

## CCCTB

### Speaking Points

- On 25<sup>th</sup> October 2016, the Commission proposed a package of legislative proposals which includes two proposals for a re-launched Common Consolidated Corporate Tax Base (CCCTB), i.e. rules on the common tax base and consolidation, alongside a Dispute Resolution Mechanism for Double Taxation and an amendment to the Anti-Tax Avoidance Directive, to address hybrid mismatches more broadly.
- The CCCTB is the epitome of what we perceive as a corporate tax system for the future. The re-launched CCCTB initiative precisely reflects an effort to bring together the **policy priorities for business facilitation and the need for fairer taxation in a globally integrated economy that operates within open markets.**
- The Commission first proposed the CCCTB in 2011 with a view to enhancing the internal market for businesses. Yet, the magnitude of the project led Council negotiations to stall. In the meantime, the idea of a CCCTB continued receiving support from the European Parliament, businesses and stakeholders.
- The re-launch of the CCCTB initiative is structured as a staged approach which would consist of 2 steps. Member States will first need to build and capitalise on the extensive technical work that has already been accomplished on the rules for the tax base and, only once this framework is secured, touch upon the more complex aspect of consolidation.
- Having said this, it is important to bear in mind that the CCCTB project remains a single one and that **the two steps are inextricably linked.**
- I should also clarify from the outset that the CCCTB stays **away from tax rates.** The context of the proposal does **not reach further than the calculation of the tax base.** The common rules do not interfere with the determination of the tax liability and national budgetary priorities.

- The most **notable change** in the re-launched CCCTB is that it will be **mandatory** for all EU companies in financial accounting groups with consolidated group revenues of **more than EUR 750 million**. Non-qualifying companies **may still opt** for the rules of the common tax base or CCCTB, as the case may be, subject to certain conditions.
- The **mandatory scope** primarily serves the objective for fairer taxation. It aligns the CCCTB with the policy priority for clamping down on the opportunities for tax avoidance but only targets **those who possess the resources to engage** in such practices. This is why it is **limited to companies in financial accounting groups with a consolidated revenue exceeding EUR 750 million**.
- I am not planning to go into the technical detail of the CCCTB. I would however like to give an **overview of how this system works**, especially for those who are not familiar with it and then, briefly present **some of the specific new elements** introduced by the re-launch.

## **Overview of the CCCTB**

**1) Calculation of the individual tax bases;**

**2) Consolidation exercise** - All results are **added up together** by the principal tax authority to create a consolidated tax base for the group in the EU;

**Loss-making results** of one company are **automatically set off against** the taxable profits of others in the same group;

Tax return in one MS (**'one-stop-shop'**);

**No transfer pricing formalities** within the group.

**3) The principal authority applies the formula to distribute** the consolidated tax base across the group;

Taxable revenues are allocated to each company of the group **based on the weight of the three factors**: assets, labour (1/2 personnel & 1/2 payroll) and sales by destination;

**MS are free to set tax rates** on their taxable shares individually.

## **Research & Development (R&D)**

- The treatment of R&D has always been generous under the CCCTB. The proposal of 2011 provided for **full deductibility of R&D costs one-off**, i.e. in the year that they are incurred. There is no capitalisation and depreciation of R&D over a number of years. This regime has been retained under the re-launched proposals (with the **exception of immovable property**).
- In addition, the re-launched rules on the common tax base provide for a so-called **super-deduction** whereby R&D costs up to (the first) EUR 20 million receive an extra deduction of 50%. For amounts on top of EUR 20 million, the extra deduction is 25%.
- **Innovative start-ups** are entitled to an enhanced super-deduction which allows them to deduct up to 200% of their R&D costs for amounts up to EUR 20 million.
- We went for a rule that supports innovation and the actual R&D activity itself. Contrary to IP box regimes which look at the income coming from an already developed asset, our rule promotes the employment of "minds". **Given that most of R&D costs involve payroll, our rule should be expected to bring forth considerable benefits in terms of jobs and growth.**
- By giving larger-scale deductions for costs up to EUR 20 million, the R&D incentive will give a **boost to smaller companies with limited R&D budgets**, to allow them to grow. It will therefore encourage the creation and expansion of young, innovative enterprises.

### **Allowance for Growth and Investment (AGI)**

- This is an adjustment mechanism for **neutralising debt bias** – it puts debt- and equity-financing on an equal footing. The rule is in line with the objectives of the Capital Markets Union and is aimed to discourage excessive private indebtedness and so, bring greater stability to the Union.
- The AGI will reward companies that **strengthen their financing structures by boosting their equity base**. In particular, **SMEs that often struggle to secure loans** should be expected to reap benefits from this rule.

- Furthermore, the AGI framework is designed in such a way as **to prevent cascading effects** in the deductibility of what is commonly referred to as '**notional interest**'.

### **Cross-border Loss Relief with Recapture**

- This is a cash-flow facility to make up for the absence of cross-border consolidation at the first stage. **The repercussions of this facility are however contained by a series of anti-tax abuse measures.**

### **Closing remarks**

- The CCCTB can offer a lot of benefits to Irish businesses – particularly in terms of tax certainty and simplicity for Irish-based multinationals that operate in other Member States.
- These benefits – combined with Ireland's 12.5 percent rate - would enhance Ireland's competitiveness, not reduce it. Foreign investors and cross-border businesses are very keen to have the CCCTB in place.
- I understand that Ireland's primary concern is with consolidation. The two-step approach means that, once the common base is secured, we can give full focus to finding an approach to consolidation that all Member States can accept.
- In any case, with unanimity, Ireland can feel secure that its views will be taken on board before the final CCCTB is agreed. It would send an important signal –in the EU and internationally – if Ireland were to constructively engage on this file.
- This is all I wanted to say. I am happy to answer questions.

