



THE BRIDGE  
FORUM DIALOGUE



Common Corporate Tax Base (CCTB)

Common Consolidated Corporate Tax Base (CCCTB)

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# Common Consolidated Corporate Tax Base (CCCTB)



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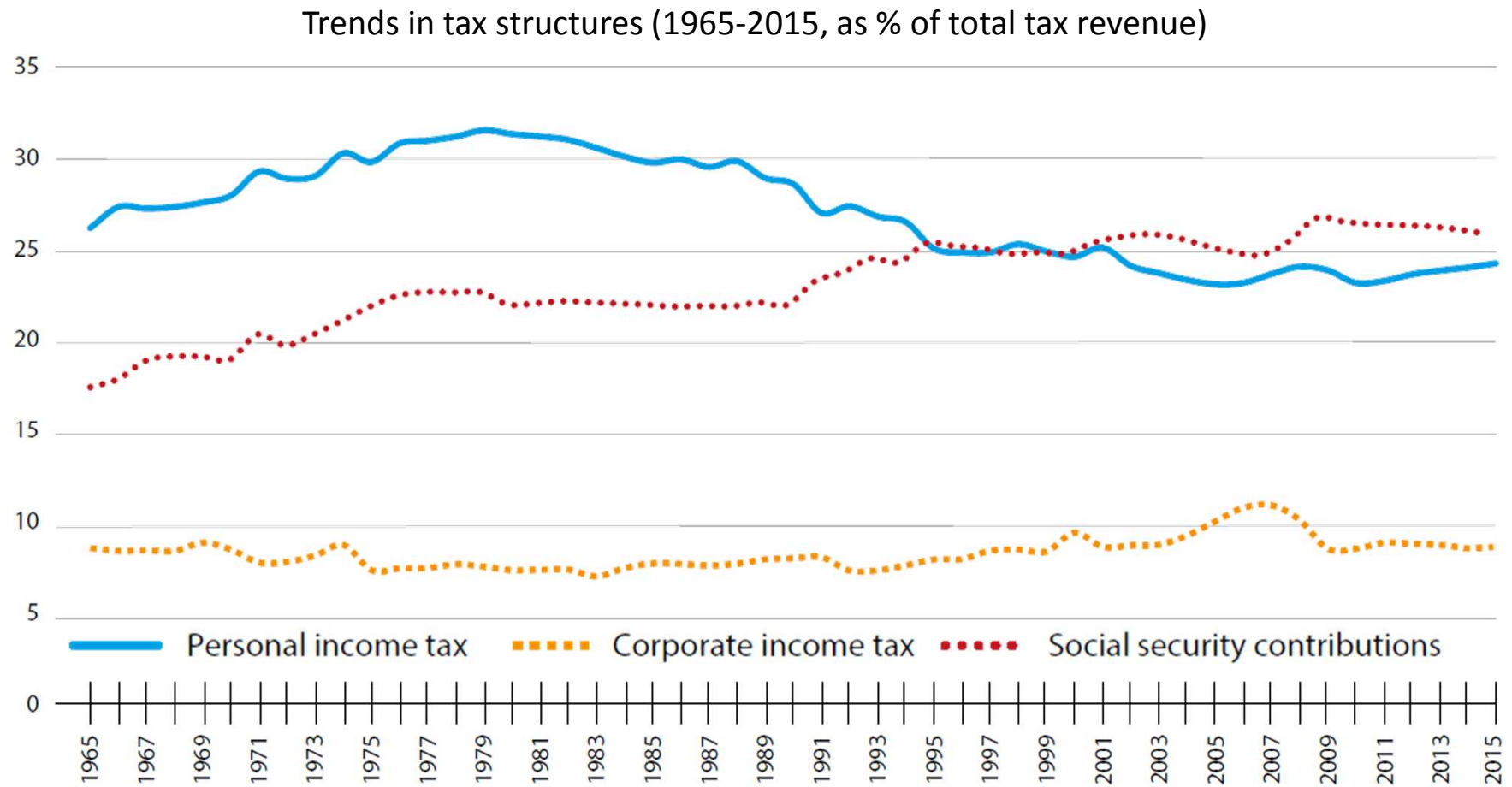
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Background

