Common Consolidated Corporate Tax Base

A study on the impact of the Common Consolidated Corporate Tax Base proposals on European business taxpayers

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Contents

0. Executive summary

The European Commission is proposing a fundamental change to the corporate tax regime for companies with taxable operations in the European Union. This new system is referred to as the Common Consolidated Corporate Tax Base, or CCCTB.

A corporate group that opts into the CCCTB would be taxed on the profits made across all participating Member States. Those group profits would be allocated to the participating Member States, based on an apportionment formula, and then subjected to tax in that Member State at the corporate tax rate applicable in that State. This would replace the existing system where each Member State taxes, based on its own rules, the profits of companies with a taxable nexus in that country. The EU Commission claims that the CCCTB would thus allow for one tax computation and one tax filing for corporate groups with operations across the whole of the EU, as opposed to the current system where up to 27 different tax computations and filings may be required.

From the outset, the Commission has argued that a CCCTB would bring simplifications and reduce compliance costs, which it considers are a cause of loss of competitiveness for European businesses. It is important for businesses and policymakers within the Commission and the Member States to understand the potential compliance costs and the impact on the corporate tax burden resulting from this proposed major change in corporate income taxation. For this reason, Ernst & Young was commissioned by a number of Irish business representative groups[1] to carry out an independent study of potential impacts on compliance cost and effective tax rates of the CCCTB.

0.1 Case study companies

The study utilises a case study approach to identify the impact of a CCCTB on existing groups with significant European operations. This method was chosen to establish the impact at an operational company level and simulate the practical impacts of introducing a CCCTB, rather than merely taking an aggregated approach based on macro-level datasets. By closely examining a relatively small number of cases, and comparing and contrasting them, significant features of the phenomenon and how it varies under different circumstances can be identified. Care was taken to avoid the selection of groups which might have distorted the results of the study. The case selection process was, therefore, impartial but not random.

The case study groups consisted of a mixture of European and US headquartered multinationals, operating in a variety of countries and business sectors. Each group operated in a different sector and was of varying size and turnover to provide as broad a spread of results as possible. Given the uncertainty around the treatment of financial assets under a CCCTB, the study did not include any groups from the financial services sector.

[1] Irish Business and Employers Confederation; Irish Banking Federation; and Irish Taxation Institute

North America headquartered	Northern Europe headquartered
Technology	Manufacturing
Technology	Manufacturing
	Pharmaceuticals

Meetings and discussions were also held with more than ten other groups as part of the process of identifying groups which would be willing to participate in the study. Where appropriate the commentary provided by these groups has been included.

For each case Ernst & Young assisted the tax departments in assessing the potential impact of a CCCTB on:

- their corporate tax compliance costs, on a transitional and established basis, and
- each group's corporate tax burden as illustrated by their effective tax rate.

A workshop or a conference call was held with key tax department personnel to outline the latest working papers issued by the European Commission's working group to provide them with a strong technical overview of the likely format of the proposals. This presentation and discussion session addressed the key technical issues, areas of potential uncertainty, and the likely impact on the company of the proposals.

0.2 Data captured

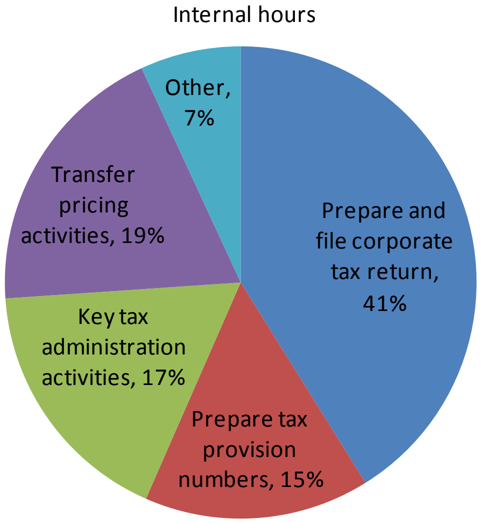
The key corporate tax compliance tasks considered in undertaking this review were:

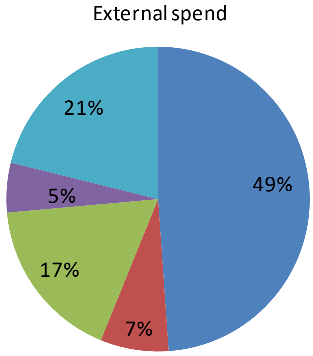
- Prepare and file corporate tax return
- Prepare tax provision numbers
- Key corporate tax administration activities
- Transfer pricing activities

The study also estimated the case study groups' current effective tax rates in each of their European operations and a consolidated effective tax rate for the 27 or ten Member State group, in the possible case of enhanced cooperation. This was then recalculated under a CCCTB.

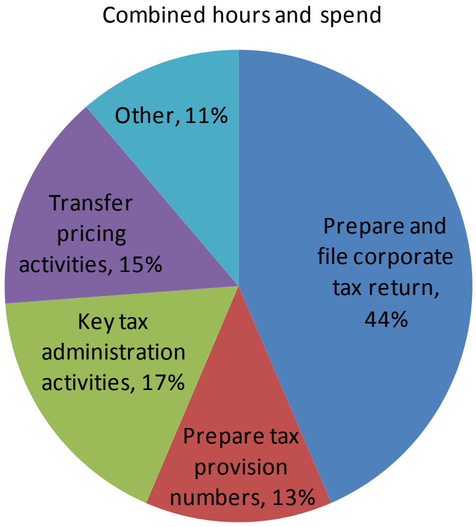
0.3 Case study results

Companies in the study identified the compliance activities involved in the tax return process as consisting of the following elements:





These can be combined based on imputed internal cost of labour to produce the following allocation:



This identifies the following items of interest:

- The largest element in the process is the preparation and filing of the corporate tax return. This is consistent with the assumption that large companies invest in quality processes to ensure that the filings are accurate and complete.
- The transfer pricing activities are a large proportion of the total time, producing a rationale for considering whether changes in the corporate tax system can be identified to reduce this cost without impacting other costs.
- The largest element of the transfer pricing burden is borne directly by staff inside the groups rather than as external spend.

The results of the case study investigations were as follows:

- On average compliance costs increased by 13% for the companies examined (see table below).

- Due to the complexity of the data requirements needed to simulate the CCCTB proposals, although twenty groups engaged with the process only five were able to complete the exercise in full.

- The report provides a figure representing the estimated change in ‘combined compliance costs’ combining internal hours spent on key corporate tax compliance with costs spent on external service providers. This was estimated using a weighted cost per hour to convert hours spent on tax compliance activities into costs, using the standard rates typically incurred by the tax departments.

Impact of change to CCCTB

Corporate Tax Compliance Activity	Movement in combined hours and spend from existing regime to CCCTB	Movement in internal hours from existing regime to CCCTB	Movement in external spend from existing regime to CCCTB
Prepare and file corporate tax return	+27%	+44%	-5%
Prepare tax provision numbers	-1%	+1%	-10%
Key tax administration activities	+21%	+33%	-6%
Transfer pricing related activities	-16%	-16%	-22%
Overall[2]	**+13%**	**+21%**	**-5%**

This has the following points of interest:

- Overall the groups predicted that the total cost of complying with a CCCTB regime was an increase. This was due to the additional costs of preparing and filing the tax return and the associated tax administration outweighing the expected savings in costs due to reduced need for transfer pricing.

- The greatest impact on internal hours was felt by the largest companies in the study. This was due to investments already made in optimising the compliance process.

- A side effect of the CCCTB was to bring more activities in house, hence reducing external spend but increasing internal costs.

In addition to these findings the discussions with the groups identified the following concerns:

- Concern was expressed about the viability of the “Principal Tax Authority” model. The groups believed that each Member State authority would wish to validate the apportionment factors and that this would lead to further disputes.

- The proposed CCCTB apportionment mechanism was seen to be very distortive and did not reflect the underlying economics of modern business. In particular the lack of recognition of intellectual property and entrepreneurial risk would result in potentially large differences between the location of taxable profit under the current regime and the CCCTB. This would create many distortions and mean that tax could become a real impediment to business transactions, possibly to the detriment of the EU as a business

[2] This is the impact across all activities and hence will not be the sum of the above percentages.

location. Furthermore, the greater focus on elements of the allocation mechanism could cause decisions on employment to be significantly distorted.

- Optionality has always been a key attraction of the CCCTB proposals for business. However, the existence of an option to enter in/leave the regime every three years would either be impractical (if irreversible changes had been made to the groups systems) or require the running of parallel systems to maintain the possibility of choice.

The transitional costs of moving into the CCCTB were considered to be very large, affecting the IT systems as well as requiring retraining of staff.

Calculations of the impact of the CCCTB on the effective tax rate of the groups were undertaken, giving the following results:

	Existing regime	CCCTB Tax Base/loss relief	CCCTB	Movement from existing regime to CCCTB
Group A	24%	18%	17%	-7 percentage points
Group B	32%	32%	33%	+1 percentage points
Group C	34%	34%	38%	+4 percentage points
Group D	10%	10%	10%	-
Group E	12%	12%	21%	+9 percentage points

The following points can be noted:

- The consolidation of current year losses was a significant benefit to Group A, reducing the tax charge by six percentage points, from 24% to 18%. In theory this benefit could be achieved through a simpler cross-border loss consolidation/group relief system.

- The impact of the CCCTB apportionment factors was to move taxable profit into Member States with higher tax rates, thus increasing the total tax burden for three case study groups.

- Even where the impact on the overall effective tax rates was limited, the groups experienced a significant shift of taxable profit from one Member State to another (which operated tax at a similar rate).

0.4 Conclusions

The complexity of the data required to simulate the CCCTB proposals and difficulty for businesses to obtain it meant that it was difficult for businesses to engage fully with this study. This underlines the significant challenge it would be for businesses to make the transition from current corporate tax systems to a CCCTB corporate tax system.

The detailed impact evaluation by the businesses that were able to fully participate indicated that, contrary to the stated expectation of the EU Commission, the CCCTB would, in the businesses' opinion, lead to an increase in compliance costs. In addition to the average increase of 13% in compliance costs, businesses would also incur substantial one-off costs in the transition to a new system. Although some savings would occur in the area of transfer pricing, businesses reported that these savings could in fact be eroded by additional costs associated with managing the impact of the introduction of formulary apportionment.

The majority of businesses found that their corporate income tax burden would increase under a CCCTB. This was largely because the apportionment mechanism meant that a greater proportion of income would be apportioned to, and taxed in, Member States with higher corporate tax rates. Only one business was found to have a lower corporate tax burden under a CCCTB and this occurred as a result of benefiting from the current year cross-border loss relief.

In summary, the study indicates that a CCCTB would not have benefited the majority of businesses in the study. Some companies would gain from cross border loss relief measures but this issue could be addressed separately from a CCCTB, thereby avoiding increased compliance costs for businesses generally.

Overall, this study points to some of the challenges that companies can expect should the CCCTB be adopted. However, the use of the case study methodology is very different from the actual impact of CCCTB. The use of the case study methodology has allowed a detailed analysis of real businesses. As this will necessarily be dependant on those included in the case study, there would be benefit in undertaking further detailed analysis of real situations should the Commission proceed with proposals for a CCCTB.

1. Introduction

Ernst & Young was engaged by a group of Irish business representatives to undertake a study of the potential impact of a European Common Consolidated Corporate Tax Base system (CCCTB) on the compliance costs and effective rates of European groups. The CCCTB is a major initiative by the European Commission, and a draft directive setting out the full details of the proposals is expected to be issued in the near future.

