

## FINAL REPORT

Expert study on the corporate tax compliance costs for businesses going EU cross border - comparison under the current regime, the CCTB and the CCCTB regime

## EU PROJECT ON CORPORATE TAX COMPLIANCE COST

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## Executive Summary

The European Commission has embarked on an ambitious exercise in order to address the underlying tax obstacles which exist for companies operating in more than one Member State in the Internal Market. The European Commission is convinced that one of the ways to address these tax obstacles is to provide companies with a consolidated corporate tax base for their EU-wide activities.

The European Commission's Directorate-General responsible for Taxation and the Customs Union considers that one of the comprehensive approaches to remove the tax obstacles which companies face in the Internal Market is the Common Consolidated Tax Base (CCTB). A Commission Working Group has been created to progress work on the common consolidated tax base. This resulted in working paper prepared by the Commission Services 'CCCTB: possible elements of a technical outline' (CCCTB/WP/57).

This document is the Final Report on a study measuring the corporate tax compliance costs of corporate tax compliance (CTC)-related formalities when setting up of a new medium-sized representative subsidiary in a New Member State by a representative large or medium-sized EU parent resident of another EU Member State under the current regime of 27 national tax systems, the CCTB and the CCCTB regime. The study covered the costs under baseline and alternative investment scenarios at the representative parent and subsidiary level as retained by the Commission for measurement purposes.

## Methodology

The results of the study are based on measurements conducted in the six Member States (France, Spain, Hungary, Germany, Greece and Poland) retained by the Commission services via corporate tax expert assessments. The Standard Cost Model (SCM) that has been used for this measurement is a method for determining the administrative costs for businesses imposed by regulation. The SCM method is a way of breaking down regulation into a range of manageable components that can be assessed.

The SCM neither addresses nor questions the policy objectives of each piece of compliance formality. As such, the assessment and analysis focus only on the administrative activities that must be undertaken in order to comply with regulation, not on the benefits that accrue from the legislation.

The study retained a dual approach: investment by a large parent in a medium-sized subsidiary and the investment by a medium-sized parent in a medium-sized subsidiary. This approach was taken to obtain information regarding any potential difference in corporate compliance time and related cost between investments made by a large parent compared to medium-sized parent.

In the study the large and medium-sized EU parent and the medium-sized EU subsidiary were defined on the basis of the statistical evidence. The relevant characteristics, including intra-group transactions between parent and subsidiary, were described for the purposes of the time measurement exercise.

The time measurement through questionnaires considered:

- a baseline investment scenario by which, from a parent viewpoint, a French, Hungarian, Spanish, large/medium-sized parent makes an investment in a medium-sized Greek subsidiary;
- an alternative investment scenario in which the same parents made an investment in a German/Polish subsidiary.

The baseline investments were measured by three corporate tax experts in these jurisdictions. This investment was measured by one corporate tax expert.

The study also includes baseline investment time measurement:

- from a subsidiary perspective, i.e. a German/Greek/Polish subsidiary held by a large/medium-sized Spanish parent, and
- in the alternative investment from the same subsidiary perspective, but held by a French/Hungarian large/medium-sized parent.

The baseline investment was measured by three tax experts in Poland, Greece and Germany and the alternative investment by one tax expert.

The tax experts were requested to provide time measurement data in minutes for 10 different corporate tax compliance tasks, which were subdivided into still more detailed corporate tax formalities.

In relation to these, the expert determined per compliance task whether, according to their tax practice the task/subtask is performed 100% in house (internal) or 100% outsourced (external), or is a combination of internal and external. In order to be able to translate compliance time into monetary values, each expert had to indicate for tasks performed internally the percentage of time involved at three different skill levels (basic, medium and high) involved in performing a given corporate tax compliance task. These skill levels were then each assigned a monetary value based on a given salary cost/per hour in euro as determined for each of the skill levels in each of the respective EU Member States. In terms of outsourced tasks each expert had to insert an average fee/per hour.

