concept of 'home state taxation' as a simplification measure for small companies should be reconsidered.

Background

The lack of coordination of national tax systems in Europe – and more specifically the lack of a true Single Market for direct taxes – has always been one of the most controversial topics in the history of the EU, and is especially pertinent at a time of increasing globalisation.

The incidence of EU companies' cross-border operations led EU leaders to declare at the 2000 Lisbon EU Summit that by 2010, the EU should be the most competitive and dynamic knowledge-based economy in the world.

The European Commission consequently issued in 2001 a Communication entitled: 'Towards an Internal Market without tax obstacles'.[2] It released at the same time its company tax study, the Bolkestein Report, which identified four possible methods for removing tax barriers in the Single Market: Home State Taxation; the Common Tax Base (CTB); the European Union Company Income Tax; and the Harmonised Tax Base.[3]

[2] *Communication from the commission to the council, the European parliament and the economic and social committee: Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities,* COM/2001/582, European Commission, 2001. http://ec.europa.eu/prelex/detail_dossier_real.cfm?CL=en&DosId=168921

[3] *Company taxation in the Internal Market,* SEC/ 2001/1681, 23.10.2001, part III:223–305.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

The study also identified a series of problems for companies having to comply with the many different sovereign tax jurisdictions in the EU, including:

- allocation of profits to each jurisdiction on an 'arm's length' basis by separate accounting
- cross-border loss relief is not always available
- cross-border reorganisations could trigger tax, for instance, on capital gains
- double taxation and conflicts over taxing rights.

In 2003, however, the Commission concluded that the CCCTB was the only balanced method and added its preference for consolidation from the start.[4] It held a public consultation on the use of International Accounting Standards (IAS) as a possible starting-point for a common EU tax base, but then seemed to prefer the use of national GAAP with adjustments for tax purposes approach.

In 2004, the Commission issued its 'non-paper on the common tax base',[5] while the ECOFIN Council founded the CCCTB Working Group. Following an initial progress report in 2006, the European Commission adopted a second Communication on the progress towards a Common Consolidated Corporate Tax Base (CCCTB).[6]

A proposal on a CCCTB was planned for 2008 during the French EU presidency, which was a strong supporter of the initiative. The Commission services produced in parallel a working paper 'CCCTB: possible elements of a technical outline'.[7] Yet the idea was abandoned after it was deemed to have contributed to Ireland's 'No' vote on the Lisbon treaty in June 2008; Ireland

---

[4] *Communication from the Commission to the Council, the European Parliament and The European Economic and Social Committee: an Internal Market Without Company Tax Obstacles Achievements, Ongoing Initiatives and Remaining Challenges,* COM/2003/726, European Commission, 2003.
http://ec.europa.eu/prelex/detail_dossier_real.cfm?CL=en&DosId=187013

[5] *A Common Consolidated Eu Corporate Tax Base*, 7 July, Commission non-paper to informal Ecofin Council, 10 and 11 September 2004, European Commission, 2004.
http://ec.europa.eu/taxation_customs/resources/documents/taxation/company_tax/common_tax_base/cctbwpnon_paper.pdf

[6] *Communication on the progress towards a Common Consolidated Corporate Tax Base (CCCTB)*, COM/2007/223, European Commission, 2007.
http://ec.europa.eu/taxation_customs/resources/documents/common/whats_new/com(2007)223_en.pdf

[7] *Common Consolidated Corporate Tax Base Working Group (CCCTB WG) CCCTB: Possible Elements of a Technical Outline.*
http://ec.europa.eu/taxation_customs/resources/documents/taxation/company_tax/common_tax_base/ccctbwp057_en.pdf

feared that a CCCTB would be a stepping stone to harmonised tax rates which it strongly opposes.

However, Lithuanian Commissioner Šemeta recently indicated that he will reopen the debate, and is ready to use the enhanced co-operation procedure, which allows a small number of member states to agree legislation amongst themselves. Under the Lisbon Treaty (now article 20 TFEU), at least one third of all EU member states could agree to implement a CCCTB in their territories.

Our position

While ACCA recognises the need to be realistic regarding the resistance of several member states, we believe that the CCCTB is a useful tool to address the underlying tax obstacles which exist for companies operating in more than one member state in the Internal Market.

