



CCCTB: An Update

Presentation to Joint Oireachtas Committee on Finance and
Public Expenditure and Reform – 14th November 2012



An Roinn Airgeadais
Department of Finance



Contents

1. Brief History of the CCCTB

2. The Reasons Behind the CCCTB

- Why the perceived need for CCCTB?
- Barriers to the Internal market

3. CCCTB Policy Issues

- Basic Principles
- Scope
- Consolidation
- Sharing Mechanism
- Administrative Framework

4. The Economic Impact Assessment of the CCCTB

5. Ireland's Policy Position and Views of Other Member States

6. Ireland's 2013 Presidency of the EU



Brief History of the CCCTB





Current System v. CCCTB

CURRENT:

Taxable profit based on
national rules

Separate accounting with arms
length pricing determines
Member States share of tax
base

CCCTB:

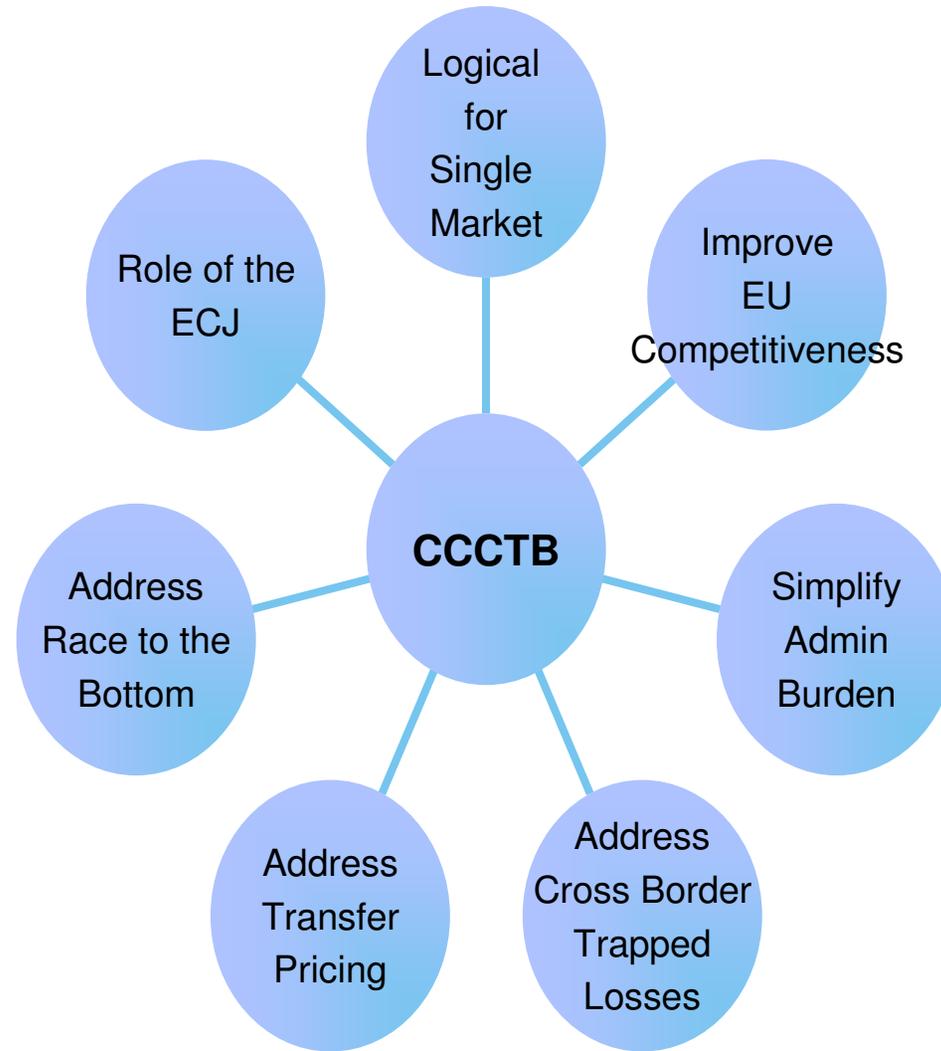
Common rules for calculating
taxable profit in all MS

Profits of each member of the
group are **consolidated**

The consolidated profits are
allocated to MS based on a
formula: employees/payroll,
assets and sales in each MS

