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EU tax harmony moves a step closer

25 May 2011 by Richard Asquith, Head of Tax, TMF Group

Eight countries last week came out against proposals to introduce a standard European Union-wide corporate tax base. This will not be enough to block the plans to take the new fiscal framework to the European Parliament for further discussions.

This will be of particular disappointment to Ireland, which has fought hard to defend its prized ultra-low business tax rate of 12.5% while still requiring a recent €85bn banking crisis bail out from other member states.

Harmonized EU tax to promote free markets

The proposals, prepared by the European Commission, included an obligation for all 27 EU member states to adopt the same tax base and calculation methodologies. Known as the Common Consolidated Corporate Tax Base ('CCCTB'), it would enable EU and non-EU companies to present their financial results across the region to a single, nominated tax authority, and have one tax calculation prepared under a common set of rules.

The computed tax would then be distributed under a complex apportionment methodology – including location of assets, employees and where the revenues were generated – amongst the countries where the company trades. This would help simplify the whole taxation compliance regime for Europe, saving multinationals billions by rationalising their large tax departments and outside tax advisors.

Tax proposals receive insufficient objections

The European Commission submitted the CCCTB scheme for review by national parliaments in March, with a deadline to report back by the end of last week. Eight countries have now come against the plans: Bulgaria, Ireland, Malta, the Netherlands, Poland, Romania, Sweden and the UK. Reasons including the loss of sovereignty and costs to introducing the new scheme.

Ireland has been most vociferous in its condemnation of the CCCTB. It sees it as the start of an attempt to set national tax rates by Brussels, and force Ireland into raising its competitive tax rate.

Many countries, such as Germany and France, which made large contributions to the recent Ireland bail out, are accused of trying to use the CCCTB to eliminate low-tax competition in the EU.

The proposals still have a long way to go yet before implementation, which would require unanimity from all member states. However, a core group of countries could easily break away once the details emerge to harmonise their tax systems. France and Germany are already studying ways to bring their two regimes into line.

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