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Harmonization of european corporate taxation

MSc. Matjaž Kovač

doctoral candidate for finance and tax law at the Faculty of Law, University of Maribor;
a higher education lecturer for the subjects area Law at Alma Mater Europea;
managing director of LEKSIAKOV, legal, business, financial and tax services l.t.d.
Knafelčeva 30, Maribor, Slovenia, phone +386 30 317 879

Abstract:

The recent financial and economic crisis of the European Union had exposed the necessity to complete monetary union with an economic union. The EU's common market is one of the most important aspects of the EU's work. The creation of a common market also includes the elimination of barriers that still prevent the free movement of goods and services. The Member States agreed in the Lisbon Strategy to achieve the goal that Europe should be the most competitive economy in the world by 2020. One of the elements of a stronger economic integration is the harmonization of the tax systems (e.g. the corporate tax regimes) of the 28 Member States. The European Commission proposed a common mechanism for the calculation of the corporate tax base, the consolidation of the tax bases incurred in the different Member States and the subsequent allocation of the consolidated tax base between the Member States (formulary apportionment). The system envisaged by the European Commission is already introduced by the world highly integrated economies, like the United States of America and Canada on a domestic level, where the corporate tax base shall be also allocated between the states and the provinces based on the formulary apportionment method.

Key words: Harmonization of the Tax Base, Home State Taxation, Common Tax Base, Consolidation, Formulary Apportionment

1 Introduction

The characteristics of corporation taxation in the EU are marked by fiscal competition with many negative impacts on the performance of businesses and on the European economy. Member States are becoming increasingly aware of these negative guidelines and are therefore striving to take steps towards harmonizing direct taxation of companies in the EU internal market[1]. In the event that a group of related companies operates in different profit taxation systems, it must distribute the profits among these different systems. Member States apply separate accounting rules in determining the profits of each member in the group and the source

[1] Lenartova G. (2010), *Tax Harmonization in the European Union*, University of Economics in Bratislava, Faculty of Business Management, Department of Corporate Finance, Bratislava.

rule in the case of a profit connection with the Member State where the profit is located. Separate accounting takes into account the market principle or the rule of transfer pricing, when determining the value of transactions between members of a group. The use of separate accounting and the rules of market prices is very complex and inhibits the development of the common market. Therefore, the European Commission has proposed that Member States move from a separate accounting system to a consolidation system or a distribution mechanism for the profits generated by the group of companies in the EU. The transition from separate accounting to the distribution mechanism mechanism through the consolidation of profits requires a lot of political adjustment, since the adoption of the rules on income taxation requires the agreement of all Member States[2].

On the basis of the EU, four options for harmonizing corporate taxation were developed. The first two forms result in a high level of loss of sovereignty of taxation and should not be accepted in most Member States. These are the "European Corporate Income Tax"[3], where tax revenues would be charged by the EU budget and not by the budgets of the Member States and the "Harmonized System of Taxation of Legal Entities in the EU", where, apart from tax rates, income tax would be fully harmonized and companies would have to use the same definition of the common tax base, the consolidated group and the distribution mechanism.

The other two forms of harmonization could be politically acceptable, as they would include the following elements: the optional participation of both Member State and related entities, the common distribution formula, the determination of the relevant tax authority where the parent company is located and the use of the domestic tax system of a Member State that participates in the system[4]. These two forms are the "Common Tax Base (consolidated) basis"[5] where, within the groups of entities of the Member States, they would agree on the definition of distribution revenue, group and cross-border losses, and "Home State Taxation", where the participating entities would charge distributed income, consolidation and cross-border losses on the basis of the tax rules of the home country and on the principle of mutual cooperation.

2 Taxation of Small and Medium-Sized Enterprises (Home State Taxation - HST)

The taxation of small and medium-sized enterprises within the EU could be implemented on the basis of the Home State Taxation (hereinafter: HST). HST operates on the basis of the existing tax system and reduces the need for joint calculations and technical solutions. In most cases, it eliminates the main tax obstacles to cross-border activities between EU Member States.

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[2] Grivec J. (2007), *Harmonization of corporation tax in the EU*, Management, Year V, 4/2007, pp. 99-105.

