Impact assessment accompanying the re-launched CCCTB proposal

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Institut Belge des Finances Publiques
Brussels, 27 March 2017

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

16th March 2011:

- 26th October 2016:
  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  Proposal of 2011 was withdrawn at the same time as the re-launch proposals were adopted.

Consolidation

1. Tax base computation
2. Consolidation
3. Apportionment based on 3 factors
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

<table>
<thead>
<tr>
<th>Problems</th>
<th>Objectives</th>
<th>Policy options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-border corporate tax avoidance</td>
<td><strong>General Objective 1:</strong> Enhancing the fairness of the tax system</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce cross-border tax planning</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Level playing field between domestic and multinational companies</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Ensure that companies pay a fair share of the tax burden</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Enhance general tax payer morale</td>
<td>x</td>
</tr>
<tr>
<td>Single market; tax obstacles, compliance costs</td>
<td><strong>General Objective 2:</strong> Stimulating growth and investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce administrative burden</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Eliminate double taxation risks, cross-border discriminations and restrictions</td>
<td>x</td>
</tr>
<tr>
<td>Debt bias in taxation</td>
<td>Taxation neutrality for investment and financing decisions</td>
<td>x</td>
</tr>
<tr>
<td>Underinvestment in R&amp;D</td>
<td>Creating more incentives to invest in the EU</td>
<td>x x</td>
</tr>
</tbody>
</table>
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%**.
Traditional CIT

Taxation under CBIT
Taxation under ACE/AGI

Solution for the debt bias

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

<table>
<thead>
<tr>
<th>% change unless stated otherwise (compared to baseline scenario)</th>
<th>(1) CCCTB central scenario</th>
<th>(2) CCCTB with no interest deductibility</th>
<th>(3) CCCTB with Allowance for corporate equity</th>
<th>(4) CCCTB with Allowance for growth and investment</th>
<th>(5) CCCTB with Allowance for corporate capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of capital (change in percentage points)</td>
<td>-0.04</td>
<td>0.14</td>
<td>-0.32</td>
<td>-0.32</td>
<td>-0.14</td>
</tr>
<tr>
<td>Investment</td>
<td>0.57</td>
<td>-0.90</td>
<td>3.36</td>
<td>3.36</td>
<td>1.41</td>
</tr>
<tr>
<td>Share of debt-financed investment</td>
<td>1.53%</td>
<td>-4.37</td>
<td>-1.79</td>
<td>-1.79</td>
<td>-4.31</td>
</tr>
<tr>
<td>Wages</td>
<td>0.40</td>
<td>-0.02</td>
<td>1.26</td>
<td>1.26</td>
<td>0.71</td>
</tr>
<tr>
<td>Employment</td>
<td>0.19</td>
<td>-0.15</td>
<td>0.85</td>
<td>0.85</td>
<td>0.30</td>
</tr>
<tr>
<td>Welfare (% GDP)</td>
<td>0.07</td>
<td>-0.13</td>
<td>0.18</td>
<td>0.18</td>
<td>0.16</td>
</tr>
<tr>
<td>GDP</td>
<td>0.16</td>
<td>-0.37</td>
<td>1.17</td>
<td>1.17</td>
<td>0.48</td>
</tr>
</tbody>
</table>
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

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.
Cascading
## CCCTB Re-Launch

<table>
<thead>
<tr>
<th>FAIR</th>
<th>COMPETITIVE Better for Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory for all large groups</td>
<td>Reduced costs and red tape</td>
</tr>
<tr>
<td>No mismatches or transfer pricing abuses</td>
<td>Legal certainty and stability</td>
</tr>
<tr>
<td>No preferential regimes or selective rulings</td>
<td>Cross-border loss offset</td>
</tr>
<tr>
<td>Taxation linked to real economic activity</td>
<td>Incentives for R&amp;D</td>
</tr>
<tr>
<td>Highly transparent</td>
<td>Incentives for equity financing</td>
</tr>
</tbody>
</table>

## 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
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.