According to the European Commission a CCCTB is aimed at increasing the overall competitiveness of businesses in EU Member States, and is intended to include the following benefits for groups that adopt the new system:

- A reduced corporate tax compliance burden for groups operating across EU Member States, by introducing one system for calculating profits chargeable to corporation tax for all Member States
- Eliminating the need for transfer pricing adjustments on transactions between companies which are both based in Member States that have adopted CCCTB (known as ‘intra-CCCTB’)
- Potentially freeing up future ‘trapped’ tax losses by allowing losses of one company to be offset against profits of others, provided all are within a CCCTB system[3]

Given these intended benefits, the study was commissioned to provide evidence of:

- The potential impact on corporate tax compliance costs excluding transitional costs for European groups
- Transitional costs involved in transitioning to a new system
- The impact, if any, that a CCCTB might have on the effective tax rates of European business taxpayers

The study, carried out in 2008-09, also looked at the effect on the above if a CCCTB were to be adopted by only a subset of EU Member States under the ‘enhanced cooperation’ protocols.

This paper is structured as follows:

Section	Content
0	Executive summary
1	Introduction to the paper
2	Description of the CCCTB proposals that were used as the basis for the case study reviews
3	Outline of the methodology developed for undertaking the case study reviews and deriving the data
4	Comments on the groups participating as case studies
5	Results of the review of compliance costs
6	Results of the review of transitional impact

[3] Commission Non-Paper to informal Ecofin Council, 10 and 11 September 2004. A Common Consolidated EU Corporate Tax Base. 7 July 2004, 1.

2. The CCCTB proposals

2.1 Overview of proposals

The CCCTB proposals draw their origins from a meeting of the European Commission (the Commission) in 2001 which considered mechanisms to achieve the following three primary objectives:

- Reduced corporate tax compliance costs
- The elimination of internal transfer pricing
- The availability of internal cross-border off-setting of losses against profits.[4]

In 2004 the Commission agreed to create a Working Group to develop the common tax base. A series of working papers have been released which discuss the progress in developing CCCTB principles and mechanics. To date the Commission Working Group has held twelve meetings and produced sixty-two working documents on the CCCTB.

The CCCTB proposal began its development as a discussion about the ways of simplifying the corporate income tax system and reducing compliance costs for firms operating in the EU through the development of a common tax base. In the initial discussions it was noted that:

"…*the purpose of the common tax base is not to reduce the level of taxation in any way but rather to create a more efficient method of taxing EU companies in a broadly revenue neutral manner."*[5]

The proposal was then expanded to include consolidation of the common tax base for related groups. The third step in the development of the proposal was a more in-depth discussion of the sharing mechanism for allocating the consolidated income among participating Member States.

At the time of undertaking this project the most recent Commission Working Group meeting had taken place in April 2008. Following the meeting the Commission Working Group produced two working papers 'Various detailed aspects of the CCCTB' and 'Anti abuse rules'. In the latter document the Commission Working Group considered various rules to address 'artificial' tax planning, including:

- Excess interest deductions
- Switch over rules for dividends paid from low-tax countries
- Controlled Foreign Corporation (CFC) rules applying to undistributed income as well as retained earnings for CFCs with no 'real economic activity'
- Sales of assets and the participation exemption
- Double deductions when a non-EU entity is in the chain of control
- Factor manipulation (mobile assets)[6]

[4] COM(2001) 582 final *'Towards an Internal Market without tax obstacles*', 16.
[5] Commission '*Non-Paper to informal Ecofin Council, 10 and 11 September 2004. A Common Consolidated EU Corporate Tax Base. 7 July 2004'*, 4.

These rules are still under development. This study has been conducted on the basis of the regime as suggested by the Commission as at 1 April 2008 and has, therefore, not included consideration of the range of rules that might be developed from these proposals.

In place of existing member state by member state revenue authorities, the CCCTB envisages that each participant in the regime will be managed by a single, central Principal Tax Authority ('PTA'). The PTA will be based in the location where the group's centre of management control lies. Its role will be to coordinate the revenue authority administration and enquiries for each of the member states in which the CCCTB applies for that group.

2.2 Technical details

The technical details of the calculation of the consolidated tax base are set out in the various working papers and annexes issued by the Commission Working Group. The initial papers considered only broad principles but greater detail has continued to emerge as each subsequent working paper is released.

The CCCTB is intended to be available to EU groups which are subject to Member State corporate income taxes (or similar subsequently introduced taxes)[7]. Where a company opts in to the regime and has a 75% or more owned subsidiary, that subsidiary would be included in the consolidated group. Where ownership is between 50% and 75%, companies may opt in to the group (but will not be consolidated).[8] For transfer pricing purposes, companies with ownership greater than 20% are regarded as being related companies.

At a summary level the CCCTB working papers envisage a tax base which is taken from the local GAAP accounting numbers of each participating Member State. These accounting numbers are then adjusted for accounting differences ('bridged') and using the common rules supported by a number of tax principles, are pooled to form a common consolidated corporate tax base for that group's entities in participating Member States[9]. The tax base is designed to be wide, based on the 'profit' of the group. This measure of profit would not be based directly on International Accounting Standards or IFRS and, as yet, there has been little detail as to how this taxable profit is to be calculated and, consequently, how bridging would occur; although any final method would obviously have to be complete and bridging tailored for each country.

The total is then to be allocated to the relevant Member States based on a series of apportionment factors based on the group's labour, sales, and tangible assets and then taxed at each Member State's applicable local corporate tax rate.

The CCCTB proposals are intended to be optional. Member States would decide at national level whether to offer the CCCTB to groups in that Member State. The groups would then subsequently be able to elect to opt in or out of the CCCTB every three years (with an initial five year election). However, groups would be required to opt in on an 'all or nothing' basis, with all qualifying companies in participating Member States being required to join the CCCTB group.[10]

Further technical details on the outline would be necessary before adoption.

2.2.1 Transfer pricing

Under the domestic corporate tax systems of the Member States, arm's length principles are applied to transactions with related parties to allocate profits. Parties are related where one controls the other or is controlled by the other or they are both in common control.

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[6] CCCTB/WP065\doc\en *'Anti-abuse rules'.* Para 10.
[7] CCCTB/WP057\doc\en *'CCCTB: possible elements of a technical outline'.* Para 10.
[8] Ibid. Para 6.
[9] Ibid. Para 9.
[10] Ibid. Para 11.

In contrast, CCCTB group members would be subject to tax on their share of the consolidated tax base. This would eliminate the effect of transactions between members of the consolidated group and hence the need to review pricing and, if necessary, to adjust. This includes profits or losses on the disposal of stocks, fixed assets, shares in consolidated companies or other tangible or intangible assets.[11]

2.2.2 Losses

Under a CCCTB system it is generally envisaged that losses which arise in one CCCTB company in a Member State would be offset against profits from other CCCTB companies, provided both the companies in those countries are members of the same CCCTB group.[12]

Losses incurred by a taxpayer before entering a CCCTB group would be excluded from the consolidation, but would be offset against the share of future consolidated profits attributed to that taxpayer in accordance with the pre-CCCTB tax system in that country. When consolidation results in an overall loss for the group, this loss would be carried forward at group level and set off against future consolidated profits, before any future net profits are shared out.[13]

2.2.3 Apportionment factors

The Working Group suggests that income apportionment would be based on three factors: sales, labour and assets. Taxable profits would be apportioned from the consolidated tax base to each group member on an individual entity basis using a formula. The formula to apportion the tax base to a company A of a given group would be as follows[14]:

$$Total\ base^{A} = \left(\frac{1}{m} \times \frac{Sales^{A}}{Sales^{Group}} + \frac{1}{n} \times \left(\frac{1}{2} \times \frac{Payroll^{A}}{Payroll^{Group}} + \frac{1}{2} \times \frac{No.\,of\ Employees^{A}}{No.\,of\ Employees^{Group}} \right) + \frac{1}{o} \times \frac{Assets^{A}}{Assets^{Group}} \right) \times CCCTB$$

Equal weighting is suggested in the Working Group papers (i.e., m=n=o=1/3). All taxable income earned by the group should be consolidated and apportioned via the formula (i.e., business and non-business income).[15]

Specific apportionment formulae would be adopted for particular sectors including financial services. The generic formula is discussed further below.

2.2.3.1 Sales factor

The role of the sales factor in the formula apportionment is to represent the demand side in the income generation. Sales would be attributed to the Member State of ‘destination’ of the sale (i.e., the place in which the goods are ultimately delivered) rather than the ‘origin’ (i.e., the place from which the goods are shipped). The use of a ‘sales by destination’ factor is argued to be more preferable because it is less mobile than the location of assets and employees.[16]

The sales factor would exclude intra-group sales, since they do not contribute to the consolidated income that the factor seeks to apportion.[17] Three elements need to be considered when defining the sales factor; scope, value and location of the sales.

[11] Ibid. Para 110.
[12] CCCTB/WP060\doc\en*’CCCTB: possible elements of the sharing mechanism’.* Para 7
[13] CCCTB/WP057\doc\en *‘CCCTB: possible elements of a technical outline’.*. Para 100.
[14] CCCTB/WP060\doc\en*’CCCTB: possible elements of the sharing mechanism’.* Paras 11-12.
[15] Ibid. Para 14.
[16] Ibid. Para 46.
[17] Ibid. Para 48.

- **Scope of the sales factor**

  The Working Group suggests that only proceeds of sales of goods and provisions of services should be included (the core business). Some revenues would be excluded from the calculation (including capital gains on share disposals covered by the participation exemption, extraordinary income and passive income, unless it represents the revenues accrued in the ordinary course of a trade business (the core business)).[18]

- **Value of sales to be used**

  The figure that would be taken into account is the amount used for the purposes of calculating the tax base.[19]

- **Location of sales**

  The location of a sale depends on the nature of the sale, as follows:

  - Sales of goods would be attributable to the group entity which is located in the Member State where the sales to third parties occur, i.e., the final place of physical delivery, if identifiable, or the last identifiable third-party receiver of the physical delivery in the sales chain, if not identifiable.

  - For the purpose of this study VAT rules were used to identify the destination of the sale. The relevant data to locate the sales is expected to be available via the statements of the entities.

  - Sales of immovable property would be located in the Member State where the immovable property is located, whereas sales of movable property would be located in the Member State where the goods are physically delivered, i.e., place of ultimate destination. Services supplied that are related to immovable property would be located in the Member State where the immovable property is located.

  - Services would be located in the Member State where the services are actually enjoyed. Electronically supplied services, including telecommunication, radio, television and distance teaching would be located in the Member State where the consumer is established.

Sale	Location
Immoveable property (and services related)	Where property is located
Moveable property (i.e., goods)	Where goods are delivered
Services	Where enjoyed

When the sales occur in a Member State where the group does not have a taxable presence, or in a third country (i.e., a non-CCCTB entity), the sales would be taken into account by the other group entities proportionally to the other two factors (the ‘spread throw-back rule’). Similarly, when the sales occur in a Member State where the group has two or more entities, the sales would be allocated between them according to the other two factors.[20]

[18] Ibid. Para 50-51.
[19] Ibid. Para 52.
[20] CCCTB/WP060\doc\en *‘CCCTB: possible elements of the sharing mechanism’.* Paras 53-60.

2.2.3.2 Labour factor

The labour factor would be the combination of two weighted elements: payroll of the work force and number of employees. It is, therefore, necessary to identify the costs and the number of the qualifying work force attributable to an entity and to compare that with the cost and the number in the qualifying work force attributable to the entire group.[21] Again, three elements need to be known to define the factor: scope of the work force, value and location of the work force.

- **Scope of the labour factor**

  The Working Group suggests that personnel employed by an entity should be covered, including managers and directors. The definition of an employee would be based on the domestic law of the Member State.

