



# Ibec communication to the European Commission regarding the public consultation on CCTB

15 December 2015

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Ref: Open public consultation on the Common Consolidated Corporate Tax Base (CCCTB).

I am pleased to communicate the views of Ibec and its members on issues surrounding the public consultation on the Common Consolidated Corporate Tax Base (CCCTB). Ibec represents the interests of Irish business including indigenous and multinational enterprises and SMEs, spanning all sectors of the Irish economy. Ibec and its sector associations work with government and policy makers at national and international level to shape business conditions and drive economic growth.

Ibec as evidenced through its interaction with the OECDs BEPS initiative is actively supportive of international tax initiatives which seek to align profit with substance worldwide. In addition, Ibec and its members are in favour of initiatives which seek to provide business with the tax environment it needs to support growth and investment in Europe.

In this context the European Commission's recent initiatives regarding the introduction of a CCTB are a step in the wrong direction. Business thrives on simplicity and certainty. At this time we are concerned that the introduction of a CCTB will serve to achieve neither of these purposes.

#### **General comments**

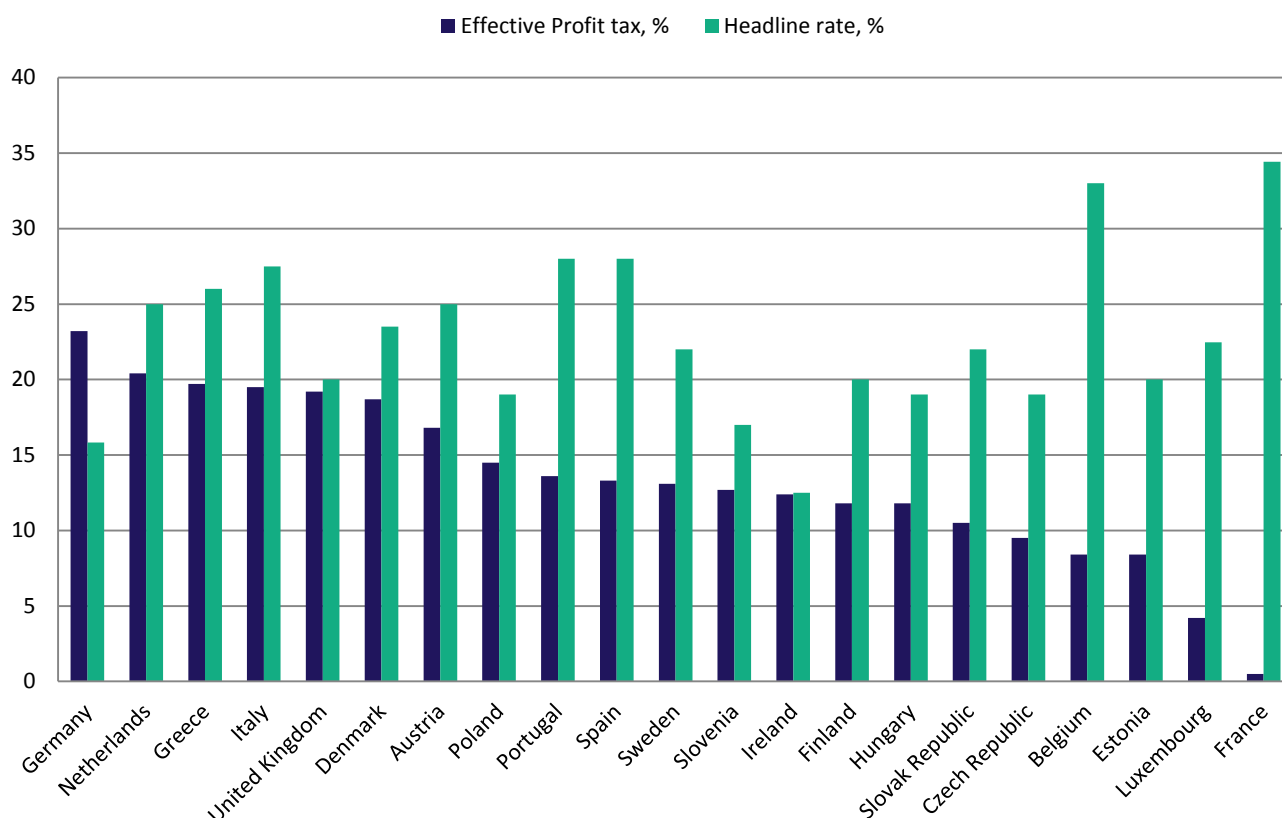
The CCTB proposal in Ibec's view can be split into two projects with discernibly different objectives and potential outcomes:

1. The introduction of a common corporate tax base in Europe
2. The stated longer-term aim of the Commission to introduce the third 'C' – consolidation

The core aim of the first proposal would in essence lead to effective corporate tax rates being similar proportionally to the headline rate of corporate tax across countries, with countries retaining the right to implement whatever headline rate they wish under the principle of subsidiarity. As can be seen from Figure 1 there can sometimes be large differentials between the two in European countries. In effect this means that Ireland although having the lowest headline rate of corporation tax in the countries studies, has a mid-range effective rate.

Due to Ireland's transparent and robust corporate tax base as well as its competitive headline rate of corporation tax it could be argued that, although states would lose flexibility in ability to encourage investments (particularly R&D) through the tax system under the implementation of such a common corporate tax base, the net effect could be positive to Ireland.

**Figure 1: Effective and headline corporate tax rates**



Source: OECD, World Bank-PWC, 2016

Ibec is concerned, however, that this may not be the case as Europe as a whole may lose out on business investment and consequently growth as a result. This is particularly the case in the context of ongoing implementation of the BEPS programme. It is Ibec's view that further rounds of negotiations on the CCTB are an unwelcome distraction for business and will add an additional layer of uncertainty for firms operating across countries or considering investment in Europe.

Ibec remains concerned about the contrast between the BEPS work and a CCCTB; the fact that the possibility of future consolidation runs directly contrary to the notion of 'substance' agreed through the BEPS process is a particular worry in this regard. Given the complex issues already at hand we feel the timing of this discussion on CCTB is less than helpful. Member States time would be better served ensuring the coherent implementation of the BEPS process across EU states rather than engaging in another round of discussions on an issue which ultimately proved unfruitful in the recent past.

The initial discussions on the CCTB noted that:

"The purpose of the common tax base is not to reduce the level of taxation in any way but to rather to create a more efficient method of taxing EU companies in a broadly revenue neutral manner"<sup>1</sup>

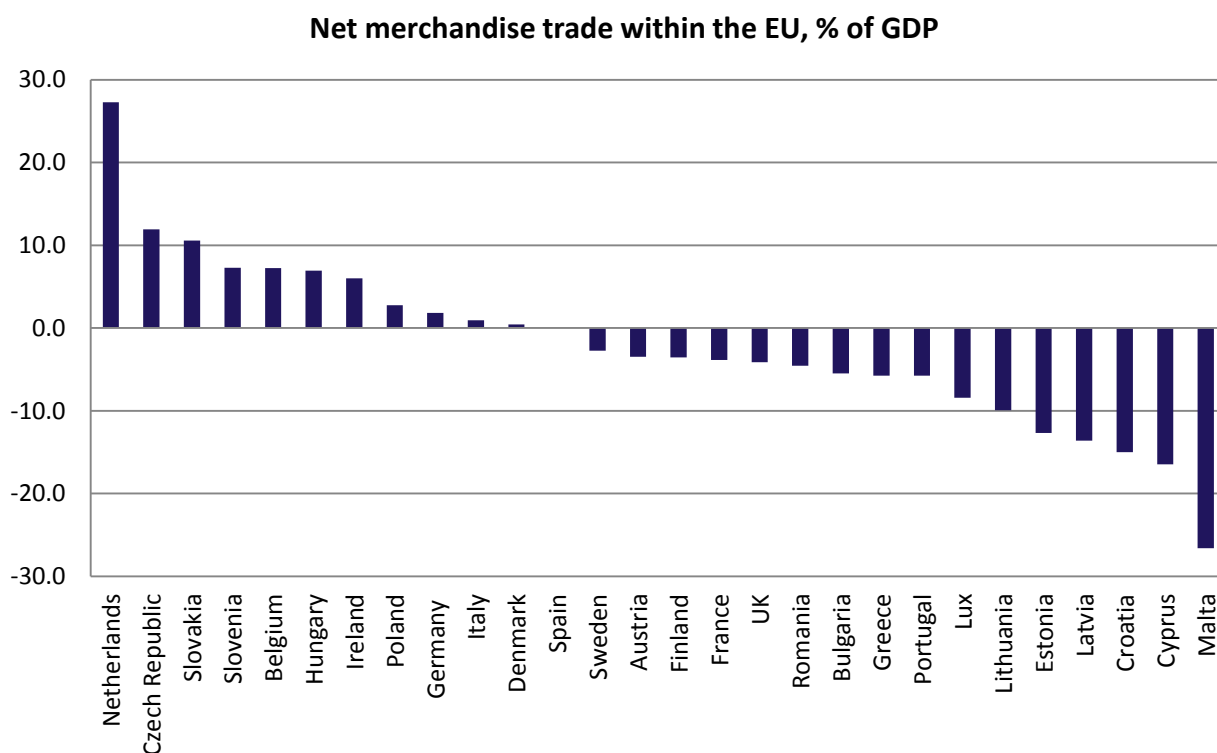
<sup>1</sup> Commission 'Non-Paper to informal EcoFin Council, 10 and 11 September 2004. A Common Consolidate EU Corporate Tax Base. 7 July 2004', 4