This time measurement and 'monetisation' were carried out for the 10 different corporate tasks under the three different tax regimes: the current regime, the CCTB and the CCCTB. The measurement data of time and cost for the 10 corporate tax compliance tasks at the level of the parent and the subsidiary were consolidated to obtain the result at group level for the current regime, the CCTB and the CCCTB. For the analysis of CCCTB, the base assumption was retained that the parent entity would file the

consolidated return and has the contacts with Principal Tax Authority and the subsidiary would in a CCCTB regime only perform residual corporate compliance tasks. For sensitivity measurement purposes data from the respective country teams were also requested in case the aforementioned functions might be switched between the parent and the subsidiary.

The data resulting from the measurement and the monetarisation under the three different taxation regimes were analysed in order to spot trends in the impact on the total compliance time and to cost an additional new cross-border investment under the introduction of CCTB and CCCTB regime compared to the current regime with 27 different taxation regimes.

This report and the Excel data files which form an integral part of it present:

- the criteria for the definition of the representative large and medium-sized EU parent and the representative medium-sized EU subsidiary, under principles set by the European Commission in Recommendation 2003/361/EC<sup>1</sup> based on market data from Amadeus;
- the description of the respective baseline and alternative investment schemes retained by the European Commission;
- the results of the time measurement exercise of the different investment flows;
- summary cost data for six EU Member States;
- analysis of the measurement data.

## Findings

The following table sums up the corporate compliance time and cost of all investment flows under all the current regimes and CCTB and CCCTB expressed as the average of the consolidated time and compliance cost of all investment flows in the baseline and alternative investment scenarios. It shows the savings in time and money from CCTB and CCCTB relative to the current regime.

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<sup>1</sup> Commission Recommendation 2003/361/EC as published in the *Official Journal of the European Union* L 124, p. 36 of 20 May 2003.

## Corporate compliance time and cost per regime by company size

Large parent						
	Time (min.)	Time % Diff.	Cost (€)	Cost % Diff.	Consolidated turnover	Cost as % consolidated turnover
Current	87.362		140.604,00		61.218.000,00	0,23%
CCTB	78.768	-9,84%	136.891,00	-2,64%	61.128.000,00	0,22%
CCCTB	26.649	-69,50%	52.940,00	-62,35%	61.128.000,00	0,09%
Medium parent						
	Time (min.)	Time % Diff.	Cost (€)	Cost % Diff.	Consolidated turnover	Cost as % consolidated turnover
Current	83.747		127.706,00		23.123.400,00	0,55%
CCTB	74.754	-10,74%	124.837,00	-2,25%	23.123.400,00	0,54%
CCCTB	24.184	-71,12%	42.190,00	-66,96%	23.123.400,00	0,18%

Under the current regime the average compliance time for a group with a large/medium-sized parent making a new cross-border investment in a medium-sized subsidiary is estimated at 87,362 or 83,747 minutes respectively. This compliance time corresponds to an estimated additional compliance cost of EUR140,604 and EUR136,891 respectively.

The introduction of the **CCTB** is estimated to result in a **saving in compliance time of 9.84%** for a group with a **large parent** and **10.74%** for a group with a **medium-sized parent**. The estimated reduction in compliance time under the CCTB regime results in an estimated compliance **cost saving of 2.64%** for a group with a **large parent** and **2.25%** for a group with a **medium-sized parent**. The difference can be explained by the fact that there is a higher saving in time when work is carried out internally, as this is less expensive than using external advisors.

The study indicates that the CCTB regime results in only a modest change in corporate compliance time and cost. This is because the main corporate compliance cost drivers under the current regime remain unchanged, in particular transfer pricing documentation, clearances and rulings, and mutual agreement procedures. The CCTB

regime will trigger a limited reduction in time- and cost-related record keeping for corporate tax, preparation of corporate tax computations, prepayments and corporate tax returns and payments.

The introduction of the **CCCTB regime** is estimated, however, to result for a large/medium-sized group making an additional cross-border investment in a medium-sized subsidiary in a **considerable reduction in the corporate compliance time, i.e. 69.5% and 71.12% respectively**. This results in an estimated **reduction in the additional compliance cost of 62.35% for a group with a large parent and 66.96% for a group with a medium-sized parent**.

The finding of the study based on the data from the tax experts indicates that the introduction of the CCCTB regime triggers for a large or medium-sized group making a new investment in another EU Member State represents a substantial saving in corporate compliance cost as a result of the elimination or compression of corporate tax compliance tasks which are directly or indirectly linked to transfer pricing. The estimate of the elimination/reduction for the two sizes of company under the CCCTB is:

- transfer pricing documentation (-100%/-100%)
- mutual agreements (-100%/-100%)
- clearances/rulings (-88.52%/-88.42%).

