Business Taxation for the 21st Century

The European Commission has adopted a communication outlining business taxation for the 21st Century.

In this context of pandemic, the EU needs a robust, efficient and fair tax framework that meets public financing needs, while also supporting the recovery and the green and digital transition by creating an environment conducive to fair, sustainable and job rich growth and investment.
The EU aims to secure the area of business taxation in both the short and longer term.

EU Tax Policy Framework

A tax policy agenda must be essential, it will contribute to the overall objective of enabling fair and sustainable growth and should also contribute to supporting an inclusive recovery in line with the principles of the European Pillar of Social Rights.

The EU tax framework must be designed to contribute to a stronger Single Market for Europe's recovery. On the road to 2050, tax systems will need to be modernized to better reflect ongoing and future economic and social developments.

Concerning business taxation, they should ensure the tax burden is fairly shared across businesses and that taxable revenue is fairly shared between different jurisdictions. Digital companies tend to pay less taxes than other companies and the taxes they pay do not always benefit the countries where their activities take place.

Also, progress at EU level should be complemented by supporting national action in areas where Member States may be best placed to judge the needs of their economy and society. EU can also have an agenda-shaping and information-sharing role, as well as providing financial support for national reforms and investment.

Reform of the International Corporate Tax Framework

The EU has consistently promoted ambitious reforms at international level. The discussions will be built on 2 pillars.

Pillar 1 aims to adapt the international rules on the taxation of corporate profits to reflect the changing nature of business models, including the ability of companies to do business without a physical presence. And pillar 2 will set a floor to excessive tax competition by ensuring that multinational businesses are subject to a certain minimum level of tax on all of their profits each year.

Both pillars are in line with the Commission's vision for a business taxation framework for the 21st century. Their objectives are complementary, they mark steps towards the important principles of formulary apportionment, and a common definition of the tax base.

About the application, Pillar 1 will be mandatory for participating countries and for Pillar 2 the principal method will be an EU Directive that will reflect the OECD Model Rules with the necessary adjustments.

Going Beyond the OECD Agreement – Targeted Solutions

Targeted solutions will be proposed for the next two years with measures that improve the current system, focusing on the dual priorities of ensuring fair and effective taxation and promoting productive investment and entrepreneurship.

To ensure fair and effective taxation, the actions will be to table a legislative proposal for the publication of effective tax rates paid by large companies. And then table a legislative proposal setting out Union rules to neutralize the misuse of shell entities for tax purposes.

Concerning enabling productive investment and entrepreneurship, taxation has an important role to play in supporting businesses to invest and grow by encouraging and enabling economic decisions by entrepreneurs that are socially desirable.

The commission will adopt a recommendation on the domestic treatment of losses to ensure fair competition between companies and better support businesses during the recovery. There will also be a legislative proposal creating a Debt Equity Bias Reduction Allowance for equity financing.

Going Beyond the OECD Agreement – An EU Business Taxation Environment for the 21st century

EU business taxation environment will constitute a historic step forward towards the modernization of global business tax rules.

The lack of a common corporate tax system in the Single Market acts as a drag on competitiveness. So, the Commission will propose a new framework named BEFIT (Business in Europe: Framework for Income Taxation).

BEFIT will be a single corporate tax rulebook for the EU, based on the key features of a common tax base and the allocation of profits between Member States. It will combat tax avoidance, support job creation, provide a simpler and fairer way to allocate taxing rights between Member States, ensure reliable and predictable corporate tax revenues for Member States.

The actions for a long-term business taxation framework will be to table a proposal for BEFIT moving towards a common tax rulebook and providing for fairer allocation of taxing rights between Member States.

Disclaimer: This brief presents a summary of the European Commission proposal and does not reflect the opinion of the Malta Business Bureau.

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