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MEETING DOCUMENT

From:	Presidency
To:	High Level Working Party
Subject:	CCTB revenue assessments: summary of responses received

Delegations will find attached a post-meeting version of document 12787/2018 REV 1 which was discussed at the High Level Working Party (Taxation) on 26 October 2018.

CCTB revenue assessments: summary of responses received

I. Introduction

The HLWP of 28 February 2018 agreed that Member States would perform, on a voluntary basis, national revenue assessments on the impact of the Common Corporate Tax Base (CCTB). The deadline for these assessments was end-September 2018. For this purpose, a number of articles of the CCTB were 'frozen' to ensure a common starting point for the assessments (for more information, see doc. 8155/18).

The AT presidency circulated on 1 October a questionnaire¹ on the national revenue assessments to Member States with a deadline for replies set on 10 October. This document summarises the responses received to the questionnaires (but not the analyses themselves). All responses received until 19 October have been taken into account.

II. High-level summary

A. State of play of Member States assessments

About two thirds of Member States replied to the questionnaire, but more seem to be working on a revenue assessment. In total, 18 EU Member States replied to the questionnaire. Their responses have been categorised in table 1, indicating whether or not the questionnaire was submitted and whether or not the Member State has been or is working on a national revenue assessment, if known. This information is based on the replies to the questionnaire and on a state-of-play update in mid-September 2018.

From the 18 Member States who replied to the questionnaire, 16 have been working on a revenue assessment, but only 12 were able to report (preliminary) results. Two Member States (DE, LV) replied that they are not working on a revenue assessment. DE has not worked on an analysis since there are still “important unknowns” (e.g. exact scope). LV did not explicitly say why they have not undertaken an assessment (for more information, see footnote 5).

From the 10 Member States that have not replied to the questionnaire, 6 have stated previously that they were working on a revenue assessment, whereas 4 Member States have indicated that they are not working on an analysis (EE, UK) or at least currently not ready to work on it (CY, PT).

The Presidency underlines the importance assigned to the impact on national revenues in previous discussions, and believes that an even higher number and quality of national assessments could support the further discussion of the CCTB proposal. The Presidency

¹ 'National revenue assessments of the CCTB frozen text, *Questionnaire to Member States*'

therefore appreciates that at least 22 Member States have either been working or are currently working on an assessment.

Table 1. Categorisation of Responses to Questionnaire

		Replied to Questionnaire?		
		Yes, and reported (preliminary) results (12)	Yes, but no results (yet) (6)	No (10)
Working on a revenue assessment?	Yes (22)	AT, BE, BG, CZ ² , EL, FI, HU, HR, LU, MT, NL, SK (12)	IE ³ , IT ³ , LT ³ , SI ³ (4)	DK ⁴ , ES ⁴ , SE ⁴ , RO ⁴ , FR ³ , PL ³ (6)
	No (4)		DE ⁵ , LV ⁶ (2)	EE, UK (2)
	Unknown (2)			CY, PT (2)

B. Revenue impact

Most of the (preliminary) results, from the 12 Member States that have reported them, seem to point in the same direction as the CORTAX analysis by the European Commission. Seven Member States (AT, BG, EL, FI, HU, HR, SK) report similar results to CORTAX in direction and general magnitude; an additional two report the same direction of their impacts but with substantially different magnitudes (BE, NL) than the Commission's CORTAX analysis. Both Member States mention that they have enacted tax reforms since the CORTAX analysis was concluded. Three Member States (CZ, LU, MT) that have responded to the questionnaire do not address the comparison with CORTAX results.

The assessments suggest that the implementation of the 'frozen base' would have a modest impact on Member States tax revenues. Table 2 categorises revenue impacts of the 'frozen base'. The footnotes include information on the submitted quantified revenue impacts.

² CZ has analysed the revenue impact of the October 2016 Directive in early 2017 (i.e. not based on the 'frozen base').