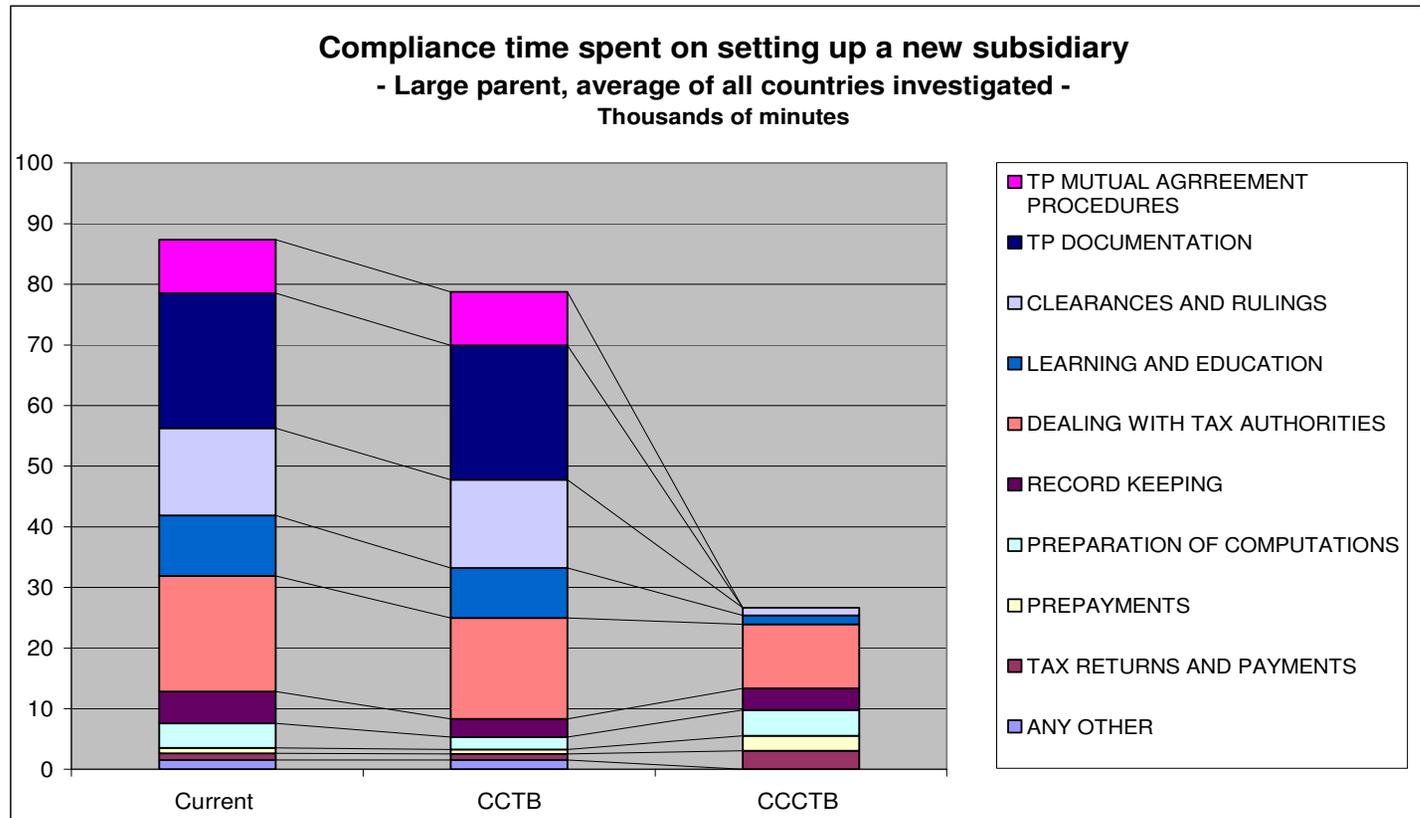


Why the perceived need for CCCTB ?





Barriers to the Internal Market



Source: EU Commission Impact Assessment / Deloitte Tax Experts Study



CCCTB: Policy Issues

Technical Outline	Sharing Mechanism	Admin Framework
<ul style="list-style-type: none">▪ Legal Basis▪ Scope▪ Waters Edge/DTA Impact▪ Tax Base Computation▪ Current System V CCCTB▪ Common V National Rules▪ Depreciation▪ Consolidation▪ Foreign Income/ Participation Exemption▪ Anti-Abuse Rules	<ul style="list-style-type: none">▪ Basic Principles▪ Formula▪ Labour Factor▪ Asset Factor▪ Sales Factor▪ Spread Throw-Back▪ Exceptions	<ul style="list-style-type: none">▪ Basic Principles▪ Submitting Returns▪ Principal Taxpayer & Tax Authority▪ Audit▪ Disputes/Appeals



CCCTB: Basic Principles

Mechanism to share consolidated tax base among various entities of Group
Standard uniform formula across all MS

Aims:

- Simple as possible for taxpayers/administrators
- Difficult for taxpayers to manipulate
- Distribute tax base fairly and equitably
- Not lead to undesirable tax competition effects

Some adjustments for financial sector and others
(transport, natural resources – oil & gas)



CCCTB: Scope

According to Commission Proposal, Optional System for all EU Companies subject to corporate taxes

Option valid for 5 years

all in/all out option for all group members

the level of ownership needed is 75%+ 50% of voting rights
(Article 54 of draft Directive)



CCCTB: Consolidation

All profits and losses consolidated (including cross-border)

All opting companies >75% common ownership must consolidate

A CCCTB Group-comprises EU resident parent/subsidiaries plus PEs in other MS and third countries

CCCTB Group also comprise group of EU resident subsidiaries and PEs under control of non-EU resident parent

Joiners & Leavers (complex rules - linked to anti-abuse)

Changes in level of ownership



CCCTB: Sharing Mechanism

Formulary apportionment: shares tax base using weighted factors

Factors:

- Labour (work force and number of employees)
- Capital (fixed assets)
- Sales by destination

$$\text{Tax Base A} = \left(\frac{1}{m} \frac{\text{Sales}^A}{\text{Sales}^{\text{Group}}} + \frac{1}{n} \left(\frac{1}{2} \frac{\text{Payroll}^A}{\text{Payroll}^{\text{Group}}} + \frac{1}{2} \frac{\text{Number of employees}^A}{\text{Number of employees}^{\text{Group}}} \right) + \frac{1}{o} \frac{\text{Assets}^A}{\text{Assets}^{\text{Group}}} \right) * \text{CCCTB}$$

$$\text{with } \frac{1}{m} + \frac{1}{n} + \frac{1}{o} = 1$$

Commission considers 'weighting' of factors a political issue



CCCTB: Administrative Framework

“One-stop shop” approach to administration

Coordination & cooperation required

“Principal taxpayer” & “principal tax administration” concepts

Appeals - the Principal Taxpayer has to appeal to the Principal tax administration through the normal laws/Admin rules of the tax administration’s Member State.



CCCTB: Submitting a Tax Return

A single consolidated return to a single tax authority
Based on self-assessment

Principal tax payer responsible for notice to opt and for filing return

Principal tax authority primary responsibility for verification of consolidated return

Principal Tax Authority also responsible for issuing assessments



CCCTB: Commission's Economic Impact Assessment

Consolidation

- Unlocking cross border losses could decrease the taxable base in the EU overall by about 3%.
- There are considerable winners and losers across member states.

Compliance Costs

- Lion's share of positive economic impact of consolidation and formula apportionment according to the Commission is due to lower compliance costs. However, this finding is not strongly supported by its own studies.
- Various other studies do not support the assertions that compliance costs will fall dramatically under the CCTB or the CCCTB.

Long Term Economic Effects

- The effects on GDP, investment, employment and welfare are marginal for EU overall (less than 1% in most cases).
- In the majority of the scenarios in the Commission's assessment, CCTB/CCCTB is found to negatively affect these variables for the EU as a whole.



CCCTB: Subsidiarity

The European Commission has the right of initiative in relation to legislative proposals but is required to justify all legislative proposals from the point of view of subsidiarity.

Article 5 of Treaty on European Union (TEU) specifically states that *the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States.*

Protocol (No. 2) of the Treaty on the Functioning of the European Union (TFEU) requires that all draft legislative acts be forwarded to National Parliaments for consideration.

Thirteen Parliaments, including Ireland, the UK, Netherlands, Sweden and Poland submitted an opinion to the effect that the proposal was contrary to the principle of subsidiarity.

Five short of the eighteen adverse opinions that would have triggered a formal review of the Proposal on the part of the College of Commissioners.

Dáil Eireann – concluded the proposal was contrary to principle of subsidiarity – not established that EU Legislation is justified and proposal does not contain sufficient quantitative and qualitative indicators.