[3] Grivec J. (2007), pp. 114.

[4] Floris De Wilde M. (2014), *Tax Competition in the European Union - Is the CCCTB-Directive a Solution?* Erasmus University Rotterdam Erasmus Law Review, Vol. 7, No. 1 1.

[5] Grivec J. (2007), pp. 114-115.

The basic concept of HST is that the income of a group of companies that originate in more than one EU Member State is taxed on the basis of the tax rules of the country in which the parent company is headquartered. EU Member States with a similar system of chargeable taxable corporate profits will adopt a system for calculating and consolidating the group's income with activities in a EuMember State participating in the HST. Companies with their headquarters and management offices outside the participating EU Member States will adopt the domestic tax system of this EU Member State and take into account activities in other participating EU Member States. The tax base for all group activities in the system will be determined on the basis of the single tax system of the home country. The participating EU Member States in which the group carries out their activities will share their shares of the tax base with each other on the basis of a special formula (formula of value added). Each entity of a Member State of the EU will use its tax rate of corporate tax on the basis of the corresponding share of the tax base in relation to the activities carried out in that EU Member State[6].

HST contains many important properties. For the use of HST, national tax systems are not necessarily identical. The HST will provide an incentive for the compliance of the basic elements of the tax system, but some differences in tax systems can be tolerated. There will also be no need to obtain consent to the adoption of common rules, as the HST system can be implemented through a convention or similar instrument agreed between those EU Member States willing to accept the HST tax calculation rules from other participating EU Member States. The HST system will also not favor a particular EU Member State or a group of countries, since they will share corporate profit and each will receive its share of the tax base. The Tax Administration will acquire with HST on the basis of mutual cooperation between EU Member States and data exchange, which will take place through the application for admission to the national tax system. It will be necessary to resolve the link between the national corporate tax system and the potential European corporate tax system. HST can affect ongoing processes to reduce or eliminate differences between national tax systems. Existing bilateral tax treaties would still be in force, with regard to the regulation of relations with third countries, with the implementation of the HST system. Each country would retain the right to determine its corporate tax rate and taxation of dividends[7].

In the introduction of the HST system, a small share of tax competition can also be expected, especially with regard to tax calculations based on the rules of enclosure within the HST system. No EU Member State adopting unfair competition rules will be admitted to the system unless it undertakes to amend or abandon such rules[8]. The HST system follows the principle of subsidiarity. Each Member State can apply its tax rates and decide on the tax burden on the corporate sector and influences the size of corporate tax rates on other parts of the national tax system.

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[6] Lodin S-O and Gammie M. (2001), *Home State Taxation*, IBFD Publications, Amsterdam, pp. 16-40.

[7] Grivec J. (2007), pp. 112-113.

[8] European Commission DG Taxation and Custom Union, Tax policy (2004), *Outline of possible experimental application of HST to small and medium-sized enterprises*, Brussels, 24 June 2004, pp. 4-9.

The HST system requires greater cohesion between the tax authorities. Companies will be liable for calculations and tax payments through a tax return. The tax authorities of the home country will have the duty to execute tax controls and will be obliged to use only their tax system in the execution of fiscal supervision. They may be able to use assistance in those Member States where subsidiaries are located. Due to the introduction of the HST system, the entire tax authority will not expand, but certain adjustments will be needed in terms of international cooperation. Joint tax control will be the basic guideline of the system.

3. Taxation of Corporations

3.1 Common Corporate Tax Base (CCTB)

One of the possibilities of solving the harmonization of direct taxation can be in the form of rules for determining the common tax base (hereinafter CCTB). The total tax base could be determined on the basis of common rules which would not include the consolidation of the tax base at group level[9].