Moreover, the experts estimate that on average the following compliance costs not related to transfer prices will decrease under the CCCTB regime for each size of company respectively:

- cross-border formalities (-100%/-100%)
- learning and education (-59.69%/-60.31%)

- dealing with tax authorities (-19.17%/-24.50%).

However, under the CCCTB regime the following compliance costs would increase by the figures estimated below for each size of company:

- record keeping for corporate tax purposes (52.62%/22.92%)
- preparation of corporate tax computation (73.14%/27.03%)
- corporate tax returns/payments (209.84%/178.50%)
- prepayments of corporate tax (175.71%/135.18%).

But this increase does not wipe out the significant estimated savings under this regime in compliance time/cost for compliance formalities related to transfer pricing..

**The estimated data on compliance time and cost indicate clearly that under the three different tax regimes the compliance time and cost for a medium-sized parent company compared to a large parent company are broadly similar.**

### **Corporate compliance time and cost of the large baseline investments**

The consolidated averages of the compliance time and cost of the baseline investments at a large French, a large Hungarian and large Spanish parent making an additional investment in a Greek medium-sized subsidiary show trends similar to the data above on compliance time and cost of all investment flows.

Under the current regime the estimated compliance time for a large group is 74,694 minutes which corresponds to an estimate compliance cost of EUR 106,086. The summary table below indicates that under the current regime 90.66% of the estimated

compliance cost is directly or indirectly linked to transfer pricing–related corporate compliance tasks.

The introduction of the CCTB will result in a limited reduction in the estimated compliance time of 7.61% and an even more moderate reduction in the compliance cost of 3.67% since the transfer pricing formalities remain nearly unchanged under the CCTB regime.

### Comparison of current regime and CCTB

Consolidation Average Large Parent - Greek Sub		Current			CCTB					
		Total Time (min.)	Cost (€)	% of Total	Total Time (min.)	Time Diff. (%)	Variation in time (min.)	Cost (€)	Cost Diff. (%)	Variation in cost (€)
1.	RECORD KEEPING FOR CORPORATE TAX PURPOSES	5 604	2 691.92	2.54	4 349	-22.40	-1 256	2 305.40	-14.36	-386.52
2.	TRANSFER PRICING DOCUMENTATION FOR CORPORATE TAX	19 771	23 167.11	2184	19 492	-1.41	-279	23 099.14	-0.29	-67.97
3.	PREPARATION OF CORPORATE TAX COMPUTATIONS	2 224	1 769.69	1.67	2 038	-8.39	-187	1 537.38	-13.13	-232.31
4.	PREPAYMENTS FOR CORPORATE TAX	628	933.13	0.88	529	-15.80	-99	782.70	-16.12	-150.43
5.	CORPORATE TAX RETURNS AND PAYMENTS	947	811.90	0.77	855	-9.72	-92	704.30	-13.25	-107.60
6.	DEALING WITH THE TAX AUTHORITIES FOR CORPORATE TAX	25 004	41 221.18	38.86	20 091	-19.65	-4 913	35 976.11	-12.72	-5 245.07
7.	MUTUAL AGREEMENT PROCEDURES ON TRANSFER PRICING	6 156	14 232.72	13.42	6 156	0.00	0	14 232.72	0.00	0.00

Consolidation Average Large Parent - Greek Sub		Current			CCTB					
		Total Time (min.)	Cost (€)	% of Total	Total Time (min.)	Time Diff. (%)	Variation in time (min.)	Cost (€)	Cost Diff. (%)	Variation in cost (€)
8.	CLEARANCES AND RULINGS FOR CORPORATE TAX	7 889	17 585.43	16.58	8 809	11.66	920	19 197.20	9.17	1 611.77
9.	LEARNING AND EDUCATION FOR CORPORATE TAX	3 041	2 457.48	2.32	3 264	7.34	223	3 148.79	28.13	691.31
10.	ANY OTHER CROSS-BORDER CORPORATE TAX COMPLIANCE FORMALITY	3 430	1 215.78	1.15	3 430	0.00	0	1 213.55	-0.18	-2.22
	<b>TOTAL ESTIMATED TIME SPENT/COST</b>	74 694	106 086.33	100.00	69 012	-7.61	-5 682	102 197.29	-3.67	-3 889.03