  Employees employed under interim or temporary contracts would also be included if they provide services that would have normally been performed by the entity's 'ordinary' employees. In contrast, services outsourced to third parties would not be included within labour scope unless the service supplier of the outsourced services and the entity receiving the service belong to the same consolidated group. In such a case, labour would be attributable to the entity where employees are effectively working.[22]

- **Value of labour to be used**

  The figure to be taken into account is the amount of remuneration treated as deductible expenses when calculating the tax base. This would include basic pay, overtime, fringe benefits, social contributions, stock options, etc. No adjustments would be required to correct differentials in wage levels across Member States on the basis that the impact of wage differentials is partially mitigated by the inclusion of the number of employees in the apportionment factor calculation.[23]

- **Location of labour**

  The place where the employees provide their services would be regarded as a location of the qualifying work force. Normally this would be the place where the entity which registered those employees on its payroll is located. However, where a person is registered in one entity but performs his/her services for another entity, possibly in another Member State, the employee would be attributed to the 'payroll' apportionment factor of the latter entity. Furthermore, if employees provide services to different entities during a tax year, their cost would be shared out across those entities, based on the number of months worked for each. This would be subject to a 'de minimis' rule which would apply in the case of very low costs for seconded employees.[24]

2.2.3.3 Assets factor

Similarly to sales and labour factors, three elements need to be considered to define this factor: scope of the assets, value and location.

[21] Ibid. Paras 20-21.
[22] Ibid. Paras 22-24.
[23] CCCTB/WP060\doc\en *'CCCTB: possible elements of the sharing mechanism'.* Paras 25-26.
[24] Ibid. Paras 27-28.

- **Scope of the assets factor**

  For reasons of practicality and simplicity, the Working Group suggests that only fixed tangible assets would be taken into account. Intangibles, financial and current assets would be excluded from the general formula for the reasons set out in the table below.

Asset	Reason for exclusion
Inventory (stocks)	Inventory may be rather mobile and therefore their inclusion could allow manipulation
Financial asset	Mobility and high value
Intangible assets	Very difficult to value intangible assets, especially self generated.

  The Working Group suggests that even if a solution for the valuation of intangible assets were to be found, some uncertainties on the location of the intangibles would remain, especially when they are created or used by the entire group and not by a single entity. Finally, due to their mobility, intangible assets could be used for tax shifting from one jurisdiction to the other.[25]

- **Value of the assets to be used**

  The figure that would be taken into account would be the tax written down value of the assets or of the pool, as shown in the calculations prepared for the tax base of the entity. The tax written down values used could be measured either at the year end or as an average of the tax written down value at the beginning and the end of the tax year.[26]

- **Location of assets**

  The assets would be attributable to the entity which is effectively using the assets. This would usually coincide with the location of the economic owner of the assets, i.e. who has the right to depreciate the assets. However, in situations where the assets are depreciated by one entity but used by the other, the assets would be attributable to the latter.

  Leased or rented assets to or from third parties or related parties would be taken into account by both the lessor and lessee. The lessor would value them as any other assets and the lessee would value the assets at eight times the net annual rental rate.

  Following the sale of the assets to the third party, the corresponding proceeds would form part of the CCCTB profit. Intra-group asset transfers would not affect the CCCTB profit (since such transfers occur at tax written down value), but they would affect the apportionment mechanism since it would alter the location of the assets. To reduce the possibility of artificial tax planning techniques, easily movable assets (e.g., inventory, financial assets, and intangibles) would be excluded from the location factor.[27]

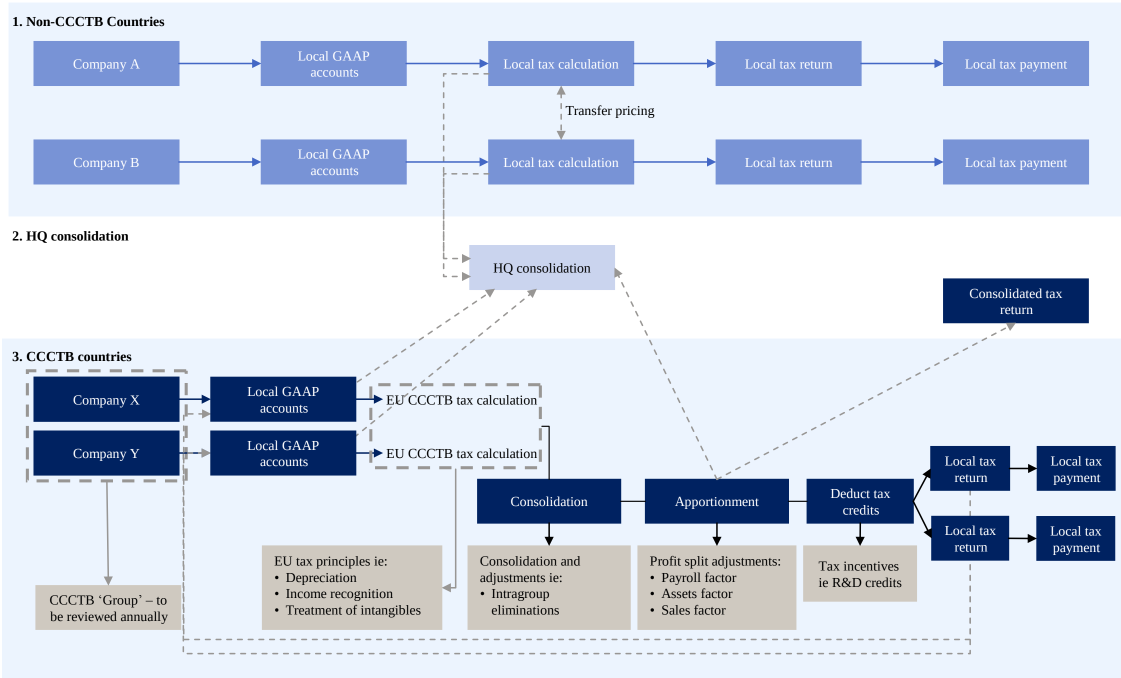
2.2.4 The impact of a CCCTB on company processes

Given the technical details of a CCCTB above, it is possible to identify, at a high level, the impact on the typical tax processes of European located groups and how this might be

[25] Ibid. Paras 30-35.
[26] Ibid. Paras 36-38.
[27] CCCTB/WP060\doc\en *'CCCTB: possible elements of the sharing mechanism'.* Paras 39-42.

managed. The diagram below identifies the necessary processes for a CCCTB and how these fit within a wider group.

Figure 1: potential CCCTB operating framework



This framework was validated against the views of the participant groups during the study.

3. Methodology

3.1 Overview

This study utilises a case study approach to identify the impact of a CCCTB on existing groups with significant European operations.

Case study research utilises the selection of a few examples of a phenomenon to be studied and intensive investigation of the characteristics of those examples (cases). By closely examining a relatively small number of cases, and comparing and contrasting them, significant features of the phenomenon and how it varies under different circumstances can be identified. Case study research is particularly well suited to investigating processes.

A case study approach is particularly suitable for the CCCTB given the nature of the information required. The complex nature of a CCCTB requires detailed understanding and appreciation of the impact on tax functions before the compliance cost impact can be effectively valued. This necessitates in-depth discussion and education which is not possible under a general survey which would be unlikely to generate results that are sufficiently robust.

3.2 Types of cases chosen

Although the full diversity of groups could not be accommodated within five cases, the groups were selected to cover a broad spread of sectors and countries. The approach was designed to provide results which were sufficiently broad and varied to test the potential impact of a CCCTB on corporate tax compliance costs and effective tax rates across a wide constituency of European business taxpayers. Care was taken to avoid the selection of groups which might have distorted the results of the study. The case selection process was, therefore, impartial but not random.

Given the uncertainty around the treatment of financial assets under a CCCTB system, the study did not include any groups from the financial services sector.

Two key prerequisites were established for inclusion in the case study:

- An organisation which is subject to corporate tax in the potentially affected EU Member States.
- An organisation of sufficient size and complexity to be affected by the majority of the CCCTB proposals (e.g., having a significant amount of inter-company transactions).

Our review covered 14 of the 27 member states that will potentially be impacted by the introduction of a CCCTB.

The cooperation of the key participants within the groups was required as many of the workings of the tax department were not part of the public record. It was possible to provide confidentiality to the parties in relation to the detailed data, with publication limited only to summary results which meant that lack of confidentiality was not a stumbling block in groups' willingness to share data with us. Some parties did not want to participate in the study once the amount of information necessary for the completion of the analysis was fully understood. This in itself was a significant finding.

The groups in the study adopted different approaches to undertaking corporate tax compliance activities in Europe, depending on corporate structure, operating model and the availability of personnel in each location. In several cases the groups had finance or accounting team members who completed the company's corporate tax compliance or tax provision activities. In these cases the groups either relied extensively on external service providers or on the headquarters' tax department to deal with any complicated tax technical issues relating to the compliance.

In a number of cases the key corporate tax compliance activities were, in the majority of countries, undertaken by allocated finance or accounting staff, rather than dedicated tax department members or external service providers.

The case study groups varied significantly in size, providing insight into the impact of the CCCTB on different sizes of tax payer. In order to produce consolidated results, the results were accumulated based on hours and costs, thus inherently weighting the results to the larger groups. In addition, the percentage changes for each participant group were calculated and accumulated to provide an average across the different participants.

3.3 Data collection

For each case Ernst & Young assisted the tax departments in assessing the potential impact of a CCCTB on their corporate tax compliance costs, on a transitional and established basis, and also estimated the impact on that group's effective tax rate. A workshop or a conference call was held with key tax department personnel to outline the latest working papers issued by the European Commission's working group to provide them with a strong technical overview of the likely format of the proposals. This presentation and discussion session addressed the key technical issues, areas of potential uncertainty, and the likely impact on the company of the proposals.

To guide data collection Ernst & Young developed financial modelling templates to collect the key data in respect of current corporate tax compliance costs, likely transitional and future corporate tax compliance costs, and effective tax rate. These financial modelling templates were designed to aid consistency in the collation of data.

After the initial workshop the tax departments completed the templates and returned them for review, analysis, collation and reporting.

The main categories for which data were collected (where available) included:

- Audited financial statements, including tax proofs and calculations and key consolidation adjustments.
- Current, transitional and future corporate tax compliance costs, via financial modelling templates.
- Data supporting the apportionment factor calculations including: sales figures split by destination, fixed asset registers and supporting tax calculations, employee head count figures, payroll costs and supporting workpapers.

3.3.1 Sources of information

The groups provided data for the financial modelling templates with guidance from Ernst & Young as to the source of the information in order to gain consistency across groups. Where it was practicable, financial data were provided from sources such as audited financial statements. In other cases information was based on the tax department's knowledge of their operations and previous experience.

The source information applied by Ernst & Young in calculating the impact of the CCCTB on effective tax rates was drawn from the audited consolidated and local accounts, tax proofs and calculations and transfer pricing and consolidation adjustments to the extent the information was available.

The templates used to receive the data from the case study companies have been included in appendices A (compliance costs template) and B (effective tax rates template).

3.3.2 Analysis approach

Two researchers were assigned to each case, one of whom drafted an initial case study report. The project leader reviewed all of the drafts and prepared lists of queries seeking clarification and additional information for each case study. Answering these queries usually required further discussion and correspondence with the groups. After several iterations the preliminary drafts were then circulated to the key participants for review and comment. The review and comment stage generated further telephone interviews and the collection of further data.

3.4 Compliance cost review process

A significant element of the data collection process involved the identification and evaluation of a baseline for hours and costs spent on undertaking corporate tax compliance. This provided the benchmark data against which to compare the potential impact of the CCCTB proposals.

The groups considered how the position might change on the introduction of a CCCTB system, taking into account the technical and administrative changes currently included in the Commission Working Group working papers.

The groups also considered transitional costs which might be incurred in transitioning to a new system (such as accounting systems changes, staff training, etc.). Finally, they considered the potential impact on corporate tax compliance costs and effective tax rates if a CCCTB were to be adopted on an ‘enhanced cooperation’ basis rather than on a full 27 Member State basis.

