What is the main difference between the findings and conclusions of the Ruding report of 1992 and those of the present Communication and study?

A fundamental difference between the 1992 Ruding report and the present Communication and study is that the former was the outcome of the work of an external group of independent experts which had been mandated by the Commission whereas the latter represents a work carried out by the Commission itself, based on an explicit Council mandate. The scope of this mandate was moreover broader than the one received by the Ruding Committee, for instance in that it specifically calls for an examination of the tax obstacles hindering the functioning of the Internal Market.

The Commission did not subscribe to all conclusions drawn by the Ruding Committee, particularly concerning the need for introducing a compulsory band of company tax rates. The Commission endorsed other Ruding conclusions, such as those concerning the elimination of double taxation on cross-border income flows in the Internal Market, and regrets the lack of progress on these subjects since. In re-examining the Ruding report, the Commission services and its advisory panels of experts found that the basic problems raised and most of the issues considered by the Ruding-Committee are still relevant and topical. The quantitative calculations of effective tax rates, for which the present study used more indicators than the Ruding Committee, also lead to broadly the same results.

Developments in the past decade call for company taxation systems in the EU to be adapted in order to preserve and enhance economic efficiency in the Internal Market and foster the competitiveness of EU businesses. These developments include, inter alia, the increased mobility of economic factors, economic integration in the Internal Market and Economic and Monetary Union as well as the efforts to curb harmful tax competition. The new Commission strategy differs from the recommendations of the Ruding Committee in that it takes account of these developments. For instance, the Ruding Committee did not consider in great detail the tax problems related to transfer pricing, one of the main international company taxation issues today. Moreover, the Commission is now advocating that companies be allowed to operate a consolidated corporate tax base for their EU-wide activities while the Ruding Committee recommended only the harmonisation of certain elements of the tax base.

The Commission study discusses the work of the Ruding Committee and provides a detailed overview of the conclusions and recommendations of the Committee as well as the reactions by the Council and the Commission.

What company tax changes does the Commission propose following the recent adoption of the European Company Statute?

Following the agreement on the European Company Statute (Societas Europeae - SE) on 8 October, the Commission believes the tax situation of companies choosing the European Company Statute must be reviewed. It will be possible for companies to adopt this new legal form as from 2004. In the Commission's view, it is imperative that by this date the whole body of EU company tax legislation, such as the Parent/subsidiary and Merger Directives, is available to companies created under the Statute. Moreover, the full benefits of establishing a European Company will only be achieved if existing companies can form such an entity without incurring additional tax set up costs, and avoid some of the existing tax obstacles of operating in more than one Member State.
Last but not least the concept of the European Company Statute is closely linked to that of a common comprehensive approach to company taxation in the EU. The work on the technicalities that are necessary for providing companies with a consolidated corporate tax base for their EU-wide activities will therefore be particularly relevant to future SEs.

What are the implications of the Commission strategy on company taxation in the EU for small and medium-sized enterprises (SMEs)?

The Commission "two-track" strategy and the various remedies can benefit both larger companies and SMEs. It is evident that internationally active SMEs will benefit from the removal of the tax obstacles just as much as larger companies will. Inasmuch as as the tax obstacles which lead to higher compliance costs are more of a problem for companies with limited resources, SMEs will derive relatively more benefit from the removal of these obstacles.

Why is the Commission advocating a "twin track" strategy instead of concentrating its resources on a single strategy?

The Commission's approach does represent a 'single' strategy. The Commission has identified a number of specific tax obstacles. If all these were resolved the underlying problem for companies of compliance costs and complexities from having to deal with up to 15 different tax systems would still remain and the full benefits of the Internal Market would not be realised. This has led the Commission to conclude that in the longer term a common company tax system in the form of a consolidated corporate tax base is the most promising way forward.

However, to be successful the introduction of such a tax base must also address the specific obstacles, so it makes sense to begin work on the targeted solutions at the same time as examining the more comprehensive approach. Work on the specific obstacles will support the work on the comprehensive approach, and may lead to early results and thus tangible benefits for the EU. The ideal comprehensive approach has not yet been identified so it makes sense to ensure that whilst a project of this magnitude is debated and discussed we also make progress on the separate individual issues where this is possible.

Does the Commission have a preference for one or other of the "comprehensive approaches" identified in the Commission study?

The Commission identified four main approaches : Home State Taxation, a Common (Consolidated) Base, a European Union Corporate Income Tax and a harmonised single tax base in the EU. At this stage there are still a number of unanswered questions concerning each of the individual approaches and the Commission has not yet expressed a preference. The Commission has identified as the key objective the provision of a common consolidated tax base which includes cross border relief to enterprises resident in one Member State for losses incurred by branches or subsidiaries in other Member States. Not only are there technical details to be resolved for each of the approaches but there are also political questions concerning the level of support for the various possibilities which have to be taken into account. At the moment the Commission still believes that it is too early to make a choice and that each of the comprehensive approaches could potentially be developed into a successful solution. It is precisely for these reasons that the Commission is proposing to take the debate a stage further by broadening it to include all interested parties and it plans to launch this process at a European Tax Conference early in 2002.

Can the Commission provide more information on the different Member States' effective tax burdens and, in general, on the results of the analysis of tax differentials?

As both the Communication and the study point out, the broad range of data computed does not intend to present universally valid values for the effective tax burden in different countries. It only provides indicators, or illustrates interrelations in a series of given relevant situations. Essentially the effective tax rates in a particular Member State depend on the characteristics of the specific investment project concerned and on the applied methodology.
The Tables annexed to the Commission Communication give an overview of the Member States effective tax burdens in 1999 and 2001, on the basis of specific hypotheses concerning both the definition of the investment considered and the economic framework in which the investment takes place.

In general, the quantitative analysis identifies a large variation in the effective tax burden faced by investors resident in the different EU Member States, as well as in the way each country treats investments in or from other countries. Across the range of domestic and cross-border indicators there is a remarkable consistency as far as the relative position of Member States, notably at the upper and the lower ranges of the ranking, is concerned. In general, Germany and France tend to show the highest tax burden while Ireland, Sweden and Finland tend to be in the lower range of the ranking. Only Italy's ranking changes materially when the profitability of the investments changes. This is due to the working of the dual income tax system (in force until June 2001) under which a "marginal investment case" (where the post-tax rate of return just equals the alternative market interest rate) is, in fact, subsidised by being subjected to a low rate of tax, whereas the more profitable investment suffers an effective tax burden which is in the middle range of the ranking.

The EU wide spread cannot be explained by one single feature of the national tax systems. However, the analysis of general regimes tends to show that the different national nominal tax rates can explain most of the differences in effective corporate tax rates on the effective tax burden and, therefore, that tax rates differentials more than compensate for differences in the tax base.

Why does the Commission not propose any co-ordinated action on rates?

The Commission considers that the level of taxation is a matter for Member States to decide, in accordance with the principle of subsidiarity. There is no convincing evidence at this point in time which leads the Commission to believe it is necessary to recommend specific actions on the approximation of the national corporate tax rates or the fixing of a minimum corporate tax rate.