The summary table below making the comparison with the CCCTB regime shows that for the consolidated average of the large parent the tax experts estimate that significant corporate tax compliance time (-63.42%) and cost savings (-48.83%) can be achieved under the CCCTB regime for corporate tax compliance tasks which are directly or indirectly related to transfer pricing, in particular transfer pricing documentation (-100%), mutual agreement procedures (-100%), clearances and rulings (-76.62%), dealing with tax authorities for corporate tax purposes (-24/78%).

## Current regime compared to CCCTB

Consolidation Average Large Parent - Greek Sub		Current			CCTB					
		Total Time (min.)	Cost (€)	% of Total	Total Time (min.)	Time Diff. (%)	Variation in time (min.)	Cost (€)	Cost Diff. (%)	Variation in cost (€)
1.	RECORD KEEPING FOR CORPORATE TAX PURPOSES	5 604	2 691.92	2.54	4 226	-24.60	-1 379	5 937.32	120.56	3 245.40
2.	TRANSFER PRICING DOCUMENTATION FOR CORPORATE TAX	19 771	23 167.11	21.84	0	-100.00	-19 771	0.00	-100.00	-23 167.11
3.	PREPARATION OF CORPORATE TAX COMPUTATIONS	2 224	1 769.69	1.67	4 249	91.00	2 024	4 957.64	180.14	3 187.95
4.	PREPAYMENTS FOR CORPORATE TAX	628	933.13	0.88	2 384	279.36	1 755	2 738.39	193.46	1 805.26
5.	CORPORATE TAX RETURNS AND PAYMENTS	947	811.90	0.77	3 229	241.14	2 283	3 681.61	353.45	2 869.71
6.	DEALING WITH THE TAX AUTHORITIES FOR CORPORATE TAX	25 004	41 221.18	38.86	10 761	-56.96	-14 244	31 007.37	-24.78	-10 213.80
7.	MUTUAL AGREEMENT PROCEDURES ON TRANSFER PRICING	6 156	14 232.72	13.42	0	-100.00	-6 156	0.00	-100.00	-14 232.72
8.	CLEARANCES AND RULINGS FOR CORPORATE TAX	7 889	17 585.43	16.58	1 383	-82.46	-6 506	4 111.43	-76.62	-13 474.01
9.	LEARNING AND EDUCATION FOR CORPORATE TAX	3 041	2 457.48	2.32	1 095	-63.98	-1 946	1 855.31	-24.50	-602.16
10.	ANY OTHER CROSS-BORDER CORPORATE TAX COMPLIANCE FORMALITY	3 430	1 215.78	1.15	0	-100.00	-3 430	0.00	-100.00	-1 215.78
	TOTAL ESTIMATED TIME SPENT/COST	74 694	106 086.33	100.00	27 327	-63.42	-47 368	54 289.07	-48.83	-51 797.25

Whereas the compliance tasks related to transfer pricing disappear, extra effort is needed for following corporate compliance tasks: record keeping for tax purposes (+120.36%), preparation of the corporate tax computation (+180.14%), corporate tax returns and payment (+353.45%) and prepayments of corporate tax (+193.46%).

The analysis of the figures in a baseline investment of a medium-sized parent group compared to a large parent group indicates that **the size of the parent has only a very minor impact on the total additional compliance time spent and the related compliance costs** incurred. Under the CCTB regime, the compliance time decreases by 6.97% and the related cost by 2.88%, while under the CCCTB regime the compliance time drops by 66.9% and the related compliance cost by 56.29%.

