



News

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EU business wants single, pan-European tax system, says KPMG International study

*Clear vote in favor of Commission proposals for common corporate tax base
Majority expect system to be in place by 2015*

Tax professionals in Europe's biggest businesses are heavily in favor of European Commission proposals for a harmonized, pan-European corporate tax base, a new study from KPMG International revealed. Finance directors, tax professionals from over 400 companies, including some of the largest companies from all 27 EU countries and Switzerland, were asked their view of European Commission plans for a Common Consolidated Corporate Tax Base (CCCTB)¹. The idea was supported by 77 percent of respondents across Europe and 66 percent expected the system to be in place by 2015. Hungarian firms proved to be more optimistic in most questions than the EU average.

The Commission's plans propose that the profits of businesses operating in more than one EU member state should be calculated according to a single EU-wide formula, rather than the 27 different formulae used today. Profits would then be reallocated to the countries in which the businesses are active, to be taxed at those countries' tax rates.

The idea was supported by 77 percent of respondents across Europe. In Hungary 80 percent were in favor, similarly to Austria, Finland and Portugal. Tax professionals in the Czech Republic, Denmark and Spain were 100 percent supportive, along with 96 percent in Italy, 90 percent in Greece, Luxembourg, Poland, Romania, Slovenia and Sweden, 84 percent in Germany. Among the large economies, the UK, was most skeptical, with 62 percent in favor and 32 percent against. Only Ireland and Slovakia registered majorities against the proposal, with 50 percent opposed in each country.

Although the Commission has stressed that it is not proposing a single European corporate tax rate, 69 percent of respondents said that in addition to the common corporate tax base they would like to see a single rate for the whole of Europe. Only the U.K., Cyprus, Ireland, Poland and Switzerland recorded majorities against a single rate. Denmark was evenly split for and against, but in all other countries there was strong support for the idea.

Commenting on the KPMG survey, Kovács László, the EU Commissioner for Taxation and Customs, described the CCCTB as a key instrument that will eliminate existing fiscal obstacles throughout the European Union and will help companies to improve their competitiveness, and will support economic growth and the creation of more jobs.

László Csaba, Tax Partner at KPMG in Hungary added that the very first step would need to be the harmonization of the accounting and reporting regulations that are the foundation for the calculation of the tax base.

"Comparable, matching tax base can only result from transactions booked identically", he said.

Even though the scheme has not yet been made public, 34 percent of respondents said that their companies would definitely choose to use it, with 48 percent reserving judgment until they see the detail. Hungarians were even more cautious; 70 percent responded saying that they would wait with the answer until further details can be seen.

The KPMG survey shows that businesses were attracted by the prospect of more straightforward tax compliance and better business planning. While 22 percent thought the new system could increase the amount of tax their business pays, this was balanced by 21 percent who thought their tax bills would fall, and 42 percent who thought it would make little difference. Hungarian firms were more optimistic, with 40 percent expecting lower tax and only 20 percent expecting higher tax burden. Hungarian responses differed significantly from EU average on the possible effect the system could have on tax revenues in the EU member states: a great majority, 70 percent of respondents believed it would increase revenues for high tax rate member states at the cost of low tax rate member states, compared to a 23 percent EU average. Also, 70 percent of Hungarian respondents said CCCTB would improve their competitiveness in global markets, compared to a 36 percent EU average.

The proposals are due to be made public in 2008, and the Commission hopes that they will be in place by 2010. Many respondents thought that this timetable was optimistic, but 66 percent expected the system to be in place by 2015 and 85 percent by 2020. Only 15 percent said that it would never happen. Most Hungarian respondents (70 percent) expected the system to be in place by 2015, 20 percent by 2020, and only 10 percent said that it would never happen.

Speaking at KPMG's Tax Summit in Lisbon, Portugal, where delegates from around 200 KPMG member firms' clients have gathered to discuss European tax issues, Sue Bonney, Head of Tax for KPMG in Europe, the Middle East and Africa expressed surprise by the strength of opinion in favor of the CCCTB proposals. "Taken together with the support for a single European corporate tax rate, this is a very clear vote from business in favor of a simpler, clearer tax system, even if it requires companies to give up the benefits of choosing between the tax regimes of different countries. Business is sending a message to policymakers that they are prepared to trade choice for certainty, provided this does not result in higher tax rates and more compliance costs," said Ms Bonney.

She added that there are signs that the focus of tax competition is moving from the European to the global stage. "Eighty six percent of respondents indicated they trade outside the EU, and of these 42 percent said that a common EU tax base would make them more competitive in global markets. Our annual Corporate and Indirect Tax Rate survey shows that European corporate tax rates are among the lowest in the world. The message from business seems to be that if EU member states are able to consolidate their low rates and simplify the compliance system, they have an opportunity to win a potentially lasting global competitive advantage for European companies," she said.

Note to editors

- **¹KPMG's survey** was carried out by Lighthouse Research on behalf of KPMG International. It consisted of 403 telephone interviews covering every EU state (plus Switzerland) carried out between July and August 2007. All respondents dealt with international tax matters and came from companies doing business in more than one EU country. These were among the largest businesses in each country, 20 percent had £1bn+ turnover, the rest had a minimum turnover of £500m where possible. 10 companies operating in Hungary participated in the survey.
- **The European Commission** is planning to introduce legislation before the end of next year to bring about a Common Consolidated Corporate Tax Base (CCCTB) throughout the EU. The core of this proposal is that the profits of businesses operating in more than one EU member state should be calculated according to a single EU-wide formula, rather than the 27 different formulae used today. Profits would then be reallocated to the countries in which the businesses are active, to be taxed at those countries' tax rates. Consolidation means that companies would be able to treat all their European businesses as one business for tax purposes.

The Commission specifically says that it is not proposing to harmonize tax rates.

Various different types of profit allocation system are being considered. Profits may be allocated between countries using measures including size of payroll, by value of asset base within a particular country (excluding financial assets), sales, or other measures. The Commission intends that the consolidated system should be optional for companies. That is, they should be able to choose between it and the states-based systems as a method of calculating taxable profits.

The Commission is introducing this proposal in the interests of, "*simplifying procedures, improving efficiency and reducing compliance costs*" for businesses operating in the Single Market.

Further information on the CCCTB can be found here:

http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm

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