³ Unknown whether they will have completed their (preliminary) assessment by 26 October.

⁴ Expected to present (preliminary) results by 26 October.

⁵ DE submitted a summary of an external study of the 2011 proposal.

⁶ LV has not analysed the impact of the frozen text. Due to their recent comprehensive corporate income tax reform, they expect that another large reform such as the introduction of the CCTB would hamper investment environment and increase uncertainty. As a result, they would expect a negative revenue impact.

Table 2. Revenue impact of the CCTB ('frozen base')

	With threshold (750 million)		Without threshold (compulsory for all)	
	<i>Quantified</i>	<i>Not quantified</i>	<i>Quantified</i>	<i>Not quantified</i>
Positive impact	BG ⁷	EL, HR	BG ⁷ , CZ ⁸ , FI ⁹	EL, HR
No/Negligible impact	AT ¹⁴ , SK ¹⁰ , NL ¹¹ , FI ⁹	LU	SK ¹⁰ , BE ¹²	
Negative impact	BE ¹² , HU ¹³		AT ¹⁴	MT

Notes:

No/negligible impact means between -1% and +1% of corporate income tax revenues. Changes in revenue not reported in % of corporate income tax revenue have been converted using exchange rates data from [Eurostat](#) and corporate tax revenue data from the Taxation Trends in the European Union report (2018 edition).

Positive/negative impact means a change of more/less than + (-) 1% of corporate income tax revenue or that a Member State has reported that the impact is positive/negative, but without quantifying it in the questionnaire.

Most Member States have used a microsimulation model for their analysis. These analyses have been done based on tax return data and, in some cases, financial data and/or data from third party data sets. Unlike CORTAX, these microsimulations are static in nature and as a result do not simulate behavioural effects. This implies that they do not account for the effects on, for example, investment or the labour market.

Most of the respondents have not quantified the article-by-article impact of the frozen CCTB text on their tax revenues. The responses indicate that in particular Article 2 (on having a threshold or not), and to a smaller extent Article 33 (individually depreciable assets), will likely have a significant revenue impact across Member States.

⁷ BG expects a changing impact over time. With the threshold, they expect -1.7% in CIT revenues in the first year, followed by +0.7% for every subsequent year. Without the threshold, they expect -16.7% in the first year, followed by +5.8% for every subsequent year.

⁸ CZ expects a CIT revenue impact of approximately +2.4% per year.

⁹ FI expects a CIT revenue impact of approximately +1% with the threshold and +2% without the threshold.

¹⁰ SK reports that the impact could be either positive or negative (+/- approximately 0.4% of CIT revenues with the threshold, +/- approximately 0.7% of CIT revenues without the threshold).

¹¹ NL expect a revenue impact of approximately -0.06% of CIT revenues. NL only looked at MNEs.

¹² BE expects an impact on their tax base of approximately -8.9% with the threshold and -0.4% without the threshold.

¹³ HU expects an impact on their 2016 CIT revenues of around -5.6%. HU only had data for single companies, not for groups.

¹⁴ Without the threshold, AT expects a CIT revenue impact of between -2% to 0% (rough estimate, please also note that, at the same time, AT GDP would slightly grow by 0.14% to 0.22%). With the threshold, the macroeconomic effects are negligible.

Some Member States have also analysed the non-frozen elements of the tax base. The most analysed elements are the loss carry forward (HU, FI, SK, CZ, IE, NL), AGI (BE, FI, IE), R&D (BG, CZ, FI, IE), deductible expenses (IE), earnings stripping rules (NL), and legal uncertainty (NL). Based on these analyses, each of these elements has a material impact on tax revenues of the Member States that have performed an analysis.

For some provisions, there is a larger divergence in the results across Member States. There are for example significant differences in the magnitude of the impact of CCTB's treatment of losses. Understanding the differences in the results could allow to accommodate Member States concerns.