The groups considered their current corporate tax compliance hours and external spend for each of the key European countries in which they operated, and then looked at how a CCCTB might impact on this on a quantitative basis.

Where the group operated in a large number of countries or where there was limited financial data available, the company provided data for the key material countries in which it operated, with an objective to gaining coverage over 75 – 80% of its European operations.

Additionally, where particular countries had specific local organisational complexities or technical issues, these countries were included in the study in order to provide as complete a range of potential impacts of a CCCTB.

The key corporate tax compliance tasks considered in undertaking this review were:

► Prepare and file corporate tax return

  This included the time spent by the company in preparing and filing the local corporate tax return. The key tasks included in this category included gathering data, reviewing the return, and filing the return (either by paper or e-filing).

► Prepare tax provision numbers

  This included the time spent by the company in preparing the local tax provision numbers. This included gathering the data required for the key tax numbers for inclusion in the local country financial statements including current taxes, deferred taxes, tax payable, and tax provisions. It also included any time spent on preparing tax disclosure notes for inclusion in the financial statements.

  While, at the time of writing this report, it was not completely clear to what extent a CCCTB would impact on the local country financial statements and particularly deferred taxes, it is illustrative to consider how groups currently undertake these activities and how these might potentially be impacted by a CCCTB.

- Key corporate tax administration activities

  This included the time spent by the company on corporate tax compliance administration, including liaising with local tax authorities, filing and maintaining local claims and elections, documentation retention and disclosure requirements and any other related administrative activities.

  Excluded from discussions were areas which related to other activities such as tax planning or ad hoc tax advice provided to business units, as it is not currently clear to what extent a CCCTB would impact on groups' tax administrative activities.

  One of the key qualitative observations made on the potential impact of a CCCTB was how tax authorities would operate under a new system – both in theory and in practice. The initial workshop also considered the current Commission working papers on the potential administration of a CCCTB and how this might impact on their future organisation and practices.

- Transfer pricing activities

  This included the time spent by the groups on transfer pricing activities including maintaining documentation, filing inter-company transactions statements where appropriate, and dealing with transfer pricing specific enquiries from local tax authorities. Transfer pricing was one of the key areas in which groups were keen to understand the impact of a CCCTB. The review focused on how the groups currently managed their activities in this area and how much time and resource was expended upon it. This was then compared to and contrasted with a CCCTB system.

Groups also provided details of other key corporate tax compliance activities that they undertook. This included activities such as overseas tax financial reporting (e.g., US Securities and Exchange Commission (SEC) reporting, internal management tax reporting, etc.).

The study considered the technical and operational transition costs which might be involved in moving to a CCCTB system.

The details of these potential transition costs were discussed during the initial workshop session with each group. They then subsequently completed an impact assessment template to assess, on a scale of one to five, the likely magnitude of the transitional effort required in terms of financial expenditure, operational effort or otherwise.

The study did not specifically consider non-direct tax compliance reporting (such as Value Added Taxes/Sales Taxes or local business taxes). However, groups were asked to provide anecdotal information on these to the extent that they believed a CCCTB might have a significant impact.

The headquarters tax department typically issued an information request to each key location to provide details of the hours and financial amounts spent on the key activities. The headquarters team then collated and verified the numbers prior to Ernst & Young's analysis.

In a number of cases the data was provided by local country tax or finance teams. These were then reviewed by the headquarters tax department, thereby providing an additional level of review. The data provided were also reviewed in light of Ernst & Young's internal experience in undertaking the same activities.

The impact on compliance costs was considered based on the assumption that all 27 Member States introduce the CCCTB as well as an enhanced co-operation scenario whereby only ten Member States introduced the CCCTB.

In undertaking the tax compliance activities the case study groups each chose different amounts of insourcing and outsourcing. In order to provide an additional measure of consolidated change, the internal hours incurred by the case study groups were converted into equivalent external costs, using the standard rates typically incurred by tax departments in outsourcing projects. This combined metric provides a measure of overall movement under the CCCTB.

3.5 Effective tax rate review process

The study estimates the case study groups' current effective tax rates in each of their European operations and a consolidated effective tax rate for the 27 or ten Member State groups. This is then recalculated following a calculation of the tax charge in each company (and the group) under a CCCTB.

The groups provided the tax charge per company and per the European group, together with the profit before tax. The effective 'profits subject to tax' in relation to the period was calculated on a company by company basis, representing the combination of current and deferred tax charges for the company for the year. This figure was then adjusted, as set out below, for tax base used in the CCCTB allocation.

In order to gain an accurate understanding of the potential impact of a CCCTB system on the groups' effective tax rates it was helpful to undertake the calculation in two stages:

- Loss consolidation

  The first stage assessed the potential impact of the loss aggregation and the current year loss offset elements of the CCCTB proposals on the effective tax rate, i.e., without applying the apportionment factors. In theory this calculation could also occur before any transfer pricing adjustments. However, in practice the groups would adopt agreed transfer pricing policies within the accounts of the operating entity and hence the transfer pricing adjustment was already inherent in the profit and could not be separated out for effective tax rate purposes. (The work in delivering the transfer pricing system however was captured in the estimates of cost compliance as noted earlier.) This interim calculation therefore shows the impact on the effective tax rate of the freeing up of tax losses under the new regime and any adjustments in the tax base.

  The current CCCTB working papers indicate that the availability of existing local country prior year losses is expected to be determined in each local country. Therefore, in determining taxable income under CCCTB, prior year losses were not taken into account until after apportionment of the tax base to each individual country. It was then assumed that the same amount of loss was available for utilisation as was used in the pre CCCTB tax calculation.

  It was necessary to calculate a 'CCCTB taxable profit' figure. This was based on the group's total tax rate divided by the local statutory rate as a mechanism for eliminating any exceptional items that might have been included in the profit before tax figure and thereby distorting the nature of the CCCTB consolidation.

  The actual effective tax rates calculated for the purposes of this illustrative review were likely to be somewhat different to those included in the group's statutory accounts, where these intra-group losses were publicly available. One of the main factors contributing to these differences was that the calculations were only performed for a limited number of countries set off across the group on a proportional basis in relation to each country's share of total taxable income, therefore spreading the effect of the current year loss utilisation across the whole group. This can be expected to be less generous than a current year loss offset system in which the group could determine the countries to which the losses would be offset. Such an offset may be possible currently, following the

Marks & Spencer case[28]. Hence, it could be argued that this element of the CCCTB could be introduced without the need to introduce CCCTB.

► Apportionment

The second stage calculated the impact on effective tax rates of the CCCTB proposals and reallocated the profits in proportion to apportionment factors set out in the Working Group working papers. These factors, being assets, payroll and sales by destination, were based on financial data provided by the groups. A number of groups faced significant challenges obtaining the financial data in order to undertake the calculation, and also queried the appropriateness and relevance of such an apportionment formula.

The sales by destination figures calculation included the ‘spread throw back’ rule where the groups made ‘nowhere sales’ based on the methodology set out in European Commission Working Group paper WP060 (paras 58-60). A ‘spread throw back’ factor was calculated for each country based on the proportion of total country assets/total group assets and total country employees and payroll/total group employees and payroll. This factor was then applied to the total ‘nowhere sales’. As noted in the working paper, the ‘spread throw-back’ rule implicitly gives a higher weighting to the other factors being labour and assets.

The above calculations were performed on both a 27 Member States participation basis as well as under an enhanced cooperation scenario whereby only ten Member States introduce a CCCTB system.

Companies provided data for those CCCTB affected countries where they had significant operations. They provided estimates where available from audited financial figures, financial statements or from internal management reporting.

3.6 Review of impact of enhanced cooperation

Enhanced cooperation allows those countries of the European Union that wish to continue to work more closely together to do so, while respecting the single institutional framework of the European Union. Member States concerned can thus move forward at different speeds or towards different goals.

It has been suggested that, should the CCCTB fail to achieve a unanimous acceptance, the CCCTB may proceed under enhanced co-operation requiring a minimum of nine member states. The study has considered the impact on corporate tax compliance costs and effective tax rates should this be the case. For the purpose of this study, the following ten member state countries were included within the enhanced cooperation regime[29]:

- Austria
- Belgium
- Finland
- France
- Germany
- Greece
- Hungary
- Italy
- Luxembourg
- Spain

[28] *Marks & Spencer plc v Halsey (HMIT)* Case C-446/03
[29] For the purposes of this case study, ten Member States have been included within the enhanced cooperation regime, however based on the Lisbon Treaty, the minimum of nine Member States are required to participate in the procedure.

This list was chosen by Ernst & Young based on publicly available media commentary.

3.7 Impact on tax base from CCCTB (non-apportionment factors)

Since the European Commission's working documents currently available are imprecise and yet to be finalised,[30] the potential effects represent educated predictions and estimates. The following issues appear likely to give rise to the potential of significant changes in tax bases of EU Member States:

- Controlled foreign corporation rules;
- Participation exemption on dividends receivable and capital gains on sales of shares;
- Loss carry forward limitations and lack of domestic tax consolidation;
- Provisions;
- Restrictive thin capitalisation rules;
- Tax depreciation and amortisation; and
- Tax favourable regimes.

The impact for any particular company would be determined by the company's specific tax situation, but an initial comparison of the proposed CCCTB tax base and the current range of domestic tax system indicated the following:

- Significant increases (greater than 5%) in the tax base in three Member States, namely Belgium, France and Sweden;
- Modest increases in the tax base in six Member States, namely Austria, Latvia, Lithuania, Luxembourg, Romania and Slovak Republic;
- Have no significant impact on the tax base (less than 1%) in ten Member States, namely Denmark, Estonia, Germany, Greece, Hungary, Italy, Netherlands, Spain and United Kingdom; and
- Modest decreases in the tax base in six Member States, namely Bulgaria, Czech Republic, Finland, Ireland, Poland and Portugal.

[30] For example, several important common tax base issues have not been fully specified in the European Commission's working documents, including taxation of foreign income, financial sector taxation, tax depreciation and amortisation, thin capitalisation, and controlled foreign corporations.

4. Case study companies

4.1 Company profiles and selection criteria

The five groups that are included in the case study review operate in a variety of countries and business sectors.

North America headquartered	Northern Europe headquartered
Technology	Manufacturing
Technology	Manufacturing
	Pharmaceuticals

This selection incorporates a broad range of countries, industry sectors, and sizes of groups into the study. Meetings and discussions were also held with more than ten other groups as part of the process of identifying groups who would be willing to participate in the detailed elements of the study. Where appropriate, the commentary provided by these groups has been included.

Several groups approached for inclusion in this study, while willing to participate in the study, were ultimately unable to do so. There were a number of reasons for this, but the most significant issues were:

- ► Tax function leaders had insufficient time and resources to devote to a CCCTB impact review on their business. Often they only became aware of this as they started to consider the likely technical and operational impact of the proposals on their organisation. This indicated the difference between the perceived simplicity of CCCTB and the work needed to consider the impact in detail.
- ► Several of the organisations we approached were unable to collect the appropriate financial data in respect of effective tax rates and compliance costs at a European level. A number of organisations commented that they would probably need to restructure their reporting technology and systems to be able to do this should a CCCTB be introduced.
- ► Some European tax function leaders were reliant on their financial controllers in the various countries to obtain the relevant financial data but had insufficient internal mandate to get this information. Financial controllers were under the same resource and time constraints as the tax function leaders, which made participating in the study very difficult.

4.2 Tax function operating models

A key observation from the case study reviews was that the various groups operated a number of differing business models in their European operations. This was both in respect of their business organisation and their tax function operation.

The various business models were relevant as the different approaches that the groups adopted resulted in different qualitative and quantitative results when considering potential changes to corporate tax compliance costs and effective tax rates under a CCCTB.

