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HARMONIZATION OF CORPORATE TAX – GENERAL GUIDELINES IN THE EU AND HARMONIZATION IN GERMANY, AUSTRIA AND ITALY

Harmonizacija davka od dobička – splošne smernice v EU ter harmonizacija v Nemčiji, Avstriji in Italiji

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Abstract

The European Union faces problems stemming from the diversity of corporate tax rates as member states apply their individual national rates for corporate taxes. The main objectives of this paper are to outline the situation in the harmonization of corporate tax in the European Union, especially as regulated in Germany, Austria and Italy, and to establish the objectives for the introduction of a common consolidated corporate tax base in the European Union. This paper examines corporate tax and the issues related to the harmonization of corporate tax. This paper also focuses on characteristics of corporate tax in Germany, Austria and Italy. The objectives for introducing a common consolidated corporate tax base and harmonizing corporate tax play a significant role in all European Union member states.

Key words: corporate tax, harmonization, Common Consolidated Corporate Tax Base, European Union

Izvleček

Evropska unija se sooča s problemom raznolikosti davčnih stopenj, saj vsaka država uporablja svoje stopnje za določevanje davka od dobička podjetij. Glavni namen prispevka je predstaviti stanje pri usklajevanju davka od dobička v Evropski uniji, še posebej davčno ureditev v Nemčiji, Avstriji in Italiji, ter pokazati, kakšni so cilji uvedbe skupne konsolidirane davčne osnove. V prispevku sta obravnavana tudi davek od dobička in stanje pri uskladitvi davčnih prihodkov, osredotočamo pa se na značilnosti dohodnine v Nemčiji, Avstriji in Italiji. Cilj uvedbe konsolidirane davčne osnove in usklajevanje davka od dobička igrata pomembno vlogo v vseh državah članicah Evropske unije.

Ključne besede: davek od dobička, harmonizacija, skupna konsolidirana davčna osnova, Evropska unija

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1 Introduction

The European Union has significantly harmonized the tax systems of member states, including Germany, Austria and Italy, in the area of the value-added taxes and excises. Meanwhile, the formation of direct taxes that mostly influence entrepreneurs' decisions and the competitiveness within the European economy (i.e., corporate tax and personal income tax) remains within the jurisdiction of each country.

Most economically developed countries have corporate tax, which falls under the group of direct taxes. Corporate tax rates differ among European Union states, creating significant disharmony and imbalance between specific companies within the union. The inequality of tax rates among European Union states is accompanied by the need for tax harmonization. Yet despite such a need, the member states apply their own corporate tax. Member states' tax systems are a fundamental feature of national sovereignty. Each state has a right to independently bring decisions regarding direct taxes, including the corporate tax, which leads to the need for harmonization; meanwhile, the European Union controls occurrences of harmful tax competition.

Therefore, the efforts of the European Union member states, including Germany, Austria and Italy, to harmonize corporate tax rates in order to facilities the business activity of certain companies and increase the competitiveness of the entire European Union, compared to the United States and Japan, are crucially important. Numerous reasons make it difficult to achieve significant results in the harmonization of corporate taxation in the European Union. A comparison of corporate tax rates in member states, especially in Germany, Austria and Italy, highlights the diversities in the implementation of such a tax form. Thus, the aim of the European Commission is to establish a common consolidated corporate tax base in the EU.

This paper will outline the state of the corporate tax harmonization in the European Union as well as significant changes that occurred in the field of corporate tax in Germany, Austria and Italy and the objectives of a common consolidated corporate tax base.