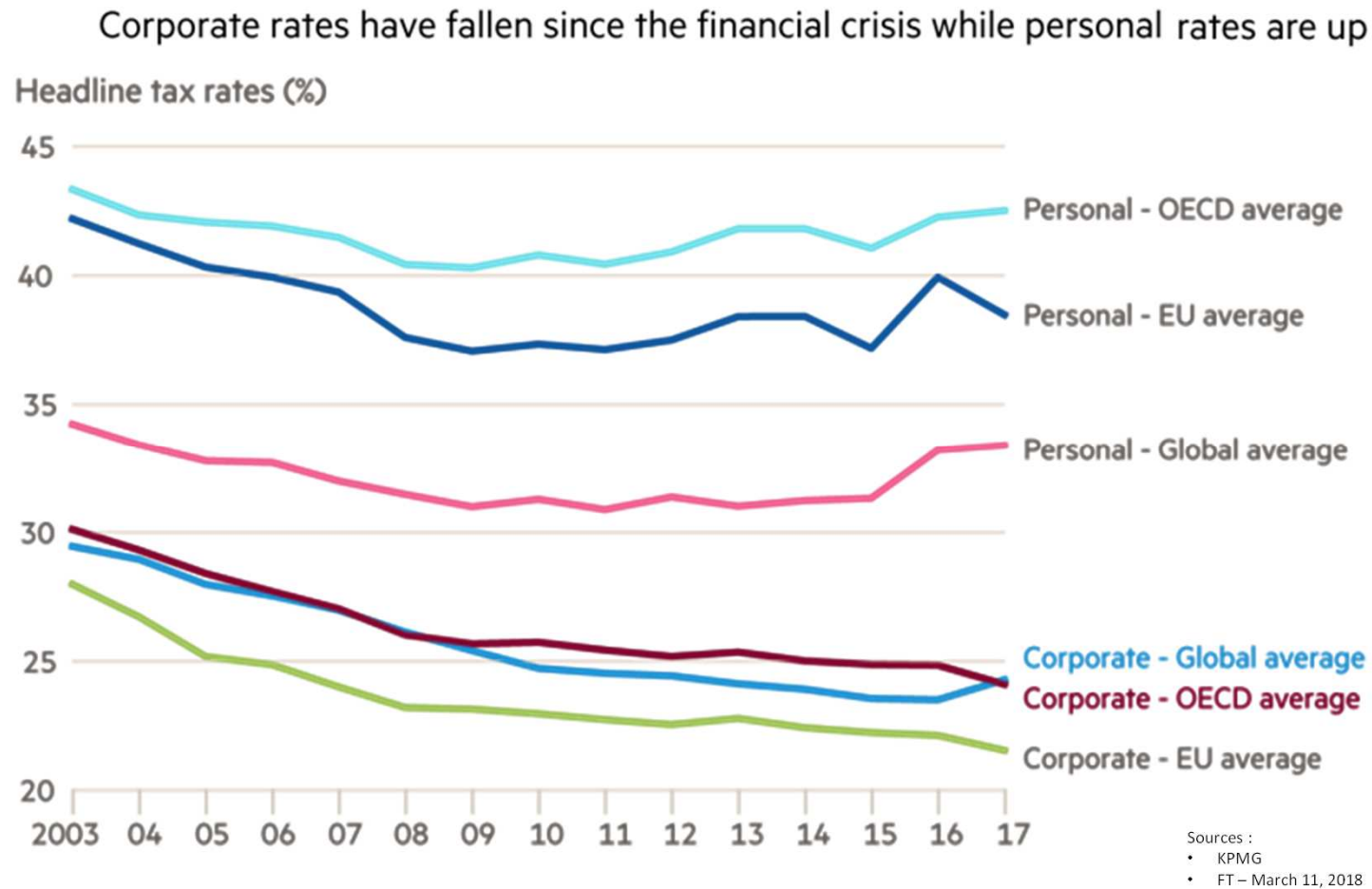




## Corporate Tax Base : race to the bottom

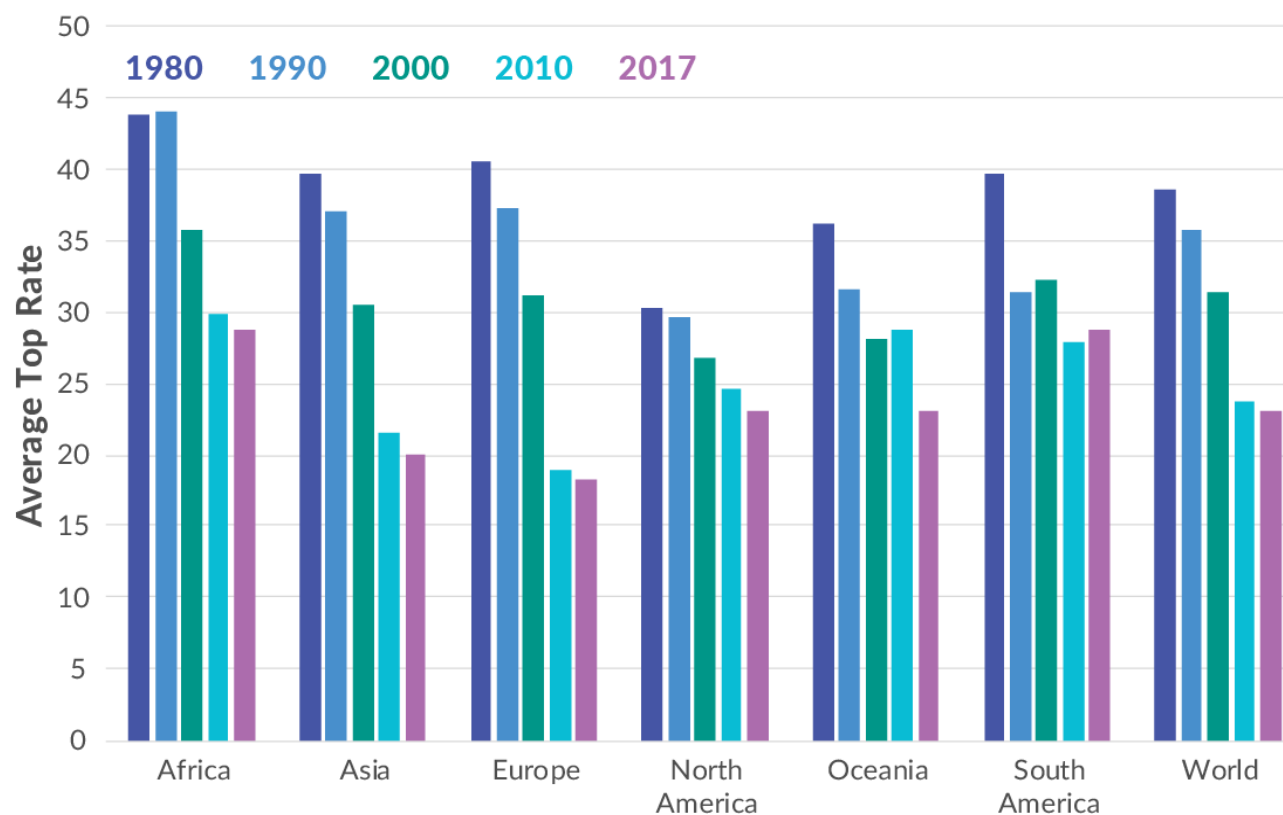


## Corporate Tax Base : race to the bottom



## Corporate Tax Base : race to the bottom

**Average Top Corporate Income Tax Rate by Region and Decade**



Source: Tax Foundation. Data compiled from numerous sources including: PwC, KPMG, Deloitte, and the U.S. Department of Agriculture.

## Context

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- **Taxing multinational enterprises** in a global market poses the challenge of factoring in economic reality when deciding upon a tax base. *Corporate tax systems were designed for the economic realities of the 1920s*, when business was grounded in a physical or legal presence in local markets, whereas this is often not the case today. **The principle that companies should pay taxes in the country where profits are generated** is *not that straightforward to apply in a situation where activities are cross-border and flows of money move easily*.
- Moreover, the existing system of international taxation has been exploited by MNEs to shift large portions of their overall profits to low tax jurisdictions (Base erosion and profit shifting (BEPS)). This system has further exacerbated **tax competition**, by pressuring countries into lowering tax rates (*race to the bottom*).
- This issue may be tackled by a **‘unitary business approach’**, that is, taxing multinationals according to the real economic substance of where they actually do business. The **C(C)CTB proposals** are made in this context, against a backdrop of other corporate tax base- and anti-tax avoidance-related measures

Sources :

- EPRS | European Parliamentary Research Service , Common consolidated corporate -tax base (CCCTB) - 21 September 2017
- Independent Commission for the Reform of International Corporate Taxation - A roadmap to improve rules for taxing multinationals \_ A fairer future for global taxation





## Approaches to unitary taxation

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**Worldwide residence-based taxation**