### Corporate compliance time and cost of baseline investment compared to the respective alternative investments

Large	Baseline investment: Greek sub				Alternative investment 1: German sub				Alternative investment 2: Polish sub			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Current	74 694		106 086.33		49 515		91 141.03		137 877		224 584.56	
CCTB	69 012	-7.61	102 197.29	-3.67	46 820	-5.44	88 899.71	-2.46	120 472	-12.62	219 574.56	-2.23
CCCTB	27 327	-63.42	54 289.07	-48.83	25 741	-48.01	52 145.15	-42.79	26 880	-80.50	52 385.32	-76.67
Medium	Baseline investment: Greek sub				Alternative investment 1: German sub				Alternative investment 2: Polish sub			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Current	72 265		97 094.74		46 701		81 107.31		132 275		204 916.22	
CCTB	67 227	-6.97	94 295.31	-2.88	44 623	-4.45	79 730.70	-1.70	112 412	-15.02	200 486.33	-2.16
CCCTB	23 920	-66.90	42 439.84	-56.29	23 382	-49.93	41 493.20	-48.84	25 249	-80.91	42 637.81	-79.19

The summary tables confirm the aforementioned trends that the introduction of the CCTB will only result in a limited change in compliance time and an even more moderate reduction in compliance cost.

The introduction of the CCCTB regime is estimated to result in a considerable reduction in the estimated corporate compliance time and the related cost. In this respect, it should be noted that the reduction in corporate compliance time under an alternative investment with a Polish subsidiary is at the higher end of the scale, i.e. -80.50%/-80.91%.

This can be explained by the fact that the corporate compliance time under the current regime is considerably higher for an investment in a Polish subsidiary than the average. This can be explained by the fact that the Polish tax experts estimate that the current

regime requires a high level of corporate tax compliance maintenance. The introduction of the CCTB and CCCTB makes a considerable saving in compliance time through the introduction of a more straightforward and stable taxation regime.

Moreover, it appears from the data gathered that the size of the group has no major impact on the compliance time and related compliance cost of an additional investment in another EU Member State.

## **Sensitivity**

For sensitivity purposes the expert teams were asked to provide an estimate of the impact on additional compliance time spent and compliance time incurred if (1) the EU parent and the Greek subsidiary were to belong to different activity sectors and (2) all intra-group transactions were eliminated.

The first sensitivity test showed that **in general a difference in activity sector between the EU parent and the Greek subsidiary should not have a material impact on the additional time/cost under the current regime and the CCTB regime**, but that there are **some specific exceptions**. For example, if the Spanish parent were to conduct business in the banking and insurance sector, or if the Greek subsidiary were an industrial company, then the additional compliance time under the current regime could on average increase by 12.49% and the additional cost by 11.40%. Under the **CCCTB regime**, the fact that the central taxpayer would lack specific knowledge of the sector and of related tax issues leads to an increase of 7.59% in additional time spent and of 8.16% in additional cost incurred.

The second sensitivity test showed that under the **current regime and the CCTB regime the elimination of intra-group transactions could lead to a significant decrease in additional time spent** (approximately 18.5% in both regimes) and additional cost incurred (approximately 17% in both regimes), except for a French parent. Under the **CCCTB regime**, this elimination of intra-group transactions would not have a (material)

**impact as under** this regime the companies would **already be free of transfer pricing documentation requirements.**

Finally, an evaluation was made as to whether different trends would be observed if the compliance activities were to be centralised at the level of the Greek subsidiary ("CCCTB Sub lead"-scenario), rather than at the level of the EU parent ("CCCTB Parent lead"-scenario). It was observed that in **both scenarios huge savings would be realised on additional time spent and additional cost incurred.** However, in view of the lower average wage cost in Greece and taking into account the fact that in a CCCTB regime the Greek subsidiary would perform more compliance activities in-house, the **relative saving of additional costs in a "CCCTB Sub lead"-scenario would be significantly higher than in a "CCCTB Parent lead"-scenario.**

## **Overall conclusion**

On the basis of the estimated corporate tax compliance time and cost data gathered for the study, the conclusion can be reached that for large/medium-sized EU parents making an additional investment in cross-border investment a medium-sized subsidiary, the introduction of the CCTB will only result in a limited reduction in the corporate tax compliance time and an even more moderate reduction in the corporate compliance cost compared to the current regime.

The expert-estimated data demonstrate that it is considered that the introduction of the CCCTB regime, on the other hand, would result in a considerable saving in compliance time and cost as against the current regime with 27 different tax regimes.

This significant estimated saving in compliance time and related cost is obtained under the CCCTB regime because almost all corporate compliance tasks which are directly or indirectly related to transfer pricing, transfer pricing documentation, mutual agreement procedure, clearances and rulings, and dealing with tax authorities are sharply reduced or eliminated. The study indicates that under the current regime the compliance time

related to these corporate tax compliance tasks represents up to 90% of the total compliance cost.