2 Corporate tax in the European Union

The European Union includes 27 different tax systems, including the corporate tax system. The entire area of the European Union acts as a large joint market in conducting commercial activities; however, when it comes to taxes, a significant imbalance exists among member states. Such an imbalance creates the possibility for companies to avoid paying taxes due to a wide spectrum of tax regulations. The European Commission reacted to the problem with a proposition to introduce the Common Consolidated Corporate Tax Base (CCCTB) in 2001 and 2003. The CCCTB would allow companies doing business in the common market to apply equal rights to calculate the corporate tax base in different member states. The CCCTB is a model aimed at achieving the harmonization of corporate tax in the European Union, especially for companies that profit in several member states. Corporate tax is in every tax system of the member states as well as outside them; it belongs to the group of direct taxes. Member states' tax rates for the corporate tax are proportional and vary between 10% and 35%. Table 1 and Figure 1 show corporate tax rates in the European Union, according to member states, in 2009 and 2010.

The highest corporate tax rate in 2009 and 2010 was recorded in Malta (35%), while the lowest rate of 10% was implemented in Bulgaria and on Cyprus (see Table 1). Table 1 also shows that the Czech Republic, Greece, Hungary and Slovenia have reduced their corporate tax rates by 1% in 2010. The Czech Republic, Hungary and Slovenia reduced their corporate tax rates in relation to the overall tax rate by 5% whereas Greece did so by 4% with regard to 2009 (see Figure 1).

Table 1: *Corporate tax rates of European Union member states*

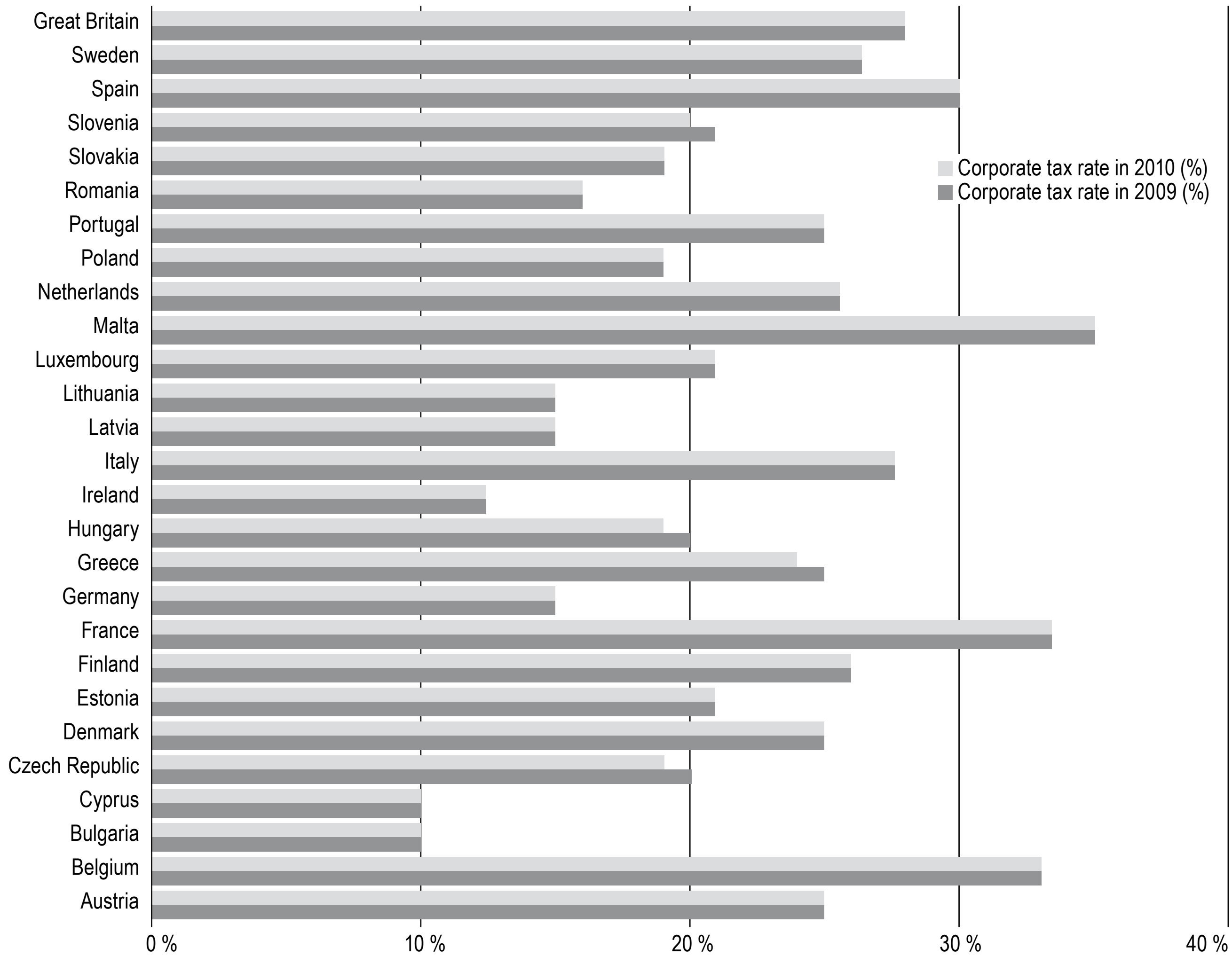
EU Member State	Corporate tax rate in 2009 (%)	Corporate tax rate in 2010 (%)
Austria	25	25
Belgium	33	33
Bulgaria	10	10
Cyprus	10	10
Czech Republic	**20**	**19**
Denmark	25	25
Estonia	21	21
Finland	26	26
France	33,33	33,33
Germany	15	15[1]
Greece	**25**	**24**
Hungary	**20**	**19**
Ireland	12,5	12,5
Italy	27,5	27,5
Latvia	15	15
Lithuania	15	15
Luxembourg	21	21
Malta	35	35
Netherlands	25,5	25,5
Poland	19	19
Portugal	25	25
Romania	16	16
Slovakia	19	19
Slovenia	**21**	**20**
Spain	30	30
Sweden	26,3	26,3
Great Britain	28	28