**Destination-based cash-flow tax**



**Global formulary apportionment.**

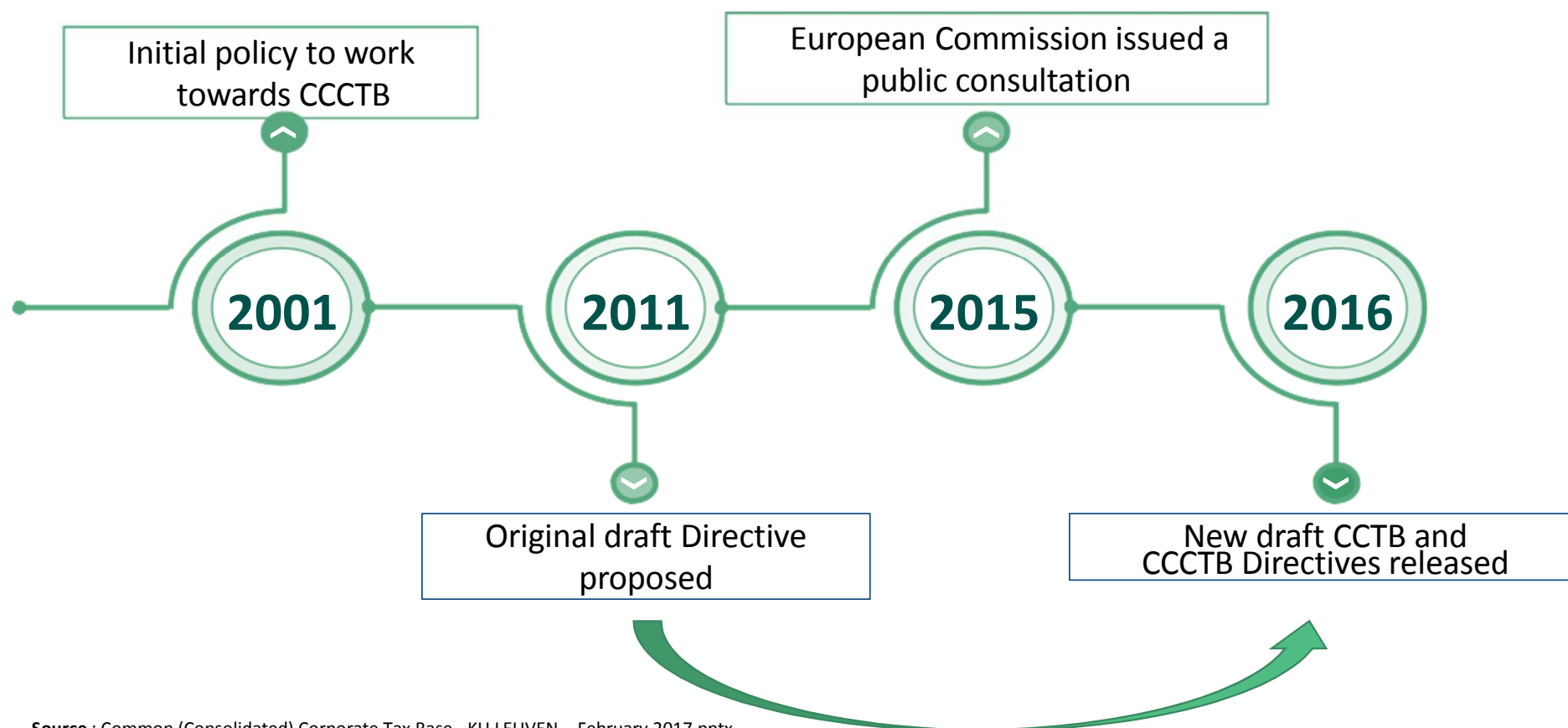


## Approaches to unitary taxation

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- **Residence-based worldwide taxation (RBWT)** : Under RBWT, the home country of a MNE would tax the enterprise's global profits, but with full credit for foreign income taxes paid. RBWT allocates the rights to tax those profits among the jurisdictions. It gives the initial right to tax to the source jurisdiction, retaining ultimate taxing rights (net of credits due for foreign taxes paid) for the country of residence of the MNE's parent company. **Positive** : removes the temptation for source countries to offer tax incentives to attract investment, since the profits would anyway be taxed in the parent's jurisdiction. **Negative** : RBWT is unlikely to be of benefit to developing countries, where fewer MNEs parent companies are resident.
- **Destination-based cash flow tax (DBCFT)** : A DBCFT would tax the MNE's global profits in the country where sales to the MNE's ultimate customers take place, after allowing immediate expensing of all cash outlays, including capital investments and labor costs. It would be economically equivalent to a subtraction-method value added tax with deduction of payroll expenses. **Negative** : **first**, it would raise difficult practical questions of taxing a MNE with little or no physical presence in the jurisdiction, so effective collection would need cooperation between states. **Furthermore**, disallowing deduction of foreign production costs (the border adjustment) would likely be treated as protectionism under the rules of the World Trade Organization, leading to trade wars. **Finally**, developing countries with small consumer markets, especially those relying on exports of mineral resources, would raise little revenue through DBCFT as exports would not be taxable and profits will only be taxed in the country where sales to the exporting MNE's ultimate customers take place.
- **Global formulary apportionment** : Under formulary apportionment, a multinational corporation would allocate its profits across countries based on its sales, payroll, and capital base in each jurisdiction. It would pay domestic corporate taxes on the share of its worldwide income that is allocated to each jurisdiction. Used in the United States, Canada and Germany at the subnational level. **Positive** : simplify tax compliance for businesses. **Negative** : may increase tax competition and could lead to manipulation of the tax base; transfer pricing issues will not necessarily go away under formulary apportionment.

## History of the european commission's CCCTB project



Source : Common (Consolidated) Corporate Tax Base - KU LEUVEN - February 2017.pptx



## History of the european commission's CCCTB project

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- The **2011 proposal** to establish a common consolidated corporate tax base, did not find approval in the Council.
- In **July 2013** EU ministers agreed that the establishment of the common corporate tax base should precede its consolidation.
- The technical work on the 2011 proposal anti-tax-avoidance aspects led to the adoption of the **anti tax avoidance directive** in **2016**.
- **The proposal** was therefore reworked by the European Commission and **split into two directives** (*Both draft directives were published on 25 October 2016*):