<i>Questions to delegations:</i>
1. <i>Do you agree with the synthesis provided in this document?</i> 2. <i>Would Member States that have not yet completed/done their revenue assessment be prepared to deliver results and could this be expected still this year?</i> 3. <i>Would it be useful if the Commission organises a follow-up FISCALIS workshop? The workshop would provide an opportunity to discuss the outcome of the revenue assessment exercise in more depth.</i>

III. Synopsis by Question

The summary of the results on the following pages may give the impression that results are comparable, while in fact they are often based on divergent methodologies. In addition, several Member States have expressed that their analyses are work in progress and subject to changes (IE, IT, FI, HU, LT, LU, MT, NL, SI, SK). Some Member States (AT, BG, CZ, HU, IE, SI, SK) have expressed that they face data quality and completeness issues.

- 1. If a summary of your study is available in EN/FR, please attach it to this questionnaire. If not, could you briefly describe your revenue assessment? (e.g. using microsimulation, CGE model).**

Most Member States used a microsimulation model for their estimates (BE, BG, HR, EL, FI, IE, IT, HU, LT, LU, MT, NL, SI, SK). Unlike CORTAX (a computable general equilibrium model), these microsimulations are static in nature; they do not incorporate behavioural effects and changes in corporate income tax rates. AT applied a dynamic computable general equilibrium model, called ‘TaxLab’.

A small number of Member States (BE, BG, CZ, EL) submitted additional information in English on their assessments. DE sent the executive summary of a 2013 study by the Centre for European Economic Research (ZEW) of the 2011 proposal for a Common Consolidated Corporate Tax Base (CCCTB).

- 2. Please specify the data sources used in your assessment (e.g. tax administration data, ORBIS data). If data access was a major constraint to your analysis, please explain briefly.**

Member States have used:

- Tax returns combined with data from third-party datasets ORBIS, country-by-country reporting data, and annual reports (SI). This model is still under development.
- Tax returns combined with data from third-party datasets ORBIS (BE, HR, FI) or Amadeus (SK), or tax returns combined with financial statements data and information from country-by-country reports (LT).
- Tax returns and country-by-country reporting data (BG, EL, NL).
- Only tax returns (IE, IT, HU, MT).
- Country-by-country reporting as a starting point for their analysis (LU).
- Aggregate corporate tax return data and financial statements (CZ).

Several Member States (AT, BG, CZ, HU, IE, SI, SK) mentioned that data access and completeness posed a constraint on their analysis.

DE mentioned that they do not have any estimates since there are still “important unknowns” (e.g. exact scope of the CCTB directive). They expressed that it would not make sense to carry out national assessments due to international spillover effects. They speculate that if they did an assessment it would probably be very different from CORTAX as in their view CORTAX does not properly capture (i) ATAD implementation, (ii) temporary effects due to changes in depreciation, and (iii) the German local trade tax.

3. What are the results on your tax revenues (please quantify, if possible)? Do they have a positive or a negative impact on your tax revenues? Please specify both for the case of applying a EUR 750 million threshold and for the case without a threshold.

Six Member States (DE, IE, IT, LT, LV, SI) out of 18 did not reply in substance to this question. Of the 12 Member States that replied, not all present results for both the 'frozen base' scenarios with and without a threshold.

Of the ten Member States with results for the case in which the CCTB is *mandatory only to companies above the euro 750 million threshold*:

- Three (EL, HR and FI) expect a positive impact on CIT revenues, but only FI quantified the impact on their CIT revenues (+1% compared to 2016 CIT revenues)
- Two (AT, LU) expect no impact;
- One (BG) expects a changing impact over time (-1.7% in CIT revenues in first year, followed by +0.7% for every subsequent year)
- One (SK) reports that the impact could be either positive or negative (+/- approximately 0.4% of CIT revenues);
- Three (BE, HU and NL) NL expect a negative impact on their CIT revenues (-0.06% for NL - who looked only at MNEs -, -3.1% for HU and -8.9% for BE).