The advantage of the CCTB system[10] would be in particular in calculating the tax base of all the companies in the group established in the EU on the basis of common rules. Regarding the administrative point of view, the establishment of the CCTB system would be much easier than with the CCCTB, since the distribution mechanism is not used in the CCTB. This would lead to most administrative activities between the tax authorities. If the CCTB system were adopted, the changes in the tax revenue would be mainly due to the differences in the determination of the tax base for the needs of the CCTB and the determination of the tax base on the basis of national tax rules. These differences could be mitigated through such tax rates in order to achieve the same amount of tax as before the use of the CCTB system. The loss of tax revenues in order to exploit the settlement of cross-border losses through different forms of tax base in accordance with the distribution formula (which is the advantage of the CCCTB) could be completely eliminated by the CCTB system. For taxpayers, the primary advantage of the CCTB would be to increase the transparency of the calculation of the tax base between EU Member States. If the rules for calculating the tax base in a uniform manner for all members of the group are determined, each taxpayer will be more likely to determine a preferential investment site by comparing only the nominal tax rates in certain Eu Member States. Differences in nominal tax rates show the difference in the effective tax rates much more precisely if the CCTB system is used rather than using national tax systems. Also, through CCTB, tax neutral cross-border changes in the structure of companies (eg acquisitions) can be carried out, or eliminated double taxation in cross-border EU cases. One of the great benefits of introducing the CCTB is the

[9] Roder E. (2012), *Proposal for an Enhanced CCTB as Alternative to a CCCTB with Formulary Apportionment*, Max Planck Institute for Tax Law and Public Finance, World Tax Journal, June 2012, pp. 137-138

[10] Council Directive on a Common Corporate Income Tax Base, Strasbourg, 25.10.2016 COM(2016) 685 final 2016/0337(CNS).

reduction of administrative costs in the group, as we have a common taxation system and no additional costs are expected, for example, by consolidation or by a sharing mechanism[11].

The major disadvantage of the CCTB system is the failure to take into account the calculation of cross-border losses, since without consolidation losses and profits within the group can not be offset. This deficiency could be eliminated if the possibility of settling cross-border losses among all EU companies belonging to the group would also be included in the CCTB system of rules. It is also a disadvantage of the CCTB system in not abolishing it within group transactions, which results in the use of transfer pricing within the group. In the CCTB, the transfer prices between group companies remain, with all the technical and administrative problems related to the use of transfer prices. Thus, with regard to both tax authorities and taxpayers, the elimination of transfer pricing results in a significant reduction in administrative costs.

3.2 Common Consolidated Corporate Tax Base (CCCTB)

The Common Consolidated Tax Base (hereinafter: CCCTB) is a system of common rules for the calculation of the tax base of companies that are tax resident in the EU and permanent business units of third-country companies in the EU. The common tax framework sets out the rules for the calculation of the tax base of each company (or permanent establishment), the tax burden of individual entities, the consolidation of the tax base, if there are other members of the group and the distribution of the consolidated tax base for each of the beneficiary companies in the EU Member State. The CCCTB is used to tackle some of the major tax barriers that limit growth in the single market. In the absence of common tax regulations, the interaction of national tax systems often leads to excessive taxation and the emergence of double taxation. Businesses face major administrative and coordination costs. Such a situation creates barriers to investment in the EU and results in non-compliance with the priorities set out in the Europe 2020 Strategy - A strategy for smart, sustainable and inclusive growth[12]. The CCCTB is an important initiative which contributes to eliminating the barriers to the completion of the single market, identifying in the Annual Growth Survey[13] as an incentive to stimulate growth from the outset to accelerate the growth and creation of new jobs[14].

The proposed system of taxation of a group of companies would technically be carried out in three steps. All taxable profits and losses of each group of companies would be consolidated irrespective of the location of individual companies in the group. The established tax base of

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[11] Roder E. (2012), pp. 138-142.

[12] Communication from the Commission (2010) "*EUROPE 2020 - A strategy for smart, sustainable and inclusive growth*", COM (2010) 2020 of 3 March 2010.

[13] Commission Communication (2010) "*Annual Growth Survey: Promoting EU Action to Achieve a Global Response to the Crisis*", COM (2011) 11 of 12 January 2010.

[14] Russo R.(2012), CCCTB: General Principles and Caracteristics in Weber D. et.al., *CCCTB; Selected Issues*, Eucotax Series on European Taxation, Wolters Kluwert, Law and Business, pp.67-78.

the group of companies would be attributed to the individual companies in the group using the distribution formula. The tax base attributed to each group company would be taxed at the national tax rate of the country in which the company is located. When determining the tax rate for the established share of the profits of a company located in its territory, Member States would remain independent[15].