Source: Taxation of Corporate and Capital Income, OECD, 2011.

The harmonization of direct taxes originated to a certain extent in 1990, when the Ruding Committee was founded. Upon the European Commission request, the Ruding Committee developed a report aimed to define stability and establish stronger connections between corporate taxation in the European Union and common market development. Since then, the European Union has managed to harmonize taxation using various directives, including Council Directive 90/434/EEC on a common taxation system applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different member states; Council Directive 2003/49/EEC on a common taxation system applicable to interest and royalty payments made between associated companies of different

1 Corporate tax rate is 15% plus and solidarity supplement, amounting to the 5.5% corporate tax.

Figure 1: *Corporate tax rates of European Union member states*



Source: Taxation of Corporate and Capital Income, OECD, 2011.

member states; and Council Directive 90/435/EEC on the common taxation system applicable in the case of parent companies and subsidiaries of different member states.

The European Union has sought to implement guidelines in order to solve the problem of double taxation of dividends and problems associated with direct taxation in order to establish the common European market. In the European Union, corporate income tax plays a significant role in reaching investment decisions in companies. Attracting new companies in certain states greatly depends on corporate tax. The aim is to attract more foreign companies to a certain state via lower corporate tax rates in order to achieve economic growth and make the market more dynamic. In addition to the lower corporate tax rates, corporate tax exemptions are available in certain conditions that attract big investors. When it comes to the corporate tax, the European Union has two goals: prevent harmful tax competition among member states and allow for free capital movement. The coordination of direct tax systems is a unique solution for removing barriers of corporative taxpayers who earn corporate profits in more than one member state. Such coordination aims to develop the successful and efficient functioning of certain member states' national systems.

Member states' propositions have served as the basis for the conclusion that several issues exist relevant to establishing a common tax base, including (COM, 2003: 726):

1. Accounting dependency, referring to whether the tax base is defined by the International Financial Reporting Standards or independently;
2. Detailed technical work, which may be useful for creating a base for the International Financial Reporting Standards as a common point for the European Union; and
3. Applicable tax principles.