At a summary level, the various types of tax function operating model adopted by the groups in the case study included:

- ► Central regionalised group tax function operating with support from subsidiary tax or finance functions and external service provider support where appropriate.

- Regional shared service centre model providing support to local tax or finance functions with external service provider support where appropriate.

- Central group tax function with support from subsidiary finance functions and external service provider support where appropriate.

The groups in the study typically had either no, or limited, specialist tax resource available in various locations in which they operated. Accordingly, the need for assistance from local external service providers was higher than in the parent country, where typically a significant amount of the local corporate tax compliance activities were performed by the headquarters tax department.

For a number of the groups in the study the headquarters tax department was assisted by a permanent transfer pricing specialist, thereby reducing the need for external expenditure and advice. It was also notable that, where a specialist was in place centrally, the reduction in external advisor costs also cascaded down to local country level as they were able to provide specialist transfer pricing advice for the whole European group, thereby resulting in reduced corporate compliance costs in this particular area in all countries.

An interesting corollary finding from this initial review was that many groups simply could not access the financial data necessary to participate in this study since:

- The decentralised model operated by many European based organisations provided insufficient visibility to the headquarters tax function management team of the detailed activities of the local country finance functions.

- Many tax functions were fully deployed and unable to allocate resource to undertake even a limited assessment on the potential impact of a CCCTB on their corporate tax compliance activities or effective tax rates. Several groups approached who subsequently declined the opportunity to participate in this study commented that, while they would undoubtedly need to undertake such an impact assessment were the CCCTB to be introduced, it was simply felt that they were unable to devote any finance or tax resource time until the CCCTB was closer to being implemented.

Many of the groups that declined to participate were sceptical that the CCCTB proposals, as set out in the current Commission working papers, would be likely to be passed into law in the foreseeable future. This was based on the perceived lack of political and business support in many of the key Member States and the sheer complexity of introducing a workable regime on a pan-European basis.

5. Impact of a CCCTB on corporate tax compliance costs

As discussed in section 0 above, the review considered the potential impact for the case study companies of the introduction of a CCCTB on their corporate tax compliance activities. This considered both internal hours allocated to the various key compliance activities and external costs incurred. Any costs relating to transition were excluded.

The key compliance activities considered in this element of the review included:

- Prepare and file corporate tax return
- Prepare tax provision numbers
- Key corporate tax administration activities
- Transfer pricing activities

The key data in respect of the impact on compliance activities as a result of the introduction of a CCCTB are set out below:

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total spend	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB	Combined weighted average
Prepare and file corporate tax return	41%	49%	+44%	-5%	+27%
Prepare tax provision numbers	15%	7%	+1%	-10%	-1%
Key tax administration activities	17%	17%	+33%	-6%	+21%
Transfer pricing related activities	19%	5%	-16%	-22%	-16%
Other	7%	21%	0%	0%	0%
Overall[31]			**+21%**	**-5%**	**+13%**

As shown in the above table, the groups expected that the costs of preparing and filing a tax return could increase as a result of the CCCTB. This was predominantly due to the additional work that was needed at the group level outweighing the reduction in work undertaken at the local level. One group commented that the local activity was already optimised hence giving minimal benefits from further simplifications. Detailed conclusions are set out in the sections below.

[31] This is the impact across all activities and hence will not be the sum of the above averages.

5.1 Prepare and file corporate tax return

This activity included the time spent by the group in preparing and filing the various corporate tax returns for all relevant entities in each of the Member States that would potentially be affected by a CCCTB. The key tasks considered included the gathering of all key supporting data, preparing and reviewing the tax return, and filing the tax return (either by paper submission or e-filing).

5.1.1 Commentary

It was felt that the number of hours required to complete the corporate tax returns for the group would potentially reduce at a local level under a CCCTB as the need to file returns in each country was removed. There would, however, be a corresponding, and possibly greater, amount of effort required at parent company level in order to manage the increased requirements on the group of a consolidated regime. This was expected to result from the anticipated increased need to coordinate data flows from the local countries around the calculation of the group CCCTB apportionment formula, producing the consolidated tax return and dealing with any follow up enquiries from a CCCTB Principal Tax Authority.

With regard to the mooted benefits of CCCTB to reduce internal hours and external costs spent on corporate tax compliance, it was felt by a number of the groups that, due to their own tax function operating models, there would be either limited or no reductions in the number of internal hours spent on compliance. This was largely because the groups worked closely with the local country finance teams, often referred to as a ‘shadow tax function’, to complete the tax return for that country. To the extent that local tax advice was required, this would be obtained from external service providers. It was felt by the groups that under the CCCTB there would still be a need to retain the finance staff to complete the statutory accounts and provide the supporting data for the CCCTB apportionment factors. Hence there would be limited (or no) opportunities for headcount or other cost reductions in this area, even if there would be no need to file a tax return in each CCCTB country in which the group operated.

While the groups felt that there would potentially be a reduction in the external costs needed to complete the local corporate tax return, it was considered that under a CCCTB there would still be a need to obtain assistance, particularly at CCCTB subsidiary country level. This would largely involve assistance around the collation and checking of the apportionment factor data, tax specialist interpretation of the interactions between existing local country tax regimes and a CCCTB where appropriate, and a need to supply ad hoc support in relation to compliance efforts.

In respect of external service provider costs, it was also considered likely that the anticipated increased efforts in terms of hours spent at parent company level under a CCCTB would result in a corresponding increase in external service provider costs. At this stage in the development of the CCCTB proposals several of the groups found it difficult to quantify how much these would be, although it was considered likely that these would be significant.

Several of the groups commented that the introduction of a CCCTB would result in an increased push towards centralisation of efforts around the completion of the corporate tax return. This was because the majority of the groups had either limited or no tax specialist tax resource in place in the various countries in which they operated. Under a CCCTB it was considered likely that the central group tax function would have to assume more responsibility of the local tax issues. As the groups typically placed their more senior tax resources at group level, this would initially result in a net increase in costs to the business and detract from the more ‘value added’ activities undertaken by these staff members such as tax planning, advising the business on the tax impact of various commercial transactions, and driving the tax strategy of the group.

5.1.2 Data

The groups provided us with data in respect of the hours spent on preparing the corporate tax return and associated external costs both under current tax regimes and the anticipated position under a CCCTB.

The key data findings from this review are noted below:

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB
Prepare and file corporate tax return	41%	49%	+44%	-5%

- The tax functions spent more of their time dealing with corporate tax return activities than other compliance tasks. This represented almost half of the total time spent by the tax function and the weighting towards this activity was consistent in all of the groups reviewed in this case study.
- Of the population, one group saw a distinct shift of activity from external resource to in-house whilst the other groups considered that the impact would be similar for both internal and external costs.
- The views of the groups differed within the sample, with three companies considering changes to be significant whether in increasing internal hours (two groups) or reducing them (one group).
- The impact on the total hours spent across the population was 44% which was mainly driven by the fact that the largest group would take more processes in-house
- The expectation that a CCCTB would drive the businesses to internalise more of the tax return preparation was reflected in the reduction in spend. The reduction in total costs over the groups was 5%.
- The data are consistent with the premise that the largest negative impact would be on businesses with a centralised accounting and taxation system, due to the need to revisit processes that have been optimised for the current compliance requirements. Hence the CCCTB would most affect those who have invested in complying most efficiently.

5.2 Prepare tax provision numbers

This activity included the time spent by the group in preparing the tax provision numbers for inclusion in the statutory financial statements in each of the Member States that would potentially be affected by a CCCTB.

5.2.1 Commentary

At the time that this case study was conducted, limited guidance was available from the European Commission as to how a CCCTB would impact on the preparation of the tax numbers for inclusion in local country statutory accounts. Accordingly there was a lack of clarity among the groups around how a CCCTB would impact the tax provision process at CCCTB subsidiary country level.

This lack of clarity particularly covered the treatment of current and deferred taxes and how the computation of a CCCTB tax base would be operated, both at a CCCTB group and local entity level. Several groups commented that they could not see how the calculation of deferred taxes under local country GAAP would interact with the calculation of the CCCTB tax base using apportionment factors.

There was a concern that existing accounting standards in CCCTB countries would need to be rewritten to provide clarity around the interaction of a CCCTB and statutory accounting for tax standards (such as IAS12 under IFRS). This would result in additional hours being required to be spent at parent company level to understand how this affected the group, and would also be likely to involve the need to get external support to confirm any technical and disclosure issues that arose.

It was felt by a number of the groups that there would need to be continual monitoring of developments both in CCCTB tax accounting standards and in the local GAAPs for each CCCTB country in which the group operated. This was expected to result in extra hours being spent on this activity and in associated increased external advisor costs.

There was also concern around how other local or non-direct taxes would be affected by a CCCTB. Several of the groups were required to file returns under local GAAP and tax standards in respect of business, state or property taxes. It was not clear whether companies would, therefore, be required to file under CCCTB regulations or whether they would be required to maintain dual books for this purpose.

The groups adopted various approaches to completing the tax numbers for inclusion in the financial statements depending on their tax function operating model. In some cases a lot of the time incurred in respect of the activity was undertaken by the local finance teams, or 'shadow tax functions', with external service provider support as appropriate. Accordingly it was considered that for some of the groups there would be limited opportunity for hours or external cost reductions.

5.2.2 Data

The groups provided us with data in respect of the hours spent on preparing the tax provision numbers and associated external costs both under current tax regimes and the anticipated position under a CCCTB.

The key data findings from this review are noted below:

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB
Prepare tax provision numbers	15%	7%	+1%	-10%

- The number of hours spent by the tax function on completing the tax numbers for inclusion in the statutory financial statements represented only 15% of the total compliance hours.

- One of the groups in the case study considered that if there was no need to calculate local taxes for the financial statements under a CCCTB then potentially they could bring the whole corporate tax provision process back 'in-house' thereby potentially resulting in a 100% decrease in external service provider costs but a marginal 5% increase in the hours required at parent company level.

- Others showed a marginal increase in the external costs of advisers due to the complexity of the system.

- The overall reduction in external costs over the groups was 10% but, as noted above, this was due to distinct positions being taken by different groups. All groups agreed that any change to internal hours would be marginal.

5.3 Key corporate tax administration activities

This activity included the time spent by the group in undertaking key corporate tax administration activities in each of the Member States that would potentially be affected by a CCCTB. Key tasks included liaising with tax authorities, preparing and filing claims and elections and other administrative compliance tasks.

5.3.1 Commentary

One of the major concerns that several of the groups raised when considering a CCCTB was how it would, or even whether it actually could, work in practice. High among these concerns was how a CCCTB Principal Tax Authority would operate and how this would impact on the various groups' activities.

A significant part of corporate tax administration activities related to liaising with local tax authorities. This included managing the various queries that arose and the large number of different systems, cultural nuances and prevailing practices, which had to be understood and negotiated on a country by country basis. Typically the headquarters tax function performed a supervisory role rather than being actively involved in this activity and consequently external advisors' costs accounted for a significant proportion of the amount of work performed locally.

There was some scepticism among a number of the groups about the role that national interests would play in cross-border tax examinations, as each country sought to protect its own tax revenue streams under the CCCTB apportionment formulae. While it was generally considered to be a reasonable approach in principle to have a Principal Tax Authority based in the primary country of operation for the groups, there was concern about how this would work and it was considered by the groups that they would be likely to need to spend additional hours and incur additional external advisor costs in dealing with what were perceived to be the inevitable cultural and language difficulties in dealing with a number of foreign tax agencies.

It was hoped that there would be a reduced need for intra-EU tax rulings under a CCCTB which would potentially result in reduced administrative compliance costs, but it was not clear how this would actually work in practice and what the impact would be on existing business structures and tax agreements which were already in place. There was concern over how tax case law in each country would be affected, how the CCCTB would interact with this (if at all), and whether the main tax arbitration body would be the European Court of Justice or whether powers would be devolved down to individual Member States.