Ibec believes this underlying aim remains sound and that it, along with many of the other aims of a CCTB, would be best achieved by focusing member states on the successful implementation of the BEPS process.

Implementation of BEPS rather than just its 'discussion', as suggested in the consultation and would be welcome from Ibec's point of view in a European context. Current proposals to gold-plate BEPS proposals for European countries as well as CCTB will add an unnecessary level of uncertainty and complication to this process. These proposals will make it more difficult, time consuming and ultimately costly for companies to comply with the new international standards in corporate tax. Ultimately our fear is that discussions on further unilateral European actions outside of the BEPS process will serve undermine the worthwhile and substantial achievements of the global BEPS initiative.

On the issue of consolidation, while this has been delayed in the immediate proposals, consolidation is clearly the aim of the long-term CCTB proposal of which the common tax base is simply a step. Ibec and Irish Business' are wholly opposed to the notion of consolidation of corporate taxes across Europe. In the first instance, this proposal would almost certainly lead to an increase in companies' tax bills by transferring taxable profits to regions with large populations and higher corporate tax rates, reducing the attractiveness of Europe as whole for investment.

Additionally, this would result in lower revenue from corporate profits in smaller countries (even those with substantial substance related to these profits). It would effectively result in a transfer of resources from smaller countries to larger ones. This would inevitably lead to other taxes being increased to offset this loss of revenue or services being reduced considerably. Either would be extremely damaging to Europe as whole, through deterioration of the business environment, and to the majority of the EU's member states. The only net beneficiaries of this process would be member states with larger populations who are also large net importers of European goods.



In the case of Ireland, which exports the greater part of its output to the larger central economies of the EU, companies would see part of their profits, apportioned to other member states such as Germany or France. This in the Irish case would be in direct contrast to the notion under BEPS that profits should be aligned with substance. In addition, indigenous exporting firms from countries with lower corporate tax rates such as Ireland would be dis-incentivised from exporting to countries with higher corporate tax rates undermining one of the core benefits of the internal market.

## **Conclusion**

In summary although there are some legitimate notional benefits to the proposal of the common corporate tax base for Irish firms it is Ibec's view that discussions on the CCTB will ultimately prove unfruitful and will only serve to introduce an even greater level of uncertainty for business operating in the EU. This, during a period already characterised by great change in the corporate tax environment. Most if not all the aims of the CCTB as envisioned could be better achieved by ensuring full engagement with the implementation of BEPS within the member states.

Ibec sees the long term ambition of introducing consolidation on top of a common base as an unwelcome first step towards tax harmonisation which would ultimately do severe damage to small, dynamic, exporting countries such as Ireland. The notion of a mandatory consolidated European tax base runs contra to the notion of subsidiarity and is not in the interests of either the business community as a whole or the majority of European states.

Yours sincerely,

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