A common approach would ensure the coherence of national tax systems on the basis of a common tax base, but would not interfere with the rights of countries to form a tax rate. Coordination through the CCCTB has no intention of resorting to the harmonization of tax rates. Each EU Member State will apply its own tax rates to its share of the taxable tax base. Differences in the determination of the tax rates of individual Eu Member States provide for a degree of tax competition which is to be maintained on the internal market. It allows EU Member States to take into account both their competitiveness in the internal market and the regulation and balancing of the budgetary needs of each EU Member State in tax planning[16].

3.2.1 Consolidation

Consolidation is an essential element of the CCCTB, introduced by the proposed EU directive[17], since the main tax barriers faced by companies in the EU can only be addressed in this context[18]. Consolidation eliminates formalities relating to transfer pricing and double taxation within the groups. The loss incurred by taxable persons is automatically offset by the profit generated by other members of the same group. Consolidation must include rules for distributing the result among the EU Member States in which the members of the group own their business units. Eligibility for consolidation is determined in accordance with a two-part test based on control (more than 50% of the voting rights) and ownership (more than 75% of equity) or profit rights (more than 75% of entitlements to entitle to profits)[19] . Such a test ensures a high level of economic integration between members of the group, as shown by the relationship between control and a high level of participation. That threshold must be met throughout the tax year, otherwise the company must immediately withdraw from the group. Membership in the group must last at least nine months[20]. Once the threshold of eligibility has been achieved, it is

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[15] Keijzer T. (2012), The CCCTB and the future of Taxation in Weber D. et.al., *CCCTB; Selected Issues*, Eucotax Series on European Taxation, Wolters Kluwert, Law and Business, pp. 181 -189.

[16] Augean M. (2008), The CCCTB Project and the Future of European Taxation in Lang M. et.al., *Common Consolidate Corporate Tax Base*, Linde Verlag, Vienna, pp. 11-37.

[17] Council Directive on a Common Consolidated Corporate Tax Base (CCCTB), Strasbourg, 25.10.2016 COM(2016) 683 final 2016/0336(CNS).

[18] Roder E. (2012), pp. 129-130.

[19] Sanders T. (2012), Consolidation in the CCCTB Proposal in Weber D. et.al., *CCCTB; Selected Issues*, Eucotax Series on European Taxation, Wolters Kluwert, Law and Business, pp.4-10.

[20] Oestreicher A.(2008), CCCTB - Methods of Consolidation in Lang M. et al., *Common Consolidate Corporate Tax Base*, Linde Verlag, Vienna, pp. 517-547.

calculated at the level of 100% of the share, regardless of whether the threshold of capital or capital entitlement was achieved in a lower proportion of subsidiaries.

Depending on the designation of the related company as a qualified affiliated company for consolidation purposes, the parent company will have the right to exercise more than 50% of the voting rights in the branch. This is also taken into account in the event that the threshold of entitlement is reached, the fact that the account is at the level of 100% of the voting rights. If it reaches 50% or less of the voting rights, this is calculated as if the eligibility threshold is not reached, which enables group control of any company in an indirect ownership structure. Rights that relate to a lower proportion of affiliated companies and do not reach the eligibility threshold are accounted for through product. Also resident related companies in third countries must also be taken into account. In order to fulfill the third element of the eligibility test, the parent company must achieve more than 75% of any profit of medium and small affiliated companies. The resident taxpayer forms a group with[21]:

- all their permanent establishments in other EU Member States;
- all permanent establishments in the EU Member State of their respective subsidiaries resident in a third country;
- all its relevant subsidiaries resident in one or more EU Member States;
- other taxable persons resident, which are the relevant subsidiaries of the same company resident in a third country and which meets the requirements of the Directive.

A non-resident taxable person shall establish a group with all its permanent establishment in the EU Member States and all its relevant resident subsidiaries in one or more EU Member States, including the permanent establishment of the latter in the EU Member States.

The tax bases of group members are consolidated. Where the consolidated taxable amount is negative, the loss is transferred forward and offset by the following positive consolidated taxable amount. Where the consolidated taxable amount is positive, it shall be distributed in accordance with the distribution mechanism[22].

