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Short Communication

Reduction of Corporate Taxes Across the European Union

Duan Shengtan*

Department of Accounting, Xi'an Jiaotong University, Xi'an, China

DESCRIPTION

The European Commission's proposal for a Common Consolidated Corporate Tax Base (CCCTB) aims to cut down on both the potential for tax avoidance and the costs of tax compliance for cross-border business activities inside the EU. Researchers haven't been able to fully determine the likely impact of this idea, though, due to the dearth of comparable estimates of the costs of tax compliance. Using a general equilibrium modelling strategy, we make use of recently made available special survey data intended to offer comparable data on corporate tax compliance costs in order to evaluate the impact of the CCCTB. Our findings imply that lower tax compliance expenses would lead to higher economic efficiency. More than other member states, the member states with the lowest compliance costs before to the reform and those with high stocks of inward foreign investment will profit. Additionally, international company operations would profit more than domestic ones. There would be little of an influence on non-EU nations like the United States and Japan [1].

Corporate tax evasion through international profit shifting has developed into a separate economic sector. A substantial body of research demonstrates that multinational firms take advantage of regional variations in corporate income tax laws. Through strategies including transfer pricing, debt shifting, and the tactical distribution of intangible assets among tax jurisdictions, these firms exploit existing inefficiencies and loopholes within the global tax network. This is particularly true in the European Union (EU), where there is unrestricted capital movement and dispersed taxation. The EU member states establish their own regulations to specify tax bases, tax rates, and other tax-related issues, such as tax breaks for specific forms of economic activity and/or differing tax treatment for corporate income derived from foreign sources [2]. In these situations, businesses may view tax planning as the best way to address the existence of various tax jurisdictions.

However, international tax planning and corporate tax evasion are pricey endeavors. Businesses that operate internationally must deal with numerous tax jurisdictions and procedures that need for local knowledge. These operations entail additional private expenses, such as paying local specialists and international tax officials to get the knowledge required to cope with foreign tax systems. For businesses with subsidiaries in other EU nations, the expenses of audits, litigation, and transfer pricing planning are especially important [3]. Multinational corporations incur higher costs than businesses that solely compete locally. These expenses might be substantial. There are additional expenses to economic and social planning taxes. It could affect production efficiency globally and in the EU by distorting resource allocation and displacing the economy further from the ideal first-best allocation that would be achieved in a tax-free environment. The growing social unease about income inequality is also a result of tax planning, as tax systems are frequently seen as giving multinational corporations a huge advantage over other taxpayers.

Despite the high level of economic integration between EU member states, tax compliance costs have long been seen as a significant barrier to investment across these nations. The Consolidated Common Corporate Tax Base (CCCTB) reform proposal, which the European Commission recently relaunched, aims to lower the cost of business operations at the EU level. The concept calls for the common corporate tax base (CCTB) and the single consolidated corporate tax base to be established in two main phases (CCCTB) [4]. A common tax base, standardized tax accounting standards for determining a company's taxable profits, such as those relating to amortization and depreciation periods, tax accounting procedures for inventory, and R&D expenditures, would be introduced in the first stage.

By having a single definition of the tax base, the aim is to eliminate the inconsistencies between national systems that shrewd tax planners frequently exploit and to lessen the administrative burden. A formula apportionment reflecting the geographical distribution of the multinational's activities would be used in the second stage to consolidate reporting at the level of a multinational group. When a group is consolidated, it is implied that intra-group transactions are ignored and that the consolidated group profits are distributed according to a formula

Correspondence to: Duan Shengtan, Department of Accounting, Xi'an Jiaotong University, Xi'an, China,E-mail: duanshengtan@gmail.com

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among the countries where the relevant economic activity occurred. Businesses operating across borders would be able to compare their profits in one member state to their losses in another. Only multinational groups with total consolidated sales of at least EUR 750 million are anticipated to be exempt from both measures [5].

The Computable General Equilibrium (CGE) model CORTAX was used by the European Commission services to evaluate this proposal. The assessment was based on the assumption that tax compliance costs will increase uniformly worldwide (CCCTB) in the absence of accurate and comparable projections for all EU member states. To the degree that the impact of the CCCTB is anticipated to be mitigated by a decrease in tax compliance costs, this indicates a restriction of the prior study. According to factors including their tax structure and reliance on foreign direct investment, the CCCTB is also likely to have varying effects on various nations. Utilizing a recently become data is derived on tax compliance costs from a study conducted by KPMG for the EU Executive Agency for Small and Medium-sized Enterprises, to get around these restrictions (EASME). These information can be used to calibrate the cost of tax compliance in a given nation both before and after the CCCTB. With the use of this data, we are able to offer fresh perspectives and more reliable projections of the CCCTB reform proposal's economic effects under various scenarios for lowering tax compliance costs.

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