CCCTB: Irish Position

Ireland is constructively engaged in the policy debate

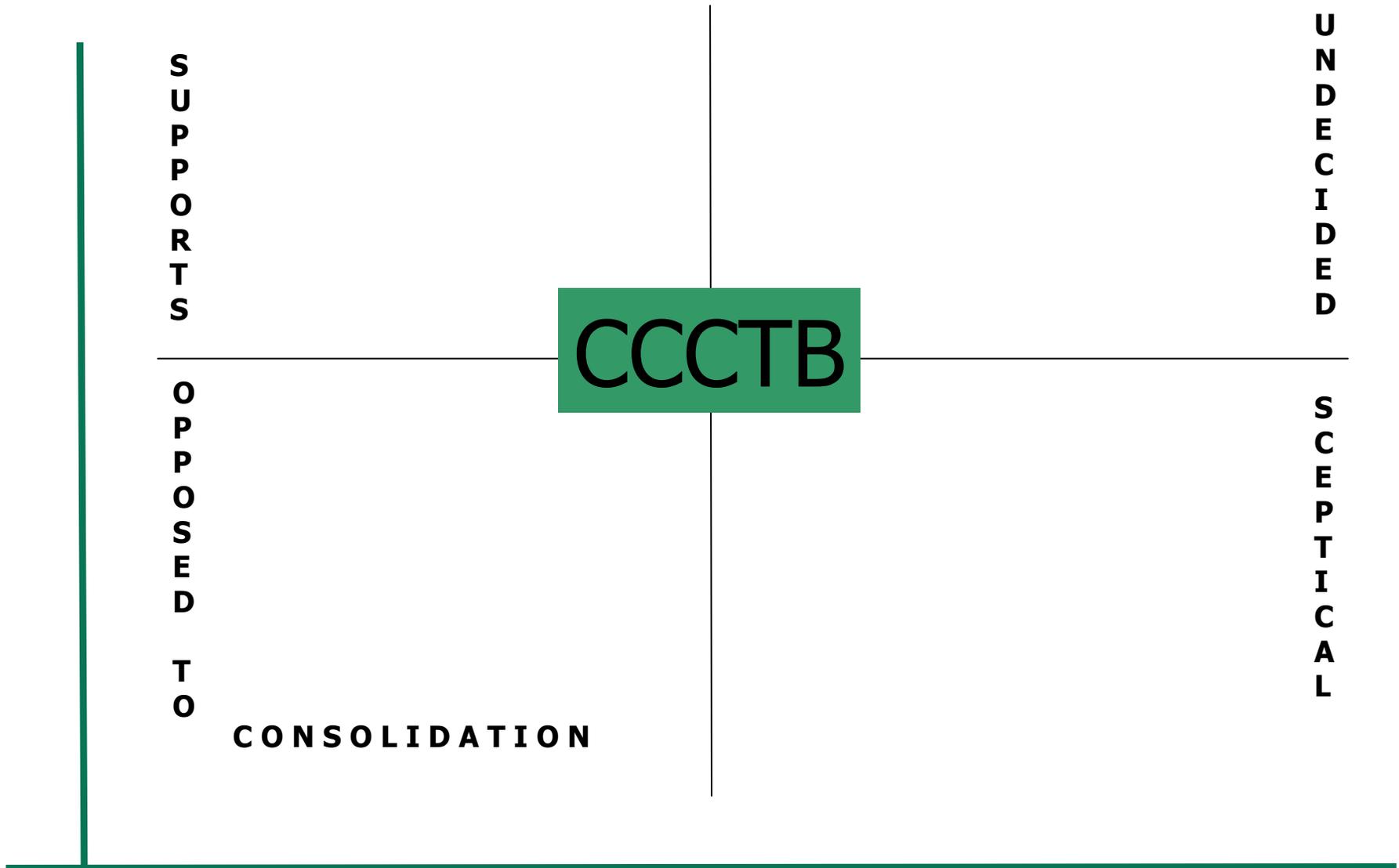
Only by actively engaging can we bring all issues to the table

Ireland could not accept harmonisation of rates

Not opposed to greater co-operation but we favour targeted solutions to barriers to trade



CCCTB: Other Member States' Positions





CCCTB: Is It Going to Happen ?

Increasing scepticism

Winners and Losers

Impact on FDI

Views of business crucial (optionality)

Enhanced co-operation



CCCTB: Irish Presidency Objectives

Overriding priority is to foster a sustainable and job-rich economic recovery.

On 1 January, 2013 Ireland will assume the Presidency of the European Council for the 7th time in its history.

Our aim is to seek to manage the work of the Council in the best interests of the Union in general and not to adopt a narrow national perspective.

Ireland is sceptical but we are constructively engaging in the discussions on the CCCTB.

The first read though of the proposal is now complete, we aim to continue the work of the Council in relation to the proposal.



For more information please go to:

<http://www.taxpolicy.gov.ie>

http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm

Copyright 2012 Department of Finance

Disclaimer

This presentation is for informational purposes only.

The Department of Finance does not guarantee the accuracy or completeness of information which is contained in this document and which is stated to have been obtained from or is based upon trade and statistical services or other third party sources. Any data on past performance contained herein is no indication as to future performance.

No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modelling, scenario analysis or back-testing.

All opinions and estimates are given as of the date hereof and are subject to change.

The information in this document is not intended to predict actual results and no assurances are given with respect thereto.