
Rede
Kommissar
László Kovács

Dear Vice Chancellor, Dear Minister of Finance, Dear Wilhelm!

Ladies and Gentlemen!

I do feel not only pleased but privileged to have been invited to contribute to the discussion on the future of company taxation in Europe. As Commissioner responsible for taxation, I and my services are directing a great deal of efforts towards the Common Consolidated Corporate Tax Base (CCCTB).

However, before elaborating on the CCCTB, I would like to address the more general issue of tax competition. In view of the attainment of the primary objective of fair economic competition, tax competition should have certain limits.

First: Tax competition should not endanger the correct allocation of resources and therefore the economic integration.

Second: Tax competition should not be harmful. In fact, the functioning of the competitive tax systems should not introduce distortions in the

allocation of resources or revenues. Tax competition should not act as an obstacle to integrating the internal market and to financing our social model.

The present situation raises a number of concerns for the current EU-tax policy.

If tax competition results in less tax revenues, the so called “race the bottom”, this will raise concerns about the sustainability of the European social model in the long term. Total tax revenues may become insufficient for the provision of public goods and particularly social expenditure.

Alternatively, total tax revenues and public spending may be kept constant by shifting the tax burden to less mobile tax bases, such as labour, which has negative consequences on employment.

As a result, this process could lead to hampering the redistribution of income.

In the EU we observe a broad range of statutory corporate income tax rates. But their decline has been accompanied by a broadening of the tax bases and a relative stability in corporate tax revenues.

The economic literature argues that in the presence of multinational firms capable of shifting profits abroad through transfer pricing, thin capitalization or other means, it is the perfect choice for governments to reduce the statutory rates in order to reduce the incentives to shift profits abroad but to broaden the tax base on the other hand.

This can be one of the explanations for the rate-cutting and base-broadening tax reforms observed in most European countries during the past two decades.

Governments do not compete in this framework for capital or for indirect investment flows, but for profits or taxing rights. There is evidence in the literature that profit shifting among EU-countries and towards third countries seems to have a smaller impact on the location of real investments.

Understanding what the true purpose of tax competition is - attracting real factors or paper profits - is relevant for policy, because the solutions to deal with each possible type of tax competition can be different. If tax competition was especially aimed at attracting real factors, probably a good solution would be the approximation or even the harmonisation of national tax systems.

The analysis of empirical data reveals that until now the divergence in taxation rates has had a limited role in influencing the localization of investments in the EU. There are several factors determining the choice of localization of firms according to recent surveys conducted among businesses; the level of taxation is considered as the number seventh most important factor influencing the choice of a firm; other elements such as the size and the access to the markets, the investment climate, the cost and quality of labour force, the quality of infrastructure and public services were more important.

Therefore, if tax competition is primarily aimed at tax rates attracting profits, the approximation of tax rates is not necessarily the right solution in the present context. The solution should perhaps depend on the

specific mechanism of shifting profits most frequently used by firms to avoid taxes.

The CCCTB can be considered as a solution to address the profit shifting problem within participating countries. The CCCTB would reduce the incentive to shift profits by a transfer pricing manipulation of intra-group transactions of non-capital goods. Theoretically this could be replaced by incentives to shift the factors which determine how the consolidated base is shared. However, the effects of this depend on their mobility and one of the issues to be taken into account in agreeing the sharing mechanism will be the stability of the factors regarding possible manipulation.

In contrast to a common base without consolidation, a consolidated common base would increase fair tax competition because of the increased transparency. This explains why all work on corporate taxation is dedicated to the harmonisation of the tax base and does not extend to the tax rate.

The taxation problems in the internal market are known. Companies face a number of obstacles when they operate across borders in the internal

market. The role of the Commission is to remove these obstacles, and over the last few years, the Commission has been implementing some targeted measures, such as the improved Parent Subsidiary and the Merger Directives and the establishment of the Joint Transfer Pricing Forum and its ongoing work. In addition, I want to remind you of the growing number of decisions by the European Court of Justice in the field of company taxation and the effects these rulings have had on Member States' tax systems. However, making tax policy by applying individual tax cases has never been a desired or particularly successful or efficient course of actions, and that is one of the reasons why we came forward without proposals for greater coordination between tax administrations of the Member States.

The first areas we looked at concerned loss relief and exit taxation, both of which are areas where the European Court of Justice has forced change in the way that Member States deal with decisions.

Of course, the ECJ can only say what is not permitted under the Treaty, but cannot develop a tax policy. It is the Commission's job to encourage the Member States to coordinate their tax policy across the EU. At the

end of 2006, the Commission adopted a framework communication on tax policy coordination and two specific communications on loss relief and exit taxation. The preliminary reactions have been broadly positive, and I hope they will develop into concrete actions. However, these initiatives will not address the roots of the problems and we therefore need a comprehensive solution. Other institutions of the EU have also been pressing for actions on a community level. Both the European Parliament in its "Bersani-report" and the Economic and Social Committee have called for actions on company taxation highlighting in particular the opportunities offered by the CCCTB.

The business community has also been presenting many of the difficulties in the internal market as a result of tax obstacles. In addition, several Member States have individually expressed keen interest in the work of the Commission in this area. Our response was the creation of the working group on the CCCTB. Later today, you will hear more details of the encouraging progress in this group and the five subgroups. The Commission has issued two communications, the first in 2006 and the second in May this year, outlining progress and concluding that the legislative proposal should be presented in the second half of 2008.