It should also be emphasized that adequate support from member states is crucial for making the European Union one of the major competitors against the United States and Japan.

3 Characteristics of corporate tax in Germany, Austria and Italy

The Federal Republic of Germany has several types of taxes, and the system itself is fairly complicated. The most important corporative taxes include revenue tax, legal entities income tax, tax on commercial activity of a company, and trade and turnover tax. Only legal entities with residence in Germany are subjected to corporate tax. In addition, subsidiaries of foreign companies are treated as national legal entities and thus also pay corporate tax. In 2010, the corporate tax rate was 15% plus a solidarity supplement amounting to 5,5% of the corporate tax. Large industrial legal entities that pay corporate tax also pay tax on trade, which is calculated and paid at the municipality level. Depending on the municipality within which the company's seat is located, the tax rate can vary between 10% and 20% of the profit. German residents are also subject to revenue tax, which varies between 15% and 45%. The annual amount per person that is exempted from the revenue rate was 7,834 EUR in 2009 and 8,004 EUR in 2010. Dividends and other profits paid by the resident companies are subject to withholding tax at a rate of 25% (European Tax Handbook, 2010). This withholding tax applies to income after the deduction of dividends and is confirmed without a percentage deduction. Withholding tax (25%) is included in the interest that banks pay and interest paid on certain bonds to residents.

The tax reform that has been implemented since 2008 has focused on increasing international tax and Germany's economic competitiveness. Significant changes that have occurred in tax reform include (Kokotec-Novak, 2008):

1. Reduction of the nominal taxation rate on economic companies' profits from 25% to 15%;
2. Limitations with regard to the calculation of interest as a tax expense;
3. Measures defining that it is not possible to calculate a tax loss; and
4. Measures for participants and dividend receivers.

Economic companies in Germany at the time were also subjected to a significant reduction in the corporate tax rate, from 25% to 15%, to create a less burdensome corporative tax and entice production and greater opportunity for competitiveness throughout the European market.

In the Republic of Austria, subjects to the corporate tax are determined by the law and include (European Tax Handbook, 2010):

1. Joint-stock companies (e.g., AG);
2. Limited liability companies (e.g., GmbH);
3. Private trust funds;
4. Commercial companies governed by public units; and
5. Associations, institutions and foundations without independent legal existence and property accumulation for specific purposes.

Corporations in Austria, such as AG and GmbH, are subject to the legal entities corporate tax at a rate of 25%, which can be reduced to the 20% rate with help from different write-offs; these rates are comparable to 2010 corporate tax rates in Germany (15%) and Italy (27,5%). A 2005 tax reform implemented common taxation, providing multinational companies with the opportunity to their decrease tax base due to loses in companies abroad. The main aims of the Tax Reform Act of 2005 are to ensure Austria's advantage as an attractive place for investment and business by reducing the corporate tax rate from 34% to 25% as well as simplifying income taxation, making it equitable while simultaneously reducing citizens' tax burden with an aim of increasing personal consumption, enhancing families' lifestyle, intensifying the fight against tax evasion, and allowing for tax amnesty. Similar reform occurred in 2008 in Germany. In 2009, Austria's revenues from corporate tax amounted to 33,299,454 million EUR, which is an 11,72% decrease compared to 2008, when revenues from corporate tax amounted to 37.714.391 million EUR (Bureau of Statistics of the Republic of Austria, 2011). In 2009, companies' revenues decreased due to the global economic crisis and business loses, as well as profit tax revenues. In addition to the 25% rate, a lower tax rate of 12,5% is applied to certain profits from private trusts' investments. Companies that deal with shares pay a minimum annual tax in the amount of 3,500 EUR, while limited liability companies pay 1,750 EUR. Banks and insurance companies have to pay a minimum amount of 5,452 EUR. Minimum tax is considered to be tax in advance and can be established against any future corporative tax.