5.3.2 Data

The groups provided us with data in respect of the hours spent on key corporate tax administration tasks and associated external costs both under current tax regimes and the anticipated position under a CCCTB.

The key data findings from this review are noted below:

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB
Key tax administration activities	17%	17%	+33%	-6%

- ► Engaging with the tax authorities formed a large element of the role of each group in the study, varying between 13% and 20% of internal time and commanding up to 45% of external costs.

- All the groups agreed that the impact of CCCTB would be to reduce the amount of external spend, due to the concentration of that external spend on one advisor in contrast with the Principal Tax Authority.
- There were differing views as to the impact on the tax function, with the dominant view being that internal hours would increase considerably. The greatest increase was for those groups that had invested in strong relationships with the existing tax authorities.
- The overall increase in hours was at 33%.
- The corresponding spend on external costs was considered to be down by 6%.
- The net impact of the CCCTB was expected to increase both the amount of time expended on dealing with tax administrators and the proportion of the tax departments' time on this activity.

5.4 Transfer pricing activities

This activity included the time spent by the group in undertaking key transfer pricing activities in each of the Member States that would potentially be affected by a CCCTB.

5.4.1 Commentary

A key finding from the discussions with the case study groups was that a large amount of effort was expended, both in terms of internal hours spent and also on external advisor costs, on transfer pricing. However, there were mixed responses as to whether the introduction of a CCCTB would result in reductions in terms of these hours and costs. Largely this depended on the existing transfer pricing arrangements that the groups had in place and the business models they operated.

For some of the groups, activities undertaken in this area currently involved significant amounts of hours at subsidiary country level and often also required input from the headquarters tax function, thereby increasing the overall cost and effort devoted to this activity. The primary explanation for the increased level of headquarters tax function involvement was that inter-company pricing was often dependent on direction from the centre. The local finance functions often did not have sufficient levels of skill and experience to deal with an often complex technical and judgemental area of tax.

On a theoretical level it was felt that a single consistent approach to transfer pricing across a CCCTB group could potentially result in real efficiencies both in terms of reduced hours and external advisor costs. This was in large part driven by what was perceived to be a reduced need for intra-CCCTB transfer pricing documentation. It was also considered that potentially, the hours and external advisor costs in relation to intra-CCCTB transfer pricing planning, reviews of documentation requirements, continuous monitoring and arm's length pricing could reduce significantly.

They stated that they would continue to internally price under 'arm's length' principles, and each country in the CCCTB group would still be required to have 'arm's length' transactions with other group entities across the rest of the world for commercial non-tax reasons.

Therefore, any impact of a CCCTB system would be limited in nature. This was supported by the fact that many transfer pricing adjustments were included in the local accounts.

On a broader basis it was commented that it was largely inevitable that European groups would consider apportionment 'factor planning' in place of transfer pricing planning as the focus shifted under the new regime. To this extent they believed that this would likely to be a major area of activity under a CCCTB regime and would, therefore, account for a significant number of hours and external advisor costs going forward.

5.4.2 Data

The groups provided us with data in respect of the hours spent on transfer pricing activities and associated external costs both under current tax regimes and the anticipated position under a CCCTB.

The key data findings from this review are noted below:

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB
Transfer pricing related activities	19%	5%	-16%	-22%

- The data confirmed that reducing the administrative burden of transfer pricing would indeed represent a significant saving for groups.
- All groups believed that the CCCTB would reduce the overall effort expended on transfer pricing, with all but one group expecting internal hours to reduce and the other group seeing the CCCTB as an opportunity to reduce external spend and bring the remaining activity in-house.
- However, the overall effect was somewhat muted with the average of those groups predicting a reduction in internal hours being 16% when comparing to the existing regime and average reduction for external spend across the population being 22%.

5.5 Combined compliance costs

The report provides a figure representing the estimated charge in ‘combined compliance costs’ combining internal hours spent on key corporate tax compliance with costs spent on external service providers. This was estimated using a weighted cost per hour to convert hours spent on tax compliance activities into costs, using the standard rates typically incurred by the tax departments.

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Weighted average % movement in hours under a CCCTB	Weighted average % movement in spend under a CCCTB	% movement in combined hours/costs under a CCCTB
Prepare and file corporate tax return	41%	49%	+44%	-5%	+27%
Prepare tax provision numbers	15%	7%	+1%	-10%	-1%
Key tax administration activities – including liaising with local tax authorities	17%	17%	+33%	-6%	+21%
Transfer pricing related activities	19%	5%	-16%	-22%	-16%
Other	7%	21%	0%	0%	0%
Overall[32]			**+21%**	**-5%**	**+13%**

[32] This is the impact across all activities and hence will not be the sum of the above averages.

5.6 Analysis of impact by size of taxpayer

The diversity of the population for the case study allowed visibility over the likely impact on different sizes of companies. The table below considers the impact on a taxpayer basis, i.e. weighting the impact on each company equally rather than by size.

Corporate Tax Compliance Activity	Current hours on activity as % of total hours	Current external spend on activity as % of total hours	Participant average % movement in hours under a CCCTB	Participant average % movement in spend under a CCCTB	% movement in combined hours/costs under a CCCTB
Prepare and file corporate tax return	41%	49%	+14%	-17%	+8%
Prepare tax provision numbers	15%	7%	-1%	-17%	-1%
Key tax administration activities	17%	17%	+11%	-7%	+6%
Transfer pricing related activities	19%	5%	-10%	-12%	-11%
Other	7%	21%	0%	0%	0%
Overall[33]			**+6%**	**-17%**	+3%

This allows the following observations:

- The largest increase in burden on the preparation and filing of the corporation tax returns was on the largest groups. This is consistent with the presumption that the largest multinationals have invested in optimising their administration.
- A similar variation was noted in relation to tax administration activities, with the largest adverse impact being felt by the larger groups.
- In addition, the largest benefit from the reduction in time and cost were felt by the largest companies.

In summary, the results were generally more extreme for the larger companies. Nonetheless, the impact on a taxpayer basis was significant across all specific activities.

5.7 New considerations under a CCCTB

The groups also provided details on some of the additional new considerations which they felt would arise were a CCCTB regime to be adopted. The key areas that groups commented on were the introduction of a profit allocation formula and the impact of a CCCTB on existing tax structures, agreements and planning.

The interaction between a CCCTB and existing tax structures that the groups had in place was an area which caused concern. Some groups felt that a CCCTB would potentially

[33] This is the impact across all activities and hence will not be the sum of the above averages.

seriously impact on their existing tax structures, agreements with local tax authorities and the ability to conduct valid cross-border tax planning within the 27 EU Member States.

One group queried whether existing Advance Pricing Agreements (APAs) with third party countries would continue to be valid under a CCCTB. To the extent that these became void, these would need to be renegotiated with a CCCTB Principal Tax Authority which could reasonably expect that additional hours and costs would be incurred as a result.

For groups that had spent a lot of effort on ensuring that their tax position in European Member States was fully optimised, the possible introduction of a CCCTB naturally caused concern as it was felt that any such planning would immediately become inefficient. This concern extended to the transfer pricing elements of the CCCTB as it was considered that this would eliminate the current service level relationships between the various country entities.

Double taxation agreements were also considered to be an area where there was currently an element of uncertainty about how these would operate under a CCCTB. It was observed that the current European Commission working papers were not completely clear in this area and groups were concerned over whether existing double tax treaties would need to be suspended, reviewed, and replaced as part of the transition to a CCCTB system. In practical terms, there was a general degree of scepticism as to how this would work.

6. Transitional impact of a CCCTB

6.1 Scope of review

The groups considered the following elements of potential transitional impact under a CCCTB:

- Technical transition costs, including the corporate tax return and tax provision processes, transfer pricing processes, loss utilisation and off-setting.
- Operational transition costs, including staff training, additional resource requirements, and information technology upgrades.

6.2 Technical transition issues

A number of the groups felt that the methods of preparing tax returns and the tax numbers included within the financial statements would change fundamentally under a CCCTB. The groups considered that there may be a need for companies to implement a new set of CCCTB accounting books to run alongside the existing tax system during the transition period to ensure that all tax adjustments were being correctly implemented and also to analyse the differences and potential benefits between the two systems. This was considered to be similar to the process some groups had already adopted when making the transition to IFRS.

It was considered that these accounting books might need to run in perpetuity as groups would likely still need to file under local GAAP for other purposes – such as for local property or business taxes, which several anticipated would be likely to continue to exist under a CCCTB.

As set out in the Commission working papers, groups would also have the option every three years to remain in the CCCTB or to opt out. Therefore the ability to compare and contrast results under both systems would be required. It was expected by some groups that local countries would eventually adjust their own tax legislation to make it more compatible with a CCCTB. This would mean that groups would be able to run dual systems more effectively but also ultimately phase in the CCCTB in each country. This was similar to the changes made to local accounting standards to make them more compatible with IFRS standards.

The majority of the groups in the study operated a decentralised model and they expected that they would need to spend significant time and effort to understand how the new CCCTB rules related to their own country's data, and in assessing the other technical issues, such as how individual country filing deadlines would change. Several groups queried what the impact would be on existing tax rulings which were in place between various countries likely to join a CCCTB, and believed that they would need to do significant analysis to understand how the introduction of a CCCTB would impact on these before opting in or out.

6.3 Operational transitional impact

6.3.1 Staff competency and training transitional impact

There were mixed views on how much additional training would be required were a CCCTB to be introduced. This ranged from general comments such as ‘my staff will have to forget 20 years of experience and start again’, to a belief that only limited training would be required to understand the impact of a CCCTB on the groups. However, where training was considered likely to be important on transition, it was thought that high quality training on the technical and practical implications of a CCCTB would be critical.

It was considered that all staff would need to be fully trained prior to any implementation and that all tax returns and financial statements would need to be completed accurately and filed on time in the year of adoption. Robust procedures would need to be put in place from the start to monitor any technical or administrative changes to a CCCTB system as it developed.

The level of anticipated additional training required tended to differ on a country by country basis. This largely depended on the level of perceived differences between the technical outlines of a CCCTB system and the local tax regime in the countries in which the groups currently operated. Another consideration was the level of current business activity and the associated tax compliance activity that was currently undertaken in that country.

The CCCTB tax base sharing mechanism and the composition of the various apportionment factors was considered to be an area where the most significant amounts of training was likely to be required. This was primarily at the CCCTB parent company level, but would also impact at subsidiary country level as this would be likely to represent a material change to the financial results of the group in each country and would need to be closely monitored.

Training needs would need to be monitored closely once a CCCTB had been introduced, as implementation issues could not always be fully predicted and additional training might be required post adoption.

It was commented that governments and tax authorities operating a CCCTB system would need to quickly gain a detailed understanding of the technical regulations and practical implications, as it would potentially have a very large impact on the tax revenues of the various countries opting in to the system.

One additional observation was that any decision on whether to adopt a CCCTB would need to involve consideration of whether or not to bring the group's tax compliance ‘in-house’ or whether to rely on external advisors, since any potential cost savings from adopting a CCCTB might well be offset by the costs of either training staff internally or paying for external advice as to how to operate the new system. Hence the CCCTB might delay the internalisation of tax compliance.

6.3.2 Systems and technology and change management transition issues

It was anticipated that there would be a wide ranging systems and technology impact from the adoption of a CCCTB. Transition to new systems was likely to be costly, time consuming and difficult to implement. The significant time and costs that the various groups had incurred on updating systems and technology in the transition to new accounting systems (such as IFRS), implementing Sarbanes Oxley Act (SOx) 404, or upgrading ERP systems, were considered to be comparable to the efforts that would be required to move to a CCCTB system.