  - a directive establishing a common corporate tax base (**CCTB**),
  - and a directive on a common consolidated corporate tax base (**CCCTB**).
- The proposals incorporated the Council's suggestions on the previous (2011) proposal to establish the CCCTB, notably the compromise proposal of the Council presidency of November 2014 as well as the Council's work on anti-tax-avoidance measures.

March 2011

CCCTB  
proposal



## March 2011 CCCTB proposal

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- **Proposal** to establish a common system for calculating the tax base of businesses operating in the EU.
- The **aim** of this proposal:
  - significantly reduce
    - the administrative burden
    - Compliance costs
    - 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 Common Consolidated Corporate Tax Base (CCCTB), would mean
  - that companies would benefit from a "one-stopshop" system for filing their tax returns
  - that companies would be able to consolidate all the profits and losses they incur across the EU.
- Member States would maintain their full sovereign right to set their own corporate tax rate.



October 2016

CCCTB  
proposal



## October 2016 CCCTB proposal

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The key changes from the 2011 :

- Objective changed: harmonized corporate tax system that favors cross-border trade and investment (2011), now also anti-tax avoidance objective
- Mandatory adoption for consolidated groups above a certain threshold (€750 million)
- Two-step approach (1st step: common tax base; 2nd step: common consolidated tax base)
- Additional incentives for R&D
- Allowance for equity financing
- Transition regime for relief on intra-group losses (pre CCCTB-approval)
- Introduction of ATAD measures

Source : Common (Consolidated) Corporate Tax Base - KU LEUVEN - February 2017.pptx





## Experiences of harmonization

The trend towards greater sophistication in forms and levels of harmonization is a **global** trend



Mercosur



ASEAN



TPP



European Union



## Notional Interest Deduction

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## Notional Interest Deduction : **What is it ?**

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- A notional interest calculated and deducted from the taxable basis
- Used to off-set operational or financial income (lower effective tax rate)
- Automatically applicable to all Belgian companies and Belgian branches of foreign companies

## Notional Interest Deduction : **Purpose**

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- Reduce the tax discrimination between debt-financing and equity-financing
- Lower the effective corporate tax rate for all companies (higher after-tax return on investment)
- Strengthen the financial position of companies and branches by increasing their equity
- Allow further development for Belgian Coordination Center activities



## Notional Interest Deduction : **How does it work ?**

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**ANNUAL TAX DEDUCTION**

**=**

**EQUITY x RATE**

## Notional Interest Deduction : “Qualifying equity”

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**EQUITY** = total equity under Belgian GAAP  
(includes retained earnings)  
in the opening balance sheet  
of the taxable period,  
**ADJUSTED** to avoid double use  
and abuse