Finally, Italy's tax policy in the 1990s was almost exclusively concentrated on increasing profits in order to achieve international tax aims. From 1999 to the middle of 2001, the main changes in tax systems focused on the implementation of the 1997-1998 tax reform. In the following years Italy also reformed income tax of natural persons and corporation tax. Natural persons' income tax reform aimed at reducing taxpayers' burden; it led to income reduction, levelled rate structures by decreasing the amount of tax class and minimized irregularities in the system of tax deduction and tax reliefs. Reform was implemented in two steps, in 2003 and 2005. The corporate tax reform was carried out in January 2004 with the aim of simplifying the system and reducing corporate tax burden. It includes a reduction of the corporate tax rate and introduction of measures relieving dividends and shares. The Republic of Italy focused on a tax system that would be in line with other tax system of the European Union as much as possible in order to increase international competitiveness of Italian companies and attract foreign investment. The replaced system was inefficient as it mainly referred to large companies. The reform included a reduction of the corporate tax rate from 36% in 2002 to 33% in 2004; today it amounts to 27,5%. Italy has special regimes for investment funds, and non-profit companies that pay a minimum income tax are supposed to be based on the minimum return on assets. Resident companies are subjected to taxation based on their profits whereas non--resident units (including partnerships) are subjected to income generated in Italy. The 33% corporate tax rate relates to companies that, in the previous financial year, generated profits greater than 25 million EUR and engaged in certain activities in energy production. In this manner, the state determined that the companies that produce electricity from biomass, wind and solar energy are not to be subjected to taxation at the 33% rate. Companies situated in certain isolated zones in southern Italy, such as Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily, have been encouraged to use tax credits for investment in their business assets by 2013 (European Tax Handbook, 2010).

Table 2 and Figure 2 show the structure of corporate tax revenues in the entire GDP of each country.

Table 2: *Structure of corporate tax revenues in relation to GDP*

Corporate tax share in GDP in %	2006	2007	2008	2009	Average
Austria	2,3	2,6	2,6	1,9	2,35
Germany	1,4	1,4	1,1	0,7	1,15
Italy	2,9	3,3	3,0	2,4	2,9

Source: Taxation trends in the European Union, 2011.

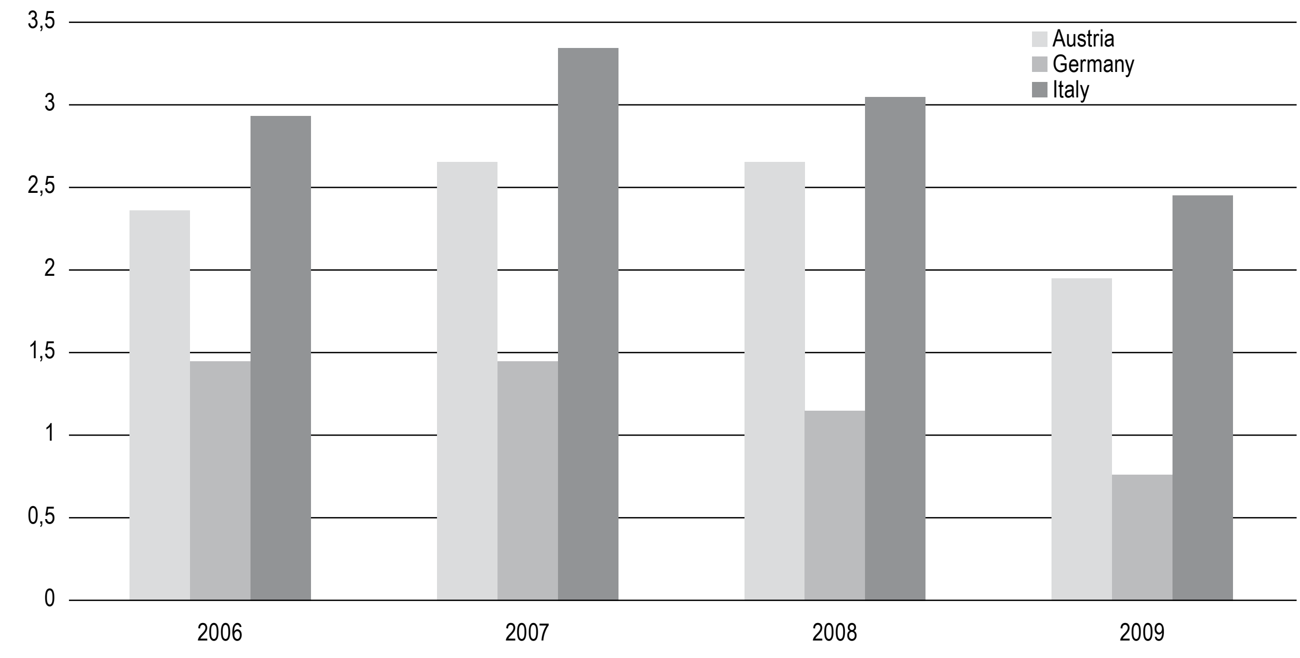
In 2009, Austria's tax burden amounted to 42,7% GDP, which is 7% above the standard European burden (EU-27 35,8%), whereas it amounted to 39,7% in Germany and 43,1% in Italy. In 2009, the share of profits from direct tax in GDP, including income tax, was 15,4% in Italy, 11% in Germany and 12,8% in Austria (Taxation trends in the European Union, 2011)