However, there is still plenty of work to be done. There is not yet 100% support for a single particular course of action, but that should not be a surprise. The issues are complex and there is not a single solution. That is why we continue to work on the targeted issues alongside the comprehensive ones. However, as regards the CCCTB, when the issue was discussed in the June-Ecofin I was pleased by the degree of support from the Ministers for this ambitious project. I also feel a growing sense of anticipation or even impatience among tax experts for a concrete proposal from the Commission.

My services have responded by presenting at the most recent working group meeting late last month a relatively detailed outline of some of the major principles for the CCCTB. A paper has been published on the DG-Taxation and Customs Union website, and we are seeking comments from all interested parties. We also had an encouraging discussion with the Member States' experts, and we are awaiting their detailed written comments with great interest. Events like this conference can also greatly contribute to our work.

The comprehensive approach we are following is that the CCCTB should be an optional, broad, simple and consolidated tax base. And because we do not see the need for a correction of tax rates, an approach which does not involve any proposals on tax rates. We believe that this would offer the greatest benefits for the EU as a whole, reducing compliance costs and administrative burdens: Removing many of the difficulties caused by the intra-group transfer pricing, enabling cross border loss relief, providing transparency and generally creating a framework in which enterprise can flourish.

However, we have not yet completed our work and conferences such as this one can provide valuable technical input. Particularly, when they include such promising highlights as Austria's presentation of a new proposal which my services will be listening with great interest.

We have more than just the technical details to consider. We need to ensure that what we are going to propose - in addition to being technically fit for purpose - is also acceptable for both Member States' administrations and businesses. As regards businesses, I was particularly encouraged by a recent survey carried out by KPMG, which reported

significant support for the CCCTB. Taking it together with the experiences from ongoing discussions, I firmly believe that business is ready for the CCCTB, awaiting a proposal as soon as possible.

So we have institutional interest and support from the Parliament and the Economic and Social Committee in the EU, we have ongoing technical input from a range of tax professionals and we have growing interest and support from businesses. And we have started to bring together the technical details as evidenced by the recent working document on a technical outline. There are still some technical details to be clarified but we have a timetable for tackling these. In December, my services plan to present papers on both a possible administrative framework and a sharing mechanism as a starting point for discussions and comments.

This December-meeting will include a day of discussion with invited representatives of business and academia, an extended meeting similar to the successful extended meetings we had in 2005 and 2006. Organisation has already started and we shall be writing to a number of EU-wide business and academic representative bodies in the next few weeks, asking them to nominate their participants.

An additional aspect of the work is our impact assessment. Similar to all Commission legislative proposals, the proposal will be accompanied by a detailed Impact Assessment, in which we will examine a number of different ways of resolving the obstacles. This is a major exercise and we are seeking the assistance of Member States' tax administrations, business and academic experts. In addition, we have drafted a questionnaire on administrative costs and are actively seeking a Ministry who tests the questionnaire before we ask all Finance Ministries to complete it. Given the interest here in Austria, I hope the Austrian Ministry of Finance will assist us. Only when the Impact Assessment is completed, we will be able to make a proposal.

This Impact Assessment is particularly important because the CCCTB generates some "strong feelings" in some parts of the EU. I do not wish to dwell on the arguments against the CCCTB, put forward by the press and by a few parties. Not because I do not see the need to address their concerns, but because I find it difficult to understand why some commentators wish to take such a firm position before they have even seen the proposal. To be so vehemently opposed to something which has not yet been proposed, something which has not yet been tabled, seems

to me a little premature. It would be more constructive to put forward ideas on how the CCCTB can better meet the needs of Europe rather than just saying "it won't work" or "I don't want it". Commentators should look at the obstacles which our companies are suffering from and take into consideration the importance of competitiveness.

In my opinion, no one can deny that today the mission of the EU is to meet the expectation of nearly 500 million, nearly half a billion citizens, who want to have better life, more security, more solidarity and sustainability.

In order to be able to meet this expectation, we have to tackle the global challenges, first of all we have to be successful in the global competition against the United States, China, Japan, Russia, India and others. So competitiveness is of paramount importance for the EU. I know that there is already a great deal of support for the CCCTB from Member States and I believe that, as our work progresses, this will further increase. I am convinced, that only a common base with consolidation and apportionment will guarantee the full economic benefits of the internal market for nearly 500 million consumers. Anything less, for example a

common base without consolidation would seriously reduce the attractiveness and the economic efficiency of a proposal. It would represent a very modest response to what I believe is a serious issue which demands a bold and comprehensive response. I hope all Member States will eventually be convinced, and that is one of the reasons why we are working on a proposal for all Member States.

Ladies and Gentlemen,

We are now working on a legislative proposal for the CCCTB to be tabled in 2008 right after the summer break. We believe that the adoption of it will have a positive impact on company taxation in Europe and will help the EU to achieve its ambitions for growth, jobs, competitiveness and prosperity-objectives, that are supported across the EU. Therefore we are interested in inputs from all interested parties, from the stakeholders, from all the Member States, from businesses and also from events like this conference.

Before concluding, I want to express special thanks to our host county, because Austria has been supportive for the harmonisation of the

calculation of the corporate tax base from the very beginning. It was during the Austrian presidency in the first half of 2006, when we got a clear picture of the position of the Member States for the first time, which was very helpful for the Commission to further plan our work.

Ladies and Gentlemen,

Thank you very much for your attention and I wish you a fruitful exchange, a successful conference.