When calculating the consolidated tax base, gains and losses on transactions directly carried out by group members are not taken into account. In order to determine an intra-group transaction, both parties must be involved in a transaction when the transaction of a member of the group is executed, with the related revenue and expenses being recognized. Groups use a consistent and properly documented method of recording intra-group transactions. Groups can change the method at the beginning of the fiscal year, only for legitimate economic reasons. The method of recording transactions within a group allows all transfers and all intra-group

[21] The KPMG Guide to CCCTB (2011), pp. 43-46.

[22] Traversa E. and Helleputte C.A. (2013), Taxation of EU resident companies under the current CCCTB framework; descriptive and critical approach to selected extraterritorial aspects in Lang M. et.al. *Corporate Income Taxation in Europe: The Common Consolidated Corporate Tax Base (CCCTB) and Third Countries*, Edward Elgar Publishing, 2013, pp. 1-49.

sales to be determined at the lowest cost and value for tax purposes. Withholding taxes or other taxes at source are not accounted for transactions between group members.

3.2.2 Distribution mechanism

The distribution mechanism is one of the most important CCCTB items. The distribution of the tax base has a significant effect on the distribution of tax revenues between EU Member States. EU Member States have not yet found compromise solutions to divide tax revenues between the participating EU Member States in a way that would be acceptable to all EU Member States. When we begin to talk about the distribution of the tax base between individual groups of companies, we are confronted with the problem of diverging opinions regarding the determination of the appropriate distribution system. On the basis of the distribution formula, the tax base should be as fairly as possible distributed among the companies within the group[23]. The consolidated tax base is divided between members of the group on the basis of a distribution formula each tax year. In determining the distributed share, the formula is the next, with the same weighting factors for sales, work and assets.

The group's consolidated tax base is only divided when it is positive. The calculation for the distribution of the consolidated tax base is carried out at the end of the tax year of the group. The determination of the distribution formula used by international companies operating in several EU countries would not only affect the tax burden on a group of companies, but would have an impact on the distribution of tax revenues between EU Member States. In determining the distribution formula, therefore, the question arises as to what weight to determine for each factor[24].

Where the principal taxpayer or the competent authority considers that the result of the distribution to a member of the group does not represent the fair volume of the business of that member of the group, the principal taxpayer or the body concerned may require the use of an alternative method as an exception to the rule. The replacement method shall be used if, after consultation between the competent authorities, all the authorities concerned agree to the alternative method. The EU Member State in which the main tax authority is located shall inform the European Commission of the alternative method used. When a company enters or leaves a group during the fiscal year, its apportioned share is calculated pro rata, taking into account the number of calendar months when the company was included in the group during the fiscal year[25].

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[23] European Commission CCCTB (2007): Possible elements of the sharing mechanism, CCCTB / WP048 / 2007.

[24] Weiner J.M. (2012), CCCTB and Formulary Apportionment: The European Commission finds the right formula in Weber D. et.al., *CCCTB; Selected Issues*, Eucotax Series on European Taxation, Wolters Kluwert, Law and Business, pp. 253-268.

[25] Roder E. (2012), pp. 130-131.

The labor factor consists of half of the total amount of payment for the work of a member of the group as a counter and the total amount of payment for the work of the group as a denominator, and half of the number of employees in the group as a numerator and the number of employees of the group as denominator. Where an individual employee is included in the factor of a member of the group, the amount of the remuneration for the work for that employee is also assigned to the factor of that member of the group. Employees are included in the factor of the member of the group from which they receive the payment. When employees physically carry out work under the supervision and with the responsibility of a member of a group that is not a member of the group from which they receive payment, these employees and the associated amount of pay for work are included in the factor of the aforementioned member of the group. The work must be carried out continuously for at least three months and employees take at least 5% of all employees of the group from whom they receive the payment. Employees include persons who are not directly employed by a member of a group, but perform tasks similar to the tasks of employees. Wage costs are valued in the amount of costs considered by the employer as deductible in the tax year[26].