Table 2 shows that the largest share of revenues from corporate tax, in relation to GDP, occurred in Italy, followed by Austria and Germany, which is justified by the fact that Italy also has the highest corporate tax rate (27,5%). The average share of revenues from corporate tax in 2006-2009 was 2,35% for Austria, 1,15% for Germany and 2,9% for Italy, which again sets Italy as the leader with the highest revenue from profit rate in GDP.

4 Objectives for introducing the Common Consolidated Corporate Tax Base

One method to reduce barriers to cross-border business within the European Union is through the harmonization of the corporate tax base. A common corporate tax base would include the reduction of tax burdens, but it would also prevent tax avoidance and evasion in certain member states. The implementation of a common tax base in the European Union member states would increase taxation transparency, simplify taxation of profit in certain states and compare corporate tax systems among different members of the European Union more efficiently. Each group member should first calculate its own taxable profit within the common corporate tax base by applying a unique set of rules and then aggregate that profit in order to calculate the consolidated tax base.

Figure 2: *Structure of corporate tax revenues in relation to GDP*



Source: Taxation trends in the European Union, 2011.

In 2004, the member states identified four methods for corporate tax harmonization (Bettendorf et al., 2009):

1. The European Union's corporate tax rate (with the entire harmonization of rates and bases)
2. Forced harmonization methods in tax base calculation
3. Introduction of an equal harmonization method for tax base calculation to optimize it
4. Resident taxation system

Barriers to cross-border business stemming from different tax regimes include (Gammie et al., 2005):

1. High costs of paying income (e.g., cost of tax advisor or education in order to learn more about tax regulations);
2. Inability to calculate losses made in other countries within the tax base
3. Double taxation resulting from the implementation of proscribed methods of transfer price calculation in the allocation of multinational companies' profits;
4. Increased taxation of capital gains tax or double taxation in the case of the cross-border reorganisation of business (e.g., mergers, dividing a company); and
5. Double taxation due to difficulties relating to the demarcation of jurisdiction for taxation of different states.