It was observed that, while it was primarily internal tax reporting systems that would need to be updated for a CCCTB, there would be a significant consequential impact on other financial and management reporting systems across the group, particularly when the changes related to business wide technology, such as updating ERP systems. All existing IT infrastructure would need to be able to readily convert to a CCCTB or work-arounds would need to be found. Either way, this was likely to result in additional time or costs being incurred by the groups.

The design and implementation of CCCTB-compliant multi country consolidation software was expected by one group to cost in the region of €150,000 to €170,000. They had over 400 Microsoft Excel spreadsheets which generated the tax numbers for the financial statements. These would have to be significantly altered for CCCTB. This was primarily due to having to capture new data for the CCCTB rather than having to perform calculations under a new system.

Some groups contacted were unable to participate in this study because they were unable to get their systems to produce even rough estimates of the figures required to undertake a CCCTB effective tax rate calculation. It was felt that this issue would no doubt be exacerbated were they to have to do this under a CCCTB.

Other issues identified included a need to consider the extent to which the various different languages and GAAP issues across the CCCTB countries would be a key factor in implementing a CCCTB. It was generally felt, however, that complexities in this area would increase the time and costs required when updating IT systems and infrastructures.

Any future organisational or infrastructure changes within the group would impact on the CCCTB IT systems and this would require regular monitoring. The ability to decide every three years to elect in or out of the CCCTB would be affected by the need to significantly change the group's IT infrastructure at each opt in or out. It was, therefore, felt that either groups would need sufficiently robust systems which could operate under dual systems or they would need to make a 'once and for all' election in or out of a CCCTB.

A common comment was that the change management impact of introducing a CCCTB system would be key when considering systems and technology issues on transition. This would be expected to be somewhat similar in nature to the challenges encountered by groups when they had moved to IFRS accounting standards or adopted SOx 404 and would require considerable efforts to manage from an information technology perspective.

Supply chain management would become increasingly difficult when incorporating a CCCTB system. This was already an issue for one group who had to deal with 27 different healthcare systems and they anticipated that there would be similar issues under a CCCTB.

7. Impact of a CCCTB on effective tax rates

7.1 Scope of review

Similar to the compliance costs element of the review, the extent to which the effective tax rates of European based taxpayers may potentially be affected by the introduction of a CCCTB was considered. There were three main elements to this part of the review

- Identification of current effective tax rates.
- Review of impact of a CCCTB on groups ***before*** the effects of the apportionment factors. This provided an estimate of the impacts of the loss consolidation and tax base elements of the CCCTB.
- Review of impact of a CCCTB on groups ***after*** the effects of the apportionment factors. This provided the impact of the allocation mechanism.

The data results are set out below.

7.2 Loss relief and tax base impact

The purpose of this element of the review was to highlight the impact on the effective tax rate of items such as the removal of transfer pricing adjustments, the ability to utilise losses across the group and differences between the current tax regime and the CCCTB, before the application of the apportionment factors set out in the proposals. It is illustrative of the extent to which the CCCTB merely represents an efficient loss offset, which could potentially be available through other means.

7.2.1 Commentary

With the exception of one group, there were no significant movements at this stage. The ability to offset losses across CCCTB Member States meant that beneficial results were generated where the loss in year was transferred from a country with a low tax rate to one with a higher tax rate. Hence, one of the key drivers for whether a group would be interested in joining a CCCTB would be whether the group’s future loss profile made it a potential net beneficiary from the proposed new CCCTB loss rules.

It was notable that the effective tax rates varied significantly in each country in which the groups operated, depending on the groups’ tax profile in that country. The impact of the CCCTB also significantly distorted the effective tax rate where there were current year losses.

Having reviewed the Commission’s working papers on the likely technical framework of a CCCTB, few groups were able to identify any significant tax adjustments needed to move from existing regimes to a CCCTB. While this would need to be considered in greater detail should a transition to a CCCTB system take place, groups therefore did not expect to see significant changes to their effective bases.

7.2.2 Data

The results from this review are set out in the table below:

Group indicator	CCCTB ‘group’ average ETR rate under existing regime	CCCTB ‘group’ average ETR rate under CCCTB pre apportionment	Change in ETR from existing regime to CCCTB pre apportionment
Group A	24%	18%	-6 percentage points
Group B	32%	32%	0 percentage points

Group C	34%	34%	0 percentage points
Group D	10%	10%	0 percentage points
Group E	12%	12%	0 percentage points

Some of the key findings from this element of the review are noted below:

- ► The average effective tax rate of the groups in the study under existing regimes was 22%.
- ► The maximum decrease in effective tax rates when comparing the existing regime to a CCCTB on a pre apportionment basis was 6 percentage points.
- ► There were large impacts in effective tax rates on a country by country basis resulting from specific country loss offset, where the ability to transfer losses between CCCTB Member States with different tax rates was available.

7.3 Impact of apportionment

7.3.1 Commentary

One group, which saw an overall small increase in effective tax rates between the existing tax regime and a CCCTB post apportionment basis, was heavily impacted by the 'spread throw back' rule. The countries in which the group had a higher proportion of assets, employee numbers and payroll costs were allocated a greater portion of the 'nowhere sales'. This contributed to the increase in the effective tax rate of the group as two of the relatively lower taxed countries in the group suffered 75% of the 'no-where sales' reducing their sales by destination figure suffered.

It was notable that the various factors distributed group profits between countries. Arguably, this demonstrates that there was a disconnect between the CCCTB factors and the existing risk and reward frameworks operated by the groups. This finding correlates with the comments made by the groups that the basis used for the apportionment factors, and the exclusion of intangibles assets, etc., did not fairly represent their existing business models.

One group gave the example of one of their countries to illustrate this point. In one country they had a significant European operation with a sizeable fixed asset 'footprint'. However, the company did not assume any significant risk or share in the profits of the business and this was reflected in the transfer pricing arrangements in place. In some cases the groups had APAs in place to cover their transactions between potential CCCTB Member States and the removal of these would result in a large amount of upheaval for their organisation.

The same group said that they would in all likelihood need to review their current operations to consider the economic impact of the apportionment factors and whether the business model would need to be adjusted to reflect the results of this. It was felt that 'factor planning', subject to the anti-abuse proposals, would be something that would be given consideration if a CCCTB were to be introduced.

To a certain degree, asset and turnover rich companies included by the groups in this study were in countries with relatively comparable statutory tax rates. Therefore, allocation shifts between these companies had limited impact (though significant impact on low tax countries which had low assets and turnover). It is, therefore, possible to consider that, were this exercise to be extended to all of the countries in which the groups operated, there may be a more noticeable impact on overall effective tax rates.

7.3.2 Data

The results from this review are set out in the tables below:

Group indicator	CCCTB ‘group’ average ETR rate under CCCTB pre apportionment	CCCTB ‘group’ average ETR rate under CCCTB post apportionment	Change in ETR from pre apportionment to post apportionment
Group A	18%	17%	-1 percentage points
Group B	32%	33%	+1 percentage points
Group C	34%	38%	+4 percentage points
Group D	10%	10%	0 percentage points
Group E	12%	21%	+9 percentage points

The average movement across the population was a 2.6 percentage point increase, but this hides a significant increase for two companies in the population.

7.3.3 General apportionment comments

The introduction of a set of CCCTB profit apportionment factors drew many comments from each of the participants in the case study. The key findings are set out in the section below.

Several of the groups in the study commented that the proposed apportionment factor formula did not reflect the underlying business economics of groups in the current economy. For one of the groups, the two fundamental drivers of profit in their industry were intangible assets (both on and off balance sheet) and entrepreneurial risk taking, neither of which is considered as part of the apportionment formula. As such, they believed that the current apportionment factor formula did not reflect underlying business economics.

This was echoed by several other groups, including those which, while operating in more ‘traditional’ areas such as manufacturing and construction, also had significant intangible assets that they felt should be included in an apportionment formula. It was considered by several of the participants that the apportionment formula had the potential to redistribute wealth to the Member States with businesses with expensive assets and low productivity, rather than allowing tax revenue to accrue to those territories where economic risks are taken or key functions performed.

It was considered that there was also potential for a loss of tax revenue for those countries that have in the past provided research and development tax concessions. The example was given that, in developing a new drug, a pharmaceutical group may invest very large amounts over a period spanning up to 10 years. In such cases, where research and development tax concessions had been allowed by a particular government, they perceived that there was potential for a great tax revenue loss for that government if that group were to enter the CCCTB regime. When the new medicine was released to the market, profits would be received by the group, and the tax revenue on these profits could in fact be spread amongst 27 Member States rather than accruing to the country that had invested in the development of the intangible assets through research and development tax relief over the development phase.

The apportionment formula accordingly had the potential to distort government and multinational groups’ behaviour, encouraging Member States to put pressure on groups to increase employment and asset investment and decrease outsourcing functions or other activities that may decrease the apportionment factor for that territory. One group considered, therefore, that the aims of the fundamental freedoms enshrined in the European Commission Treaty might be imperilled if such events took place. The CCCTB appeared to the group to be an essentially protectionist policy and an unintended result of a CCCTB could be value destruction via inefficient asset ownership/allocation between Member States and enterprises, and suboptimal decision making by groups. At the very least it felt that investment decisions would be dramatically distorted by a CCCTB system. It was considered that the introduction of the apportionment factors was likely to prompt a greater focus on to those factors that were more mobile and that attention would be directed onto the impact of the apportionment factors when making business decisions.

Examples provided by the groups of where such ‘factor planning’ might occur included the consideration of pooling as much group resource as possible in a shared service centre in a low tax Member State in order to minimise the tax impact of the payroll factor on the company’s effective tax rate. Other business planning considerations which might be affected by ‘factor planning’ included the location of new factories that the group might be planning to build, or the factor profiles of groups that it might have been planning to acquire.

From a transitional perspective, considerable work would be needed to understand the likely changes to the group’s existing tax position and the changes needed to be adopted under the new regime. It was felt that it was likely that a significant amount of work would need to be undertaken in respect of ‘factor planning’ across many organisations, and that this was certainly an area that the groups would also need to consider to some degree.

7.4 The impact of intangible assets on the CCCTB tax base

One of the group’s profits stemmed predominately from intangible assets. The apportionment factors, as currently proposed for the CCCTB, include an assets factor with a definition of assets which includes only the fixed tangible assets in each Member State (although this remains subject to a large amount of continuing debate in business and political circles). On this basis, when calculating the effective tax rates for CCCTB purposes, intangible assets are excluded from the calculation. Hence, countries with intangible assets are potentially allocated a lower proportion of the tax base than if intangible assets had been included.

For the purposes of comparison we re-performed the CCCTB effective tax rate calculation for affected companies, including the intangible assets held by the principal company. This resulted in an increase in the tax base of the principal company of approximately 15 percentage points. While clearly this only represents results from one sample group, it can be seen that intangible assets have the potential to significantly distort the effective tax rates distribution across companies in groups with large intangible assets in a single location.

7.5 Other impacts on the CCCTB tax base

The case study is based on the 2007 and 2008 financial statements and views from the case study companies. Legislative changes introduced since may give rise to potential distortions under the CCCTB. For example, an increasing focus on the tax relief of interest in the aftermath of the global financial crisis may have an impact on the future developments of the CCCTB.

A definitive conclusion cannot be drawn from this piece of work however further study should be undertaken to investigate given some of the issues that arose at an operational level. For example not including intangible assets in the apportionment mechanism might lead to such a distortion mentioned above being made by groups.

8. Impact of a CCCTB on corporate tax compliance costs under enhanced cooperation

8.1 Scope of review

This element of the study looked at the impact of a CCCTB on corporate tax compliance internal hours and external service provider costs were a CCCTB to be adopted on an enhanced cooperation basis (i.e., only nine Member States rather than the full 27). As noted in the Methodology section, we have used ten as a proxy for the purposes of this review.

