

Common EU tax a recipe for disaster

Politicians managing an economy are often like cooks baking a soufflé. Both must ensure the recipe of ingredients is just right, otherwise the economy, like the soufflé, will collapse.

A key ingredient of any economy is taxation. It is an ingredient we have used to good effect in Ireland. Now the EU Commission wants to change the recipe.

The Commission has proposed a common tax base for all 25 Member States, called the Common Consolidated Corporation Tax Base or CCCTB.

CCCTB would mean two key changes. Firstly a common set of rules for the calculation of taxable income for companies operating in multiple Member States. Secondly total EU taxable income would be allocated among whichever of the 25 countries companies operate in.

Under the first change, CCCTB would be determined on what constitutes taxable profits. There are a range of methods used between Member States to arrive at a taxable profits figure, and for good reason. Everyday tax matters like land, depreciation and capital spending often differ on demographic or economic grounds. Trying to apply a one size fits all approach is a huge task that could lead to chaos.

Under the second change, instead of taxing profits *actually* earned in a Member State, profits would be totalled then *allocated* to the relevant Member State.

Tax would apply at the applicable rate of each of the countries concerned. Depending on how a company is required to allocate its profits, the amount of tax payable could rise or fall.

How any allocation is done has significant implications.

Profits could be allocated to each Member State not by how much profit is derived in that country, but rather the value of the company's assets in that country.

For some companies, their asset value may be based on the scale of their buildings or the quality of the infrastructure in the country concerned. This is often the case in Europe's higher taxed economies.

For other companies, particularly those in financial services, pharmaceuticals and information technology, their value may be based on intangible assets such as their brand, patents, R&D and innovation. This is often the case in Europe's lower taxed economies – like Ireland.

Yet ignoring the value of intangible assets is a possibility under CCCTB.

If you think CCCTB would just impact on multi-nationals, think again. CCCTB would lead to two different sets of tax rules – one for companies operating only in Ireland and another for multi-nationals. Such a possibility would be like the smoking ban applying in the bar but not in the lounge. Governments would eventually be forced into making CCCTB the norm, lumbering SMEs with additional complexities.

Member States, who under CCTB were faced with the prospect of losing substantial revenue from corporation tax, would be forced to look elsewhere to make up the deficit – that means higher taxes.

CCCTB is not just bad for Ireland, but bad for Europe. CCCTB flies in the face of achieving greater competitiveness. Big multi-nationals, faced with growing costs in Europe, are increasingly looking to the Far East. CCCTB will merely serve to hasten this trend.

The Minister for Finance, Brian Cowen has repeatedly stated the Government's position that CCCTB does not serve the interests of Ireland or the EU. In view of the potentially very negative implications arising from CCCTB, this is a position that deserves our collective support.

ENDS

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