The European Commission's main idea in introducing the CCCTB considered establishing tax profits and losses of international companies that have subsidiaries in different member states, based on standardised rules. The CCCTB is harmonized with ideas about tax systems and increasingly reflects green taxation supported by the Europe 2020 strategy. Research and development play a significant role in establishing a common tax base. All costs of research and development are calculated in accordance with the CCCTB. This approach will entice companies to continuously invest in research and development, thereby enticing the company's economic development. The CCCTB is a system of shared rules for the calculation of a tax base for companies that are tax residents of the European Union. Member states will keep their own national rules for financial accounting, and the CCCTB system will present autonomous rules for the calculation of a corporative tax base, which will lead to an increase in cross-border investment in the European Union. The European Commission adopted a proposal for a CCCTB directive (COM (2011)121/4) that is limited to companies subject to corporation tax in the European Union. The purpose of this directive is to implement the following definitions:

1. 'Taxpayer' refers to a company which has opted to apply the system provided for by the directive.
2. 'Single taxpayer' refers to a taxpayer not fulfilling the requirements for consolidation.
3. 'Non-taxpayer' means a company which is ineligible or has not opted to apply the system provided for by this directive.
4. 'Resident taxpayer' refers to a taxpayer which is resident for tax purposes in a member state.
5. 'Non-resident taxpayer' means a taxpayer which is not resident for tax purposes in a member state.
6. 'Principal taxpayer' is a resident taxpayer in a group that, with its qualifying subsidiaries, has permanent establishments located in other member states or one or more permanent establishments of a qualifying subsidiary resident in a third country; the resident taxpayer designated by a group composed of two or more resident taxpayers which are immediate qualifying subsidiaries of the same parent company residing in a third country; a resident taxpayer which is the qualifying subsidiary of a parent company resident in a third country, where that resident taxpayer forms a group solely with one or more permanent establishments of its parent; or the permanent establishment designated by a non-resident taxpayer which forms a group solely in respect to its permanent establishments located in two or more member states.
7. 'Group member' means any taxpayer belonging to the same group. When a taxpayer maintains one or more permanent establishments in a member state other than that in which its central management and control are located, each permanent establishment shall be treated as a group member.
8. 'Revenues' refers to proceeds of sales and of any other transactions, net of value added tax and other taxes and duties collected on behalf of government agencies, whether of a monetary or non-monetary nature, including proceeds from the disposal of assets and rights, interest, dividends and other profits distributions, proceeds of liquidation, royalties, subsidies and grants, gifts received, compensation and ex-gratia payments. Revenues shall also include non-monetary gifts made by a taxpayer. Revenues shall not include equity raised by the taxpayer or debt repaid to it.
9. 'Profit' means an excess of revenues over deductible expenses and other deductible items in a tax year.
10. 'Loss' means an excess of deductible expenses and other deductible items over revenues in a tax year.
11. 'Consolidated tax base' means the result of adding up the tax bases of all group members.
12. 'Apportioned share' means the portion of the consolidated tax base of a group which is allocated to a group member.
13. 'Value for tax purposes' of a fixed asset or asset pool means the depreciation base less total depreciation deducted to date.

14. 'Fixed assets' means all tangible assets acquired for value or created by the taxpayer and all intangible assets acquired for value where they are capable of being valued independently and are used in the business in the production, maintenance or securing of income for more than 12 months, except where the cost of their acquisition, construction or improvement is less than 1,000 EUR.
15. 'Financial assets' refers to shares in affiliated undertakings, loans to affiliated undertakings, participating interests, loans to undertakings with which the company is linked by virtue of participating interests, investments held as fixed assets, other loans and owned shares to the extent that national law permits their being shown in the balance sheet.
16. 'Long-life fixed tangible assets' means fixed tangible assets with a useful life of 15 years or more. Buildings, aircraft and ships shall be deemed to be long-life fixed tangible assets.
17. 'Second-hand assets' are fixed assets with a useful life that was partly exhausted when acquired and which are suitable for further use in their current state or after repair.
18. 'Improvement costs' means any additional expenditure on a fixed asset that materially increases the capacity of the asset or materially improves its functioning or represents more than 10% of the initial depreciation base of the asset.
19. 'Stocks and work-in-progress' refer to assets held for sale, in the process of production for sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
20. 'Economic owner' is the person who has substantially all the benefits and risks attached to a fixed asset, regardless of whether that person is the legal owner. A taxpayer who has the right to possess, use and dispose of a fixed asset and bears the risk of its loss or destruction shall in any event be considered the economic owner.
21. 'Competent authority' refers to the authority designated by each member state to administer all matters related to the implementation of this directive.
22. 'Principal tax authority' refers to the competent authority of the member state in which the principal taxpayer is resident or, if it is a permanent establishment of a non-resident taxpayer, is situated.
23. 'Audit' means inquiries, inspections or examinations of any kind conducted by a competent authority for the purpose of verifying the compliance of a taxpayer with this directive.