The asset factor consists of the average value of all tangible fixed assets owned, rented or leased by a member of the group as a counter and the average of all tangible fixed assets owned, rented or leased by the group as the denominator. In the five years following the inclusion of a taxable person in an existing or new group, his factor of assets also includes the total amount of costs incurred by a taxable person for research, development, marketing and advertising within six years before joining the group. The asset is included in the factor of assets of the economic owner. If the economic owner can not be determined, the asset is included in the asset factor of the legal owner. If the economic owner does not effectively use the asset, the asset is included in the factor of the member of the group that actually uses the asset. However, this rule applies only to assets that account for more than 5% of the value for tax purposes of all the tangible fixed assets of a member of the group that actually uses the asset. Except in the case of a lease between members of the group, leased items are included in the asset factor of a member of a group that is the lessor or lessee of things. The same applies to property leased out[27].

Land and other tangible fixed assets that are not depreciated are valued at cost. An item of property, plant and equipment depreciated individually is valued at the average value for tax purposes at the beginning and end of the tax year. When an item of property, plant and equipment is depreciated individually, due to one or more intra-group transactions included in a group's assets factor less than one tax year, the value to be taken into account is calculated by the total number of months. The fixed assets group is valued at the average value for tax purposes at the beginning and end of the tax year. Where the lessee or lessee of a thing is not its economic owner, it shall evaluate the property leased or leased items in eight times the net annual rent or rent, minus any sums it receives from the sublease or sub-purchase. When a member of a group hires or leases a thing, but is not its economic owner, it evaluates the rented

[26] Petutsching M. (2012), *CCCTB: Effects of Formulary Apportionment on Corporate Group Entities*, Discussion Paper Nr. 38, WU Vienna, pp. 17-19.

[27] Petutsching M. (2012), pp. 19-20.

property or leased items in an eight-time net annual lease. When a member of a group after an intra-group transfer within the same or previous tax year sells the asset outside the group, the asset is included in the asset factor of the member of the group that transfers the asset for the period between the intra-group transfer and the sale outside the group. This rule shall not apply where the members of the group in question demonstrate that the intra-group transfer was carried out for legitimate economic reasons[28].

The sales factor consists of the total sales of a member of the group as a counter and the total sales of the group as denominator. Sale means the proceeds of the total sale of goods and services at discounts and refunds, excluding value added tax, other taxes and charges. Exempt income, interest, dividends, royalties and proceeds from the disposal of fixed assets are not included in the sales factor, unless they are revenue from regular trading or business. Sales of goods or services within the group are not included. The sale of goods is included in the factor of sales of a member of the group in the EU Member State in which the dispatch or transport of goods ends up with the person receiving it. If this place can not be determined, the sale of goods shall be granted to a member of the group in the EU Member State of the last determinable place of goods. Services shall be included in the sales factor of a member of the group in the EU Member State in which the services were actually provided. When income, interest, dividends and royalties are exempt, and proceeds from disposal of assets are included in the sales factor, they are allocated to the recipient. Where there is no member of the group in the EU Member State in which the goods are handed over or where the goods are delivered or if the goods are delivered or the services are supplied in a third country, the sale is included in the sales factor of all members of the group in proportion to their labor and assets factors. Where more than one member of the group is present in the EU Member State in which the goods are delivered or services are supplied, sales shall be included in the sales factor of all members of the group in the EU Member State concerned in proportion to their labor and assets factors. Items deducted from the distribution share are[29]:

- losses that are not deductible and which the taxpayer had before joining the scheme;
- losses that are not deducted and held by the group;
- amounts related to the disposal of fixed assets,
- revenues and expenses associated with long-term contracts and future expenses;
- in the case of insurance undertakings of an optional technical reservation;
- taxes where deduction is determined by national rules.

The tax liability of each member of a group is calculated by applying the national tax rate to the distributed share that is adjusted in accordance with items deducted from the shareholding share and reduced by deductions of interest and royalties and other income taxed at the source.

3.2.3 Canadian Distribution Formula

[28] Russo A. (2012), CCCTB; The Sharing Mechanism, Some Generals Considerations in Weber D. et.al., *CCCTB; Selected Issues*, Eucotax Series on European Taxation, Wolters Kluwert, Law and Business, pp. 207-218.

[29] Petutsching, M. (2012), pp. 16-17.

