By PwC Deutschland | 19. Juli 2022

Update: EU Commission: Communication on Business Taxation for the 21st Century

The EU needs a robust, efficient and fair business tax framework that supports the post-COVID-19 recovery, removes obstacles to cross-border investment and creates an environment conducive to fair and sustainable growth. That is why, on 18 May 2021, the Commission published the Communication on Business Taxation for the 21st Century.

The main problems addressed by the Communication

The context for EU business taxation policy has changed radically in the past year. The public health challenges stemming from the COVID-19 pandemic turned into the most drastic economic crisis in the EU history, causing rising inequality, and deeply impacting social safety nets.

The Communication sets out both a long-term vision to provide a fair and sustainable business environment and EU tax system, and a tax agenda for the next two years, with targeted measures that promote productive investment and entrepreneurship and ensure effective taxation.

What the Commission proposes

In the long-term, the Communication will create a new framework for business taxation in the EU, which will reduce administrative burdens, remove tax obstacles and foster a more business-friendly environment in the Single Market. The "Business in Europe: Framework for Income Taxation" (or BEFIT) will provide a single corporate tax rulebook for the EU, based on a formulary apportionment and a common tax base. BEFIT will cut red tape, reduce compliance costs, reduce tax avoidance opportunities and support jobs, growth and investment in the EU.

In the short term, the Communication also sets out a series of targeted initiatives to address current problems in business taxation and create a more stable, supportive and fair corporate tax framework for the future:

- Better support business, and particularly SMEs, in their recovery, with a Recommendation on the domestic treatment of losses.
- Promote innovation by addressing the debt-equity bias in corporate taxation through an allowance system.
- Ensure greater public transparency on the taxes paid by businesses, by proposing that certain large companies operating in the EU should have to publish their effective tax rates.
- Tackle the abusive use of shell companies, through new anti tax-avoidance measures.

The time-frame for the upcoming proposals is envisaged by the Commission for years 2021 through 2023.

Update (19 July 2022)

In the July 18 issue of the Official Journal of the European Union the opinion of the European Economic and Social Committee (EESC) from 23 February 2022 on the Communication from the Commission to the European Parliament and the Council on Business Taxation for the 21st Century was published.

The EESC welcomes the long-awaited Commission initiative for the strategy on business taxation in the 21st century and strongly supports and appreciates the fact that the Commission is aligning its work with the international discussions and agreements. The EESC emphasizes the need for implementation of the tax package both in the EU and, at the same time, in major trading partner countries. If Pillar 1 is not implemented in the US and other major trading partners at the same time, European businesses may be at a competitive disadvantage.

According to the EESC, another area which needs to be reviewed is the coverage of VAT. Exclusions and loopholes create complexity and result in an uneven playing field, as well as in foregone tax revenue. The Commission is encouraged to review the coverage of the VAT system.

The complete opinion of the EESC to be found **here**.

Find out more:

Communication on Business Taxation for the 21st Century

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