Furthermore, pursuant to the Council Directive (COM (2011) 121/4), deductible expenses shall include all costs of sales and expenses net of deductible value-added tax incurred by the taxpayer with a goal of obtaining or securing income, including costs of research and development and costs incurred in raising equity or debt for the purposes of the business. Some expenses that shall be treated as non-deductible are profit distributions and repayments of equity or debt, 50% of entertainment costs, the transfer of retained earnings to a reserve which forms part of the equity of the company, corporate tax, and bribes.

In addition to influencing the financial results of the company, certain barriers result in more cases being conducted before the European Court of Justice. Therefore, the objective of the European Commission is to try and establish an optimum common corporate tax base since, as the example shows, each country examined herein—namely, Austria, Germany and Italy—has implemented its own base and corporate tax rate. The CCCTB would provide companies with establishments in at least two member states the possibility to compute their group taxable income according to one set of rules—that is, those of the new EU tax base (European Commission, 2004).

The CCCTB should enable companies whose place of business is in other European Union states to calculate taxable profit by applying a common set of rules for the calculation of a tax base of European Union member states. In addition to companies, tax authorities would benefit from it, especially with regard to the lower administrative costs and reduced tax evasion.

5 Conclusion

The European Commission has made great efforts to create a unique CCCTB system in order to reduce the costs of harmonization of international companies. The CCCTB offers companies a common market and a set of unique corporate tax rates. The established model aims to achieve harmonization of the corporate tax base, especially for companies that earn profits in several European Union member countries. The CCCTB has further implications via compliance costs, the allocation of capital and the consolidation of losses.

The CCCTB directive, which represents an attempt to harmonize taxes at the European level, will be applied to the resident taxpayer when it forms a group with its subsidiaries and permanent establishment of a subsidiary. European member states will be able to file a single consolidated tax return for all of their activity in the European Union. Harmonization of the corporate tax base is a prerequisite for efficient functioning of the European joint market. European Union member states are sovereign in implementing tax policies. Harmonization of the corporate tax would equalize their tax competitiveness without imposing the need to open companies' seats in states with lower corporate tax rates in order to achieve better financial results. The current state of corporate taxation in the European Union includes dealing with problems of national taxation systems and significant differences in corporate taxation in different member states.

The European Union has already acted regarding the issue, but only significant efforts by the member states themselves will lead to the achievement of a certain aim, making the European Union more economically competitive than the United States or Japan.

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Sabina Hodžić je bila rojena na Reki v Republiki Hrvaški. Leta 2007 je na Fakulteti za management in gostinstvo magistrirala iz ekonomije. Trenutno je asistentka na Inštitutu za javne finance in svojo izobrazbo izpopolnjuje na bolonjskem podiplomskem doktorskem študiju. Področje njenega dela in tema doktorske disertacije so javne finance ter davčne olajšave za raziskovanje in razvoj. Znanje dopolnjuje na različnih strokovnih seminarjih, delavnicah, konferencah in v strokovni praksi. Je avtorica nekaj del, objavljenih v domačih in tujih znanstvenih časopisih ter predstavljenih na mednarodnim konferencah.