The creation of common corporate single-set tax rules would allow companies to use the same methodology for calculating their profits throughout the EU. ACCA shares the European Association of Chambers of Commerce (Euro Chambers') view that this would help reduce the divergent number of discretionary practices and thus decrease compliance costs, especially for SMEs[8], for which these costs are disproportionately higher. It would cut administrative burdens, eliminate cases of double taxation, and build a more business-friendly and transparent tax system in Europe.

We also support UEAPME's view that SME-friendly rules on company taxation and VAT schemes such as CCCTB, alongside 'one-stop shops' for VAT and 'home state taxation', would provide small businesses with the right incentives to grow internationally and make the most out of the single market.

We therefore call on the Commission to produce a thorough impact assessment of the CCCTB initiative in order to prove and reassure skeptical member states of the benefits of this approach.

---

[8] European Commission figures from 2008 showed that cross-border taxation costs can make up to 2.5% of turnover for SMEs, as opposed to a mere 0.02% for larger businesses.

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

ACCA believes, however, that some technical and political issues still need to be addressed, including the following.

- **Determining the base**. International Auditing Standards/International Financial Reporting Standards (IAS/IFRS) and adapted national GAAP serve different purposes. IAS/IFRS rules should only be used as a base where they are consistent with tax principles and they can be converted, unmodified, from commercial profit to tax profit in order to minimise compliance costs for the companies opting for the CCCTB.

- **Optional implementation**. ACCA welcomes the Commission's proposal to allow member states to continue to set their own tax rates, retaining full sovereignty over their tax revenues. They must, however, make the CCCTB available to eligible companies, which would then be free to adopt it or not. This point is especially relevant for SMEs, which should have the option to keep the existing tax regime.

- **Optional consolidation of the common tax base**. Consolidation would be the best way to significantly reduce compliance costs for European companies but raises problems regarding the definition of a group and the best method for consolidation. ACCA believes that any new measure should be carefully designed to avoid both 'knee-jerk' and over-regulation. The CCCTB should ideally combine a large base with low rates and eliminate the co-existence of 27 different tax bases, as well as the costs and uncertainties of complying with transfer pricing rules. Moreover, it should allow for automatic cross-border consolidation of profits and losses.

- **Uniformity**. The CCCTB should be as uniform as possible, with specific adjustments or exemptions for participating member states, as is currently the case with the VAT system.

- **Apportionment.** The system should not lead to arbitrary or unfair results. More research is needed to ensure a fair split of tax revenues between the member state in which the parent company is based and the member state where the subsidiaries are located. Apportionment of the consolidated group should preferably result from micro-economic factors such as wages, balance sheets, sales and capital, rather than macroeconomic factors such as Gross National Expenditure (GNE).

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
www.accaglobal.com

- **International aspects**. It is still unclear which companies will be covered by the CCCTB tax and on what income they will be taxed. Greater tax coordination among EU Member States is hence urgently needed to help achieve better compliance and eliminate discrimination and double taxation, as well as preventing non-taxation and abuse.

- **Complementary measures**. The Commission should also explore other alternatives as identified in the *Company Tax Study* such as 'Home State Taxation', which did not receive endorsement by member states. In addition, since individual taxpayers will not be covered by the CCCTB, it will not necessarily apply to all corporate taxpayers and/or member states. There is therefore a need to address the interaction between the CCCTB and other direct taxes. The Commission's proposal to create a European Private Company Statute (EPC),[9] as part of the Small Business Act (SBA), would be a step in this direction. EU leaders adopted this proposal at their summit in December 2008, but some member states still have reservations.

For further Information, please contact:

Cecile Bonino
Public Affairs and Media Relations Officer, EU
Email: Cecile.Bonino@accaglobal.com
Tel:+32 (0) 2 286 11 37

Roger Acton
Regional Director, Europe
Email: Roger.Acton@accaglobal.com
Tel: + 353 872 577 159

Chas Roy-Chowdhury
Head of Taxation
Email: Chas.Roy-Chowdhury@accaglobal.com
Tel: +44 20 7059 5976

[9] The EPC would simplify the legal framework and allow businesses to be established and run across borders under the same rules and principles in all member states. The minimum amount of capital required to set up a European private company has been set at a symbolic €1. In February 2009, the European Parliament gave its green light to the EPC, but some member states still have their reservations about it for fear that it could threaten national company statutes. http://ec.europa.eu/internal_market/company/docs/epc/proposal_en.pdf