

PRESS RELEASE

EU corporate taxation in the digital era The road to a new international order

Brussels, 14 September 2023 – The current international system that coordinates corporate income tax is increasingly unable to deal with a highly integrated and digitalised economy. To avoid taxes, multinational enterprises (MNEs) exploit the system's inadequacies by shifting profits to low or non-tax jurisdictions – about 40 % of EU MNEs' profits have been shifted to low-tax jurisdictions.

In July 2021, to ensure that profits are taxed where economic activities take place, the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) agreed on an historic two-pillar solution. Following this, in December 2021 the European Commission proposed a directive to implement Pillar Two in the EU. In December 2022, after several attempts to harmonise taxes, Member States finally and unanimously agreed to adopt the Directive, ensuring a global minimum level of taxation of 15 % for MNEs.

A new study '**EU corporate taxation in the digital era**', highlights the main developments in corporate taxation over the last few decades in both the EU and the US. It analyses MNEs' activity and profit shifting, and the impact of a 15 % minimum corporate tax. It also discusses the critical points in Pillar Two's design that have raised concerns and require careful calibration. Finally, it proposes recommendations on how to improve Pillar Two's functioning and how to implement the Business in Europe: Framework for Income Taxation BEFIT, stressing the importance of simplicity and uniformity.

Launched in February 2022, a CEPS-ECMI Task Force brought together a working group of industry experts, corporates, academia and EU/international institutions for research and discussion over a period of 18 months.

To improve the functioning of Pillar Two, the study specifically proposes that:

1. There should be **consistency** between the sequencing of the Global Anti-Base Erosion (GloBE) rules in the EU Directive and the OECD's Administrative Guidance.
2. The **principles of the single market** must be adhered to, while the constant **streamlining of national rules** should be promoted.
3. Clearly defining **safe harbours** should stabilise and substantially simplify the GloBE rules, and if this takes longer than anticipated to finalise, **extending the transitory country-by-country safe harbour rules** should be considered.
4. The rules for **settling litigation** should be a high priority within the Inclusive Framework, while **special rules at EU level** should also be considered.

To ensure the coordination of Pillar Two with the BEFIT, the study recommends that:

5. BEFIT should aim for **simplification, a reduction in compliance costs and uniformity within the EU** to **increase the EU's competitiveness**. In short, it should **build on Pillar Two rules** as much as possible. The **optionality** of rules could be considered, at least on a **temporary basis**.
6. BEFIT should be based on **strict derivation from financial reporting**, with very few corrections. For the sake of simplification and uniform application within the EU, International Accounting Standards and International Financial Reporting Standards should apply and, contrary to the GloBE rules, the **use of national accounting rules should not be allowed**.

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7. As for **when to implement** BEFIT, an adequate timespan relating to the implementation of the GloBE rules would be best, to **avoid overburdening tax administrations and taxpayers**.

“Pillar Two is a great step forward in international tax co-operation. The related EU directive strengthens the process and pushes to further integration in Europe. BEFIT is a great opportunity to remove obstacles that impact the functioning and competitiveness of the internal market. Simplicity, uniformity and the reduction of compliance costs will be the keys to its success.”

Vieri Ceriani, Chair of the Task Force, and Former Under-Secretary of State, Italian Ministry of Finance and Economy (Monti Government)

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