

Flash News

What should you know about the proposal for a Common Consolidated Corporate Tax Base?

EU Commission adopts proposal for an EU-wide CCCTB Directive

On 16 March 2011, the EU Commission has proposed a common system for calculating the tax base of businesses operating in the EU. This proposal is the result of intensive work of the EU Commission further to its study on Company taxation in the Single Market dated October 2001 (COM(2001) 582 final).

March 22, 2011

What is the Common Consolidated Corporate Tax Base?

The Common Consolidated Corporate Tax Base (CCCTB) is a single set of rules that a company/group of companies operating within the EU can use to compute their taxable profits. In other words, a company/group of companies would have to comply with just one system for calculating its taxable profits rather than different rules in each Member States in which it operates.

Under the CCCTB, all profits and losses of the company/group of companies across the EU would be consolidated to arrive at a net profit or loss for all its activity in the EU. Once the consolidated tax base is determined, it would then be apportioned to all Member States in which the company/group of companies is active according to a specific formula. This formula would be based on three factors equally weighted: assets, labour and sales.

Member States would then be allowed to tax their share of the consolidated tax base at their own corporate tax rates. Consequently, the CCCTB is not a harmonisation of the corporate tax rates, as the Member States would maintain their full sovereign right to set their own corporate tax rates.

What are the conditions to apply this system?

There are various conditions that must be met to be eligible for the CCCTB system. Without entering into details, these criteria are mainly related to the legal form of the company and the corporate tax to which it is subject within the EU. It is worth to note that, even non-EU companies with branches or subsidiaries in an EU Member State would be able to opt in to the CCCTB in relation to their EU activities under certain conditions.

In addition, a two-part test based on the control and ownership or rights to profits must be fulfilled in order to be able to apply the consolidation. The two thresholds should be met throughout the tax year, with a minimum of nine months requirement for group membership.

The CCCTB would be an optional system, meaning that even if the above-mentioned conditions are fulfilled, a company/group of companies doing business within EU can decide either to apply this regime or to continue to apply the relevant national tax systems. The CCCTB would be based on the “*all-in or all-out*” principle, which means that consolidation would be mandatory for all eligible taxpayers within the same multinational group which had opted to use the CCCTB.

The option would be valid for five years and be automatically renewed for successive three-year periods thereafter, unless notice were given to the contrary.

What are the main advantages of this proposal?

The aim of this proposal is to significantly reduce the administrative burden, compliance costs and legal uncertainties that businesses in the EU currently face in having to comply with up to 27 different national systems for determining their taxable profits.

- The proposed CCCTB means indeed that companies would benefit from a “*one stop-shop*” system for filing their corporate tax returns across EU. They would be able to deal with a single tax administration (principal tax authority), which would be that of the Member State in which the parent company of the group (principal taxpayer) is tax resident.

- According to the EU Commissioner responsible for Taxation, Algirdas Šemeta, the CCCTB is about removing the need for the highly-complicated, highly-costly and highly-contentious transfer pricing system that is in place today for intra-group transactions (Speech 11/185 dated 16 March 2011).
- In addition, as the CCCTB aims to consolidate profits and losses of entities belonging to the same group, it would allow the cross-border loss compensation, which is a major step forward for multinational companies.

What are the next steps?

The proposal now needs to be discussed and agreed by the 27 EU Member States in Council following the opinion of the EU Parliament. If there is no unanimous support among the Member States, the CCCTB proposal may be discussed under the enhanced cooperation procedure, where a minimum of nine EU Member States are allowed to establish advanced integration or cooperation in an area within EU structures, but without the other Member States being involved.

Contacts:

Wim Piot	Partner, Tax Leader	+352 49 48 48 5773	wim.piot@lu.pwc.com
Fabien Hautier	Tax Partner	+352 49 48 48 3178	fabien.hautier@lu.pwc.com
Eric Centi	Senior Manager, EU Direct Tax Group Leader - Luxembourg	+352 49 48 48 2537	eric.centi@lu.pwc.com