The study indicates no substantial difference in compliance time and cost between an investment made by a large parent compared to a medium-sized parent in a new subsidiary. This picture remains largely the same under the CCTB and CCCTB notwithstanding the fact that in the CCCTB the overall compliance cost is considerably lower.

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# 1. Introduction

Deloitte was requested to make an assessment of the additional corporate tax compliance costs incurred by a representative EU parent when setting up a new representative EU subsidiary in another EU Member State so as to increase its overall production capacity.

For the purpose of the study corporate tax compliance costs are defined as costs that are effectively and directly caused by complying with the corporate tax provisions. These costs cover the costs of labour and time consumed in the completion of corporate tax activities, the costs of expertise relating to the completion of corporate tax activities as well as incidental expenses incurred in the completion of corporate tax activities. Once-only as well as recurrent costs are covered by the definition.

Compliance activities include all activities relating to complying with the corporate tax rules and obligations of EU Member States. Compliance activities do not include (i) keeping tax books or records which are required for financial accounting or reporting purposes or preparing the tax entries for the accounts; (ii) tax planning or mitigation; (iii) tax advice (for example to the business or on transactions) or (iv) management of the tax team.

For the purpose of the study the following tasks were identified as triggering compliance:

- separate accounting for corporate tax purposes;
- transfer pricing documentation;
- preparation of tax computations and prepayments;
- filing of corporate tax returns and making corporate tax payments;
- dealing with the corporate tax authorities;
- mutual agreement procedures on transfer pricing;
- advance clearances and rulings on corporate tax;
- learning and education in corporate tax code changes;
- formalities related to cross-border payment of dividends, interest, royalties;

- one-off costs related to learning the new corporate tax code or search costs for hiring a new corporate tax adviser.

Essentially, the objective of the study was to obtain an answer to the following question: “what is the amount of corporation tax compliance time/cost to be expected from setting up a new medium-sized EU representative subsidiary in an EU Member State different from those where the group members are located under the three tax scenarios mentioned hereafter?”

The study focuses on the additional corporate tax compliance time of an EU parent company entering a market in a different EU Member State by setting up a subsidiary under following three different tax scenarios:

1. the current situation with 27 different national tax codes and current administrative framework;
2. a regime where a common corporate tax base (CCTB) is in place and the parent company has opted for it ;
3. a regime where a common consolidated corporate tax base (CCCTB) is in place and the parent company has opted for it.

In order to obtain information on the relationship between compliance time and the size of the company, two types of representative EU parent company were identified and defined for the study: the so-called representative EU large parent and the representative EU medium-sized parent. The subsidiary in the other EU Member State will for the study always qualify as a representative EU medium-sized subsidiary.

The additional corporate tax compliance time is measured at the level of the parent entity and of the subsidiary. In this respect, it is assumed for the purposes of the study that the representative, large or medium-sized, parent has already some subsidiaries in other EU Member States other than the one in which the new subsidiary is set up.

The conclusions of the following analysis are not binding on any party and should not be considered a representation, warranty or guarantee that other parties will concur with our conclusion. Similarly, our conclusions are not binding on the European Commission and it should use own judgement in deciding whether or not to concur with our conclusions.

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## 2. Methodology

The study is based on expert assessments. The study began by gathering statistical evidence to support the definition of the large and medium-sized EU representative parent and the medium-sized EU representative subsidiary, defining the representative parent, subsidiary and relevant characteristics including the intra-group transactions. The mapping, populating and costing analysis was carried out by corporate tax experts of Deloitte Belgium, together with Deloitte's Corporate International Tax Network (partners, directors, senior manager and manager experts in corporate and corporate international tax) present in the six Member States retained by the Commission services. The experts have the level of partner, director, senior manager or manager.

The gathering of statistical evidence to support the definition of the large and medium-sized EU representative parent and the medium-sized EU representative subsidiary was carried out by Deloitte Belgium Transfer Pricing experts of Deloitte Belgium who have the appropriate databases, in particular Bureau van Dijk's Amadeus, to obtain the relevant statistical evidence to support the definition. Please see Appendix 6.1 for the statistical evidence.