## Notional Interest Deduction : **Interest Rate**

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- RATE = annual average of the monthly  
published rates of the long term  
Belgian Government Bonds  
(10-year OLO)
- 2018 : 0,237 %

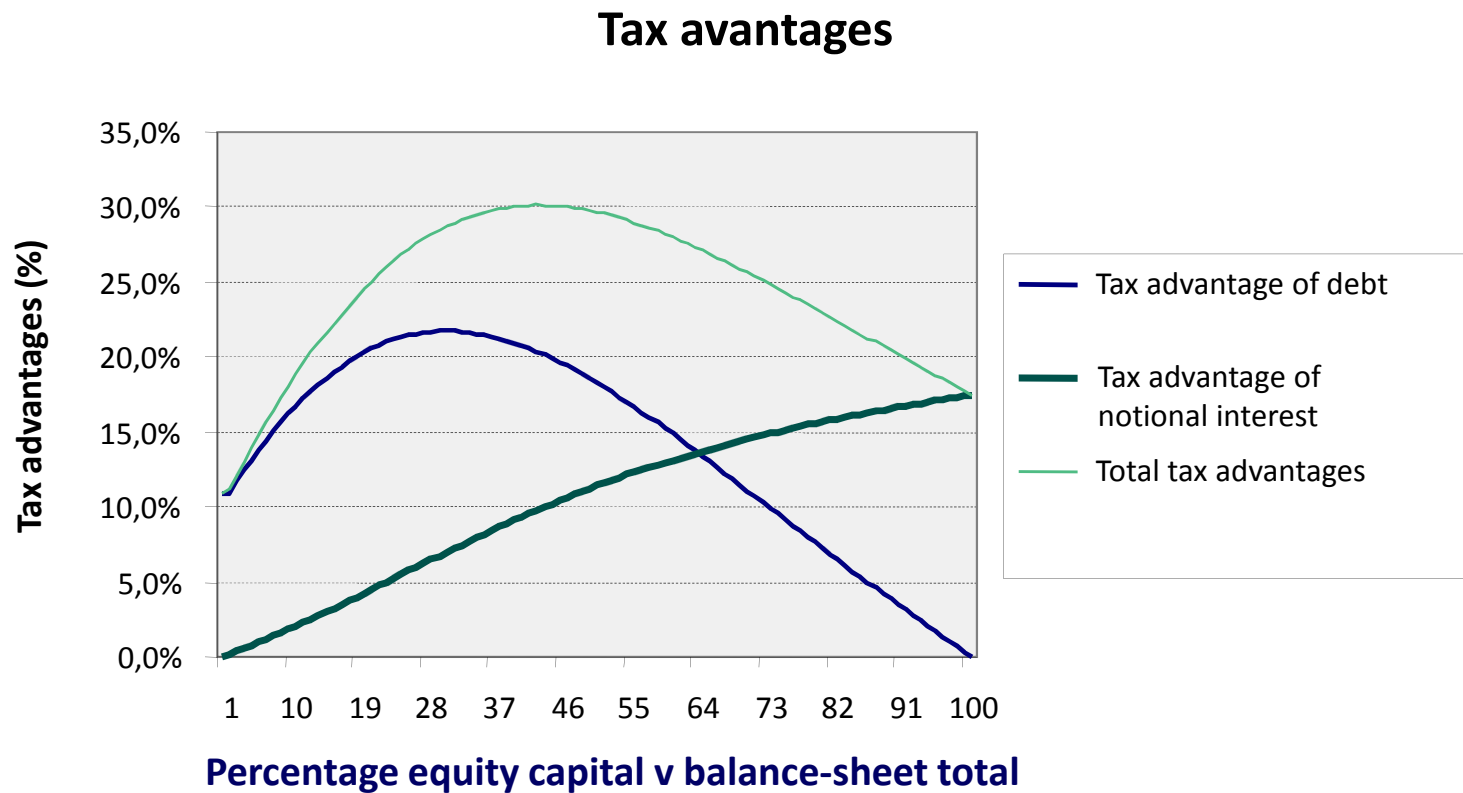
## Notional Interest Deduction : **Other particularities**

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- SME's + 0.5 %
- EU compliant : general measure i.e. access for residents and non-residents
- No ruling, or agreement for activities carried, is needed
- No withholding tax on deemed interest deduction
- Dividends qualify for EU Parent-Subsidiary directive and Double Tax Treaties



## Notional Interest Deduction : **Financing structure**



# Contact

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