The groups in the case study provided details of the estimated figures using the same methodology as in the review under a full adoption basis, as set out in section 3.6.

8.2 Commentary

The overall perspective on the enhanced cooperation version of CCCTB was that this would introduce many of the complexities of the CCCTB but deliver fewer of the benefits that CCCTB was intended to deliver. Given the discussion in section 7.2, the most observable benefit was the potential reduction in transfer pricing costs. That benefit varies with the number of countries included and hence the benefit to the groups is significantly reduced under an enhanced cooperation version. In addition, any net benefit would depend on which countries are included, with the most benefit arising from the larger jurisdictions.

The increase in administration is likely to have a greater element of fixed cost and therefore unlikely to vary significantly with the reduction in the number of countries.

8.3 Data

The results from this element of the review are set out in the table below:

	Full CCCTB adoption			Enhanced cooperation			Difference between full adoption and enhanced cooperation CCCTB (in percentage points)		
Corporate Tax Compliance Activity	Internal hours	External spend	Combined hours and spend	Internal hours	External spend	Combined hours and spend	Internal hours	External spend	Combined hours and spend
Prepare and file corporate tax return	+44%	-5%	+27%	+44%	-3%	+28%	0	+2	+1
Prepare tax provision numbers	+1%	-10%	-1%	+1%	-11%	-1%	0	-1	0
Key tax administration activities	+33%	-6%	+21%	+32%	-6%	+20%	-1	0	-1
Transfer pricing related activities	-16%	-22%	-16%	-14%	-17%	-15%	+2	+5	+1
Overall[34]	**+21%**	**-5%**	**+13%**	**+21%**	**-4%**	**+13%**	0	+1	0

[34] This is the impact across all activities and hence will not be the sum of the above averages.

9. Impact of a CCCTB on effective tax rates under enhanced cooperation

9.1 Scope of review

This element of the study looked at the impact of a CCCTB on effective tax rates were it to be adopted on an enhanced cooperation (i.e., only ten Member States rather than the full 27).

The groups in the case study provided us with detailed calculations using the same methodology as in the review under a full adoption basis in section 7.

9.2 Commentary

The review results indicate that the assumed lack of inclusion of low tax rate countries reduces the impact of CCCTB on ETR under enhanced cooperation.

However, the review identified that the impact on average effective tax rates under an enhanced cooperation, rather than full adoption, basis was still notable even if the differences in rates were not as extreme as when compared to the effective tax rates under existing tax regimes.

It was notable that, for the countries deemed to be likely to join an enhanced cooperation model, there was a significant movement between the groups' effective tax rates under the existing regimes to that under the CCCTB. These movements, which varied from a decrease in effective tax rates of 3% to an increase of 2%, appear to have been a result of differences in the statutory rates of the relevant countries to which the profits were reallocated.

In contrast to full adoption basis, the ten Member States' subgroups did not have considerable losses and hence there was limited impact on a pre-allocation basis. Consistent with a full adoption basis, the countries with lower tax rates experienced an increase in effective tax rate, while those countries with higher tax rates experienced a decrease in effective tax rate.

9.3 Data

Company Indicator	ETR under existing regimes (10 MS)	CCCTB average ETR under CCCTB post apportionment (10 MS)	Change in ETR from existing regime (10 MS) to 10 MS enhanced cooperation basis
Group A	21%	20%	-1 percentage point
Group B	40%	37%	-3 percentage points
Group C	39%	40%	+1 percentage point
Group D	20%	22%	+2 percentage points
Group E	36%	38%	+2 percentage points

Some of the key data findings supporting this are listed below:

- The impact of the allocation across the smaller population of Member States was particularly dependant on the geographical spread and the asset allocation within the groups.
- The overall impact was an increase in effective tax rates but on a more marginal basis.
- Notwithstanding the limited overall change, there were nonetheless significant movements in the countries.

Appendix A Compliance costs template – for illustrative purposes only

COMPANY

Corporate Tax Compliance Benchmark Template

Company data

Key company data	
Industry	
Company headquarters	
Stock exchange listings	
Accounting year end date	
Tax year end	
Reporting currency	
Financial statements reporting GAAP	
Accounting general ledger system	
Tax reporting system	
Turnover in FY 2007	

European Company Operations Data		
Country of operation:	Function / (Employees)	Group Members

Key Tax Staff Details				
Code	Title	Location	Hourly cost €	Role Description

[INSERT COUNTRY NAME HERE]

Corporate Tax Compliance Cost and ETR Review

Compliance Cost Review	Current			Future (27 Member States)			Future (partial adoption - nine Member States)			Guidance notes
	Hours spent by country tax team on activity	External costs for related activity (€)	Other costs not covered - provide € or details	Hours spent by country tax team on activity	External costs for related activity (€)	Other costs not covered - provide € or details	Hours spent by country tax team on activity	External costs for related activity (€)	Other costs not covered - provide € or details	
Compliance Costs Data										
Tax Return Activity										Key tax return activities performed annually, including gathering data, preparing tax calculation, completing forms, internal reviews and filing of return
Financial Statement Tax Provision Activity										Key tax provision activities performed annually, including gathering data, preparing current/deferred tax calculations, preparing disclosures etc
Tax Administration										Tax administration activities performed annually, including tax authority liaison activities, obtaining tax authority rulings, maintaining elections, making tax payments and claiming refunds etc.
Transfer pricing related work										Transfer pricing activities performed annually
Other										Please provide details of other key compliance activities currently performed annually - eg, management reporting, overseas filing requirements (SEC filings etc).

Effective Tax Rate Review	Supporting data to be provided (on a country basis)	Guidance notes
Calculation Data		
Profit before tax	Please provide the following data: Country Profit and Loss account statement, Latest Country audited statutory accounts (or entity accounts for material companies where this is appropriate), Details of all key, material intra-group eliminations, consolidation adjustments etc.	
Tax charge per accounts	Please provide the following data: Tax charge figure taken from statutory accounts, Country proof of tax reconciling the profit before tax in the statutory accounts to the tax charge.	
Profits chargeable to corporation tax	Please provide local tax return for the country	Note: Taxable income for the country from the local tax return
Intra-CCCTB group adjustments		Note: Intra-CCCTB group adjustments figure should include transfer pricing and/or consolidation adjustments
Difference between CCCTB and local tax legislation		Please provide details of any known significant differences between the two systems
CCCTB Allocation Key Data		
Sales factor	Please provide the following data: Total sales and provision of services figures split by country of destination of sale.	
Assets factor	Please provide the following data: Details of total of fixed, tangible assets held in country taken from audited statutory accounts (or supporting data if not available)	Note: Assets figure should exclude inventory, intangible assets, financial assets and current assets (eg, cash)
Labour factor	Please provide the following data: Total employees in the country taken from audited statutory accounts (or supporting data if not available), Please provide the following data: Total payroll costs for the country taken from audited statutory accounts (or supporting data if not available).	Note: Employees figure should include all staff and contractors but exclude outsourced services, Payroll figure should include all salaries and wages, fringe benefits and all stock options

Compliance costs template

COMPANY
Corporate Tax Compliance
Benchmark Template
Transition Costs

	Magnitude of potential impact (Min 1 - Max 5)					Other comments on transitional impacts - quantified financial costs, location where cost borne, other collateral impacts, potential cost savings / efficiencies etc
	1	2	3	4	5	
Technical Transition Impacts						
1 Tax accounting calculations - local statutory accounts						*Example - Costs will primarily be borne at local country level by controllers group and the local tax group. Key transitional technical impacts are expected to relate to understanding the interaction between local tax statutory accounts and the CCCTB local calculation and consolidated return, any deferred tax considerations, and local GAAP presentation and disclosure issues.* *The majority of the work hours will be undertaken by the local country financial controllers and are estimated to be around 100 hours for this area. Corporate tax function time required is expected to be in the region of 75 hours for each country joining the CCCTB. These costs will be recharged to the local country under Group Service Level Agreements.* *Based on the estimated hours set out above, we would anticipate the cost of this area to be approximately EU75,000. etc*
2 Tax accounting calculations - group consolidated accounts						
4 Tax return calculations - local country level						
5 Tax return calculations - group level						
6 Understanding and implementing CCCTB allocation key						
7 Understanding and implementing impact of CCCTB losses position						
8 Understanding and implementing impact of CCCTB CCCTB transfer pricing position						
9 Interaction between CCCTB companies and non CCCTB companies						
10 Other transitional technical impacts - please specify						
Operational Transitional Impacts						
1 Staff competency evaluation and training						*Example - Staff will require training at local and HQ levels. This covers approximately 60 staff across Europe. External training will be required. Additional training on new systems and processes will be required etc.*
2 Additional resource requirements in order to manage implementation of CCCTB						
3 Systems and technology issues and change management						
4 Interaction between CCCTB companies and non CCCTB companies						
5 Other operational transitional impacts						

Appendix B Effective tax rates template – for illustrative purposes only

NB : Illustrative document intended for discussion purposes only

		9 'enhanced cooperation' member states									*Other Member States*																			
		Country A	**Country B**	**Country C**	**Country D**	**Country E**	**Country F**	**Country G**	**Country H**	**Country I**	**Country J**	**Country K**	**Country L**	**Country M**	**Country N**	**Country O**	**Country P**	**Country R**	**Country S**	**Country T**	**Country U**	**Country V**	**Country W**	**Country X**	**Country Y**	**Country Z**	**Country AB**	**Country AC**	**Consolidated 9 MS basis**	**Loss offset**
Effective tax rate calculation																														
Step 1 : Determine consolidated tax base																														
Profit before tax	A																												0	
Total tax on profit under existing regime per company data	B																												0	
Taxable profits	C																													
Add/Subtract CCCTB tax adjustments	D																												0	
Add/Subtract intra CCCTB group adjustments (TP, consol etc)	E																												0	
Total CCCTB tax base	F																												0	-
Loss offset on proportional basis	G																													
CCCTB tax base after loss allocation on proportional basis	I																												0	
	K																												N/A	
CCCTB tax payable pre-allocation (9 MS)	L																												0	
Step 2: Determine CCCTB tax base allocation factor for each country																														
Sales by destination	N																												0	
Assets	O																												0	
Labour	P																													
Employees	Q																													
	R																													
Apply allocation key formula to arrive at factor (based on 9 MS)	S																													
Step 3: Apply allocation key factor to consolidated tax base to arrive at taxable income on a country basis																														
	T																													
Apportioned tax base (on 9 MS basis)	U																													
Step 4: Deduct local country prior year losses from taxable income																														
Prior year losses deducted in current year tax calculation	V																													
	W																													
Apportioned tax base adjusted for losses (on 9 MS basis)	X																													
Step 4: Determine tax payable at local country rate																														
Determine local country tax rate	Y																													
	Z																													
Apply local tax rate to apportioned tax base (on 9 MS basis)	AA																													
Step 5: Determine effective tax rate																														
ETR (existing regime)	AB																													
	AD																													
ETR (pre CCCTB allocation - 9 MS basis)	AE																													0.0%
	AF																													
ETR (after CCCTB - 9 MS basis)	AG																													
Change in ETR																														
	AH																													
Under 9 MS basis (existing regime vs after CCCTB)	AI																													

The formula to apportion the tax base to a company A of a given group would be as follows:

$$Total\ base^{A} = \left(\frac{1}{m} \times \frac{Sales^{A}}{Sales^{Group}} + \frac{1}{n} \times \left(\frac{1}{2} \times \frac{Payroll^{A}}{Payroll^{Group}} + \frac{1}{2} \times \frac{No.of\ Employees^{A}}{No.of\ Employees^{Group}} \right) + \frac{1}{o} \times \frac{Assets^{A}}{Assets^{Group}} \right) \times CCCTB$$