The offices in the Deloitte Corporate International Tax Network have extensive experience resulting from work on a day-to-day basis with corporate tax clients and tax authorities, which gives them sufficient insight to make the required assessments. From their contacts with the corporate tax business these Deloitte tax experts are aware of the internal time for an enterprise of fulfilling corporate tax compliance requirements. Moreover, Deloitte can, as one of the major service providers in corporate tax, including corporate tax compliance, provide a fair estimate of the time and cost of outsourcing part of the corporate tax compliance obligations and functions under the three different scenarios.

Nevertheless, while Deloitte applied all possible caution, it cannot be excluded that some data in this study differ from what is to be found in other sources. In this respect one should bear in mind that the data provided are based on estimates. Moreover,

particular caution should be applied due to the fact that two of the tax regimes considered, the CCTB and CCCTB, are currently not in place. This could result in the tax experts opting for a conservative approach in the estimation of time and cost under these regimes.

## 2.1 Principles

### 2.1.1 Preliminary remarks

The measurement exercise of this EU study is limited to the evaluation of the corporate tax compliance time resulting from the setting up of a new medium-sized representative subsidiary in a new Member State by a representative large/medium-sized EU representative parent resident of another EU Member State under the current national tax systems, the common corporate tax base (“CCTB”) and the common consolidated corporate tax base (“CCCTB”) regime.

There are two steps in the estimation of corporate tax compliance costs in the three tax scenarios:

1. the measurement of corporate tax compliance time;
2. the translation of total compliance time into compliance costs (‘monetisation’).

### 2.1.2 Measurement of corporate tax compliance time

The corporate tax compliance time for the investment in the representative medium-sized EU subsidiary is measured making two different assumptions: in the first, the investment is made by a representative large EU parent (i) and in the second, the investment is made by a representative medium-sized EU parent (ii). This dual approach was retained in order to obtain information regarding any potential difference in corporate tax compliance cost between a large parent and a medium-sized parent.

In this study only the corporate tax compliance time triggered by the transactions described in the respective definitions of the representative parent and subsidiary is measured. More specific compliance time resulting from income earned (dividend,

interest, and royalties) from non-group members in or outside the EU, and payment of dividend, interest, and/or royalties to non-group members in or outside the EU, which could involve withholding tax and the related compliance formalities, are not considered in the measurement exercise. The time measurement excludes the one-off time costs resulting from the introduction of the CCTB or the CCCTB. The time measurement is performed on an annual basis and the time measured is reported in minutes.

Specific corporate tax compliance measurement reporting packages for the different investment flows, scenarios and corporate tax compliance formalities under the three different tax scenarios were created by Deloitte Belgium in order to obtain the requested input from the expert teams in the different Member States. These questionnaires were approved by the services of DG Taxud (Taxation and Customs Union).

#### 2.1.2.1 Investment scenarios: baseline and alternative

The corporate tax compliance time measurement was provided under a baseline investment scenario and in two alternative investment scenarios. In the baseline investment scenario the compliance time for each of the 10 activities in corporate tax compliance tax formalities identified under the current regime, CCTB and CCCTB tax regimes was measured by three corporate experts per tax jurisdiction retained by the European Commission. Under the baseline investment from a parent's point of view, the French/Hungarian/Spanish parents (i.e. large and medium-sized) are investing in a medium-sized subsidiary established in Greece. In the alternative investment scenarios the respective parents (i.e. large and medium-sized) make an investment in a medium sized subsidiary located in respectively Germany/Poland. The alternative investment scenarios were measured by one corporate tax expert.

The study includes also the measurement of the corporate compliance time from a subsidiary perspective in a baseline and two alternative investment scenarios. In the baseline investment from a subsidiary's point of view the German/Greek/Polish medium-sized subsidiary is owned by a Spanish parent (i.e. medium-sized/large). The baseline investment from a subsidiary perspective was measured by three corporate tax experts in the respective tax jurisdiction of the medium-sized subsidiary. In the

alternative investment scenarios, the medium-sized subsidiary is owned by a French/Hungarian parent (medium-sized/large). These two alternative investment scenarios from a subsidiary level were measured by one corporate tax expert at the level of the subsidiary.

The measurement exercise provided the compliance time by activities and the total