The Canadian distribution formula uses only two distribution factors and does not actually determine the tax base of the different members of the group but allocates income for individual Canadian districts where the company has a permanent establishment. The Canadian distribution mechanism uses the distribution factors of sales and payroll, in a proportion of 50% of the sales factor and 50% of the payroll factor[30].

Table 1: Distribution factor: Sales and Payroll (Canada)

factor	district A	district B	corporation
Sales	9.000	4.000	13.000
Payroll	6.000	3.000	9.000
Income before Consolidation	3.000	1.000	
Consolidation			4.000
Distributed Income through the Distribution Formula	2.718	1.282	

In the table above, we randomly selected the values of the factors. We can notice that income before consolidation does not necessarily equate to the income that a district receives after consolidation. District B received a larger share of income after consolidation, while district A receives a smaller consolidated share of income, which means it suffers a relative loss of tax revenue.

If we compare this result with the CCCTB distribution mechanism that does not allocate corporate income to different permanent establishments of one corporation but allocates total consolidated income to various companies, we can find that district A benefits from the distribution formula as its preconsolidation income is partly transferred to district B, which thereby takes on an increased tax payment. If we do not select the factors randomly, but are determined according to the distribution mechanism in the CCCTB system, we get a real picture of the distribution of income.

Table 2: Distribution Formula in CCCTB system

factor	district A	district B	corporation
Sales	9.750	3.750	13.000
Payroll	6.750	2.250	9.000
Income before Consolidation	3.000	1.000	
Consolidation			4.000
Distributed Income through the Distribution Formula	3.000	1.000	

3.2.4 Massachusetts-Formula

[30] Petutsching, M. (2012), pp. 12-13.

Different types of distribution formulas are used in the US states, but they are essentially based on the Massachusetts-Formula. They differ in particular in determining the relative weight of each distribution factor[31]. The Massachusetts-Formula gives the same factor the same weight (1/3). It is relatively similar to the Canadian formula, since it also takes into account the distribution of consolidated income to the permanent establishment in different US states. The formula uses three factors (sales, wages and assets) to assign consolidated income[32].

Table 3: Distribution Factor: Sales, Payroll and Property (Massachusetts-Formula)

factor	state A	state B	corporation
Sales	9.000	4.000	13.000
Payroll	6.000	3.000	9.000
Property	8.000	2.000	10.000
Depreciation 10%/15%	800	300	1.100
Income before Consolidation	2.200	700	
Consolidation			2.900
Distributed Income through the Distribution Formula	2.087	813	

The rerandomly selected values of the factors do not reflect the equality of income before and after consoli- dation, therefore, it is necessary to readjust according to the CCCTB distribution mechanism.

Table 4: Distribution Formula in CCCTB system

factor	state A	state B	corporation
Sales	9.862	3.138	13.000
Payroll	6.282	2.127	9.000
Property	7.586	2.414	10.000
Depreciation 10%/15%	834	266	1.100
Income before Consolidation	2.200	700	
Consolidation			2.900
Distributed Income through the Distribution Formula	2.200	700	

4 Conclusion

The reform of the tax system in the EU is a necessary process for more efficient operation of companies. The EU Member States want to maintain maximum autonomy in the field of fiscal policy determination in this area. Some Member States have resistance to any harmonization and unification in the field of EU tax policy. In particular, the stability, neutrality and predictability of tax laws are important for the functioning of businesses within the EU, but above all they need to know what the tax burden will be before they decide to do business in a EU Member State. In the case that all companies are subject to the same rules for calculating

[31] Petutsching, M. (2012), pp. 15.

[32] Petutsching M. (2012), pp. 13-14.

the tax base, income tax is not a key factor in the choice of investment, which consequently means greater and efficient allocation of capital within the EU and lower costs of adjustment to different tax systems. The rules of taxation should be more uniform in order to allow the EU Member States to standardize the calculations of the tax base, as they still have the possibility of regulating tax revenues on the basis of the determination of tax rates.

5 References

[1] Augean M. (2008), The CCCTB Project and the Future of European Taxation in Lang M. et.al., *Common Consolidate Corporate Tax Base*, Linde Verlag, Vienna.

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