Of the ten Member States with results for the case in which the CCTB is *mandatory for all companies*:

- Four (EL, CZ, HR and FI) expect a positive impact on CIT revenues, FI (+2%) and CZ (+2.4 %) quantified the impact on their CIT revenues.
- One (SK) reports that the impact on CIT revenues could be either positive or negative (+/- approximately 0.7% of 2016 CIT revenues), and another (BG) reports a changing impact over time (-16.7% in first year, followed by +5.8% for every subsequent year);
- Three (AT, BE, MT) expect a negative impact on CIT revenues. BE (-0.4%) and AT (0 to -2%) quantified the impact on their CIT revenues.

Some of the Member States emphasize that if they had analyzed all provisions of the CCTB, not only those of the frozen base, their results would be different.

SI mentions that the frozen text should also have included the complete first paragraph and part of the second paragraph of article 9 on deductible expenses, as this article determines deductible expenses in general.

4. Are the results significantly different from those reported by the Commission in its CORTAX analysis¹⁵? If so, what could explain the differences?

Six Member States (DE, IE, IT, LT, LV, SI) out of 18 did not reply in substance to this question.

Responses from the 12 Member States that answered:

- Three (CZ, LU, MT) do not address the comparison with CORTAX results;
- Seven (AT, BG, EL, FI, HU, HR, SK) report results in the same direction and general magnitude as CORTAX;
- Two (BE, NL) report results in the same direction as CORTAX, but with larger differences in magnitudes, mainly because the assessment in CORTAX is based on pre-reform tax rules (both Member States have enacted tax rules since the CORTAX assessment was completed).

5. Have you also analysed the impact of elements of the directive not included in the ‘frozen’ text of the CCTB directive? If so, please describe the results of these analyses.

Most Member States that responded to the questionnaire have not analysed the non-frozen elements of the tax base. Eight Member States (BE, BG, CZ, FI, HU, IE, NL, SK,) have analysed the impact of non-frozen elements of the directive. The most analysed elements are the loss carry forward¹⁶ (CZ, FI, HU, IE, NL, SK), AGI¹⁷ (BE, FI, IE), R&D¹⁸ (BG, CZ, FI, IE), deductible expenses (IE: not quantified) and earnings stripping rules (NL: see next page).

Other remarks by Member States:

- HR mentions that while they have not analysed the non-frozen elements in detail, they expect a negative revenue impact from them.
- HU mentions that because the frozen text does not include deductible items except for depreciation, while they have a significant amount of additional deductible items, the non-frozen elements could have a significant impact on their tax revenues.
- NL mentions that based on their experiences, tax payers go to court because of ambiguity in the interpretation of new tax measures. They estimate that this will decrease their tax revenues by EUR 250 million per year for five years.
- NL mentions that closing their patent box would result in a positive revenue impact of 600 million euro per year (0.25% of CIT revenues)

¹⁵ https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_paper_66.pdf

¹⁶ See table 3 for revenue impact.

¹⁷ See table 4 for revenue impact.

¹⁸ See table 5 for revenue impact.

- Regarding the earnings stripping rule, NL currently has a threshold of EUR 1 million of interest and no group escape. They assume that under a harmonised tax base, they would have to change this to the Anti-Tax Avoidance Directive (ATAD) rule, which has a less strict rule with a threshold of 3 million euro and a group escape. This would result in a negative impact of 300 million euro per year. SI mentions that the ‘non-frozen’ articles could have a major impact on their tax revenues.

Table 3. Revenue impact of loss carry forward

Loss carry forward	Revenue impact
CZ	Negative (annual reduction in CIT revenues of CZK 10 billion)
FI	Negative (not quantified)
HU	Negative (reduction in 2016 CIT revenue of HUF 52.5 billion)
IE	Negative (not quantified)
NL	Negative (reduction in CIT revenues of EUR 750 million per annum)
SK	Expect some impact (but unknown whether it is positive or negative)

Table 4. Revenue impact of R&D provision

R&D	Impact
BG	Negative (reduction in CIT revenues of EUR 8.7 million per annum)
CZ	Positive (annual increase in CIT revenues of CZK 1 billion)
IE	Positive ¹⁹ (not quantified)
FI	Negative (not quantified)

¹⁹ Mention that the super-deduction could result in decreased levels of R&D activity, as it is less generous than their current R&D tax incentives.

Table 5. Revenue impact of AGI

AGI	Impact
BE	Negative ²⁰
FI	Negative (not quantified)
IE	Negative (not quantified)

- 6. Please indicate which articles of the ‘frozen’ text of the CCTB have the main impacts for you (positive or negative). If there is a major impact, please explain briefly.**

Only few Member States have analysed the article-by-article revenue impact of each of the frozen articles. The article-by-article responses by Member States are set out below. Quantifications are included if provided.

- **Article 2(1c) (Scope):** EL and HR expect only a small impact from removing the threshold. FI expects a positive revenue impact from abolishing the threshold. MT has only analysed a scenario without the threshold. BG, HU, IE, and NL expect that abolishing the threshold will have a significant impact. Further, IE expects that abolishing the threshold would add an additional burden on SMEs relative to their cross-border activity. NL expects a major impact.
- **Article 3 (1a) (Qualifying subsidiary):** EL and IT expect no major impact. HR expects a slightly positive impact.
- **Article 4 (Definitions):** EL and IE expect a major impact from this article (not quantified). In their response, IE mention they expect a negative impact as various tax rates are applied to various forms of revenue (trading, non-trading, capital gains etc.). They assume that they would have to lower their rate to 12.5%, their current rate on trading profits, for all companies. HR expects a slight impact. FI expects no significant impact.
- **Article 7 (Elements of the tax base):** EL expects no impact. MT expects a negative impact with both the transactional basis and business asset comparison method. IE mention that they have not estimated the impact of switching the calculation of the tax base to the business asset comparison method.
- **Article 8 (d) (Exempt revenues):** EL and HR expect no impact; FI a small impact; MT a neutral impact; and IE a negative impact. IE mention that this would add a layer of complexity and that it would no longer allow IE to tax foreign dividends received from companies in other EU Member States. NL expect a positive impact of EUR 64 million. IT mention that they have analysed the article, but share no result.
- **Article 10 (Other deductible items):** EL expects no impact. SK mentions that there will be a one-year negative impact from the change of rules. MT expects a

²⁰ Degree of the impact ranges from -1.6% (with threshold) to -3.8% (without threshold) of tax base.

negative impact. HR mention that they expect a major impact from changes required to depreciation rates.

- **Article 12 (a-c) (Non-deductible items):** EL, HR, FI, IT, MT expect either no or a limited impact. As noted before, HU expects an impact because they currently have more deductible items than there are in the frozen text.
- **Article 33 (Individually depreciable assets):** BG and EL expect an impact, mentioning that differences in the useful life of assets in their national systems are different compared to the ones in the frozen text. HR expect a slightly positive impact, mentioning that the useful life of fixed assets in Croatia is shorter than in the frozen text. AT expects an impact from this article. FI expects a major positive impact. SK expects a positive impact. NL expects a negative impact of EUR 80 million a year.

Other remarks by Member States:

- AT expects that the depreciation rules will have the most significant impact on their tax revenues, when applied to all taxpayers and including a depreciation of acquired goodwill.
- IE expects that the impact on tax revenues from the depreciation rules included in the Directive is likely to be significant.
- NL mentions that the revenue loss they expect from the introduction of the CCTB stems mostly from the non-frozen elements (earnings stripping, legal uncertainty, and loss compensation).
- SI mentions that because article 9 on deductible expenses is not included in the frozen text, the deductions used in their analysis will be the same as under their current domestic legislation. Additionally, SK mentions that because allowances are not included in the frozen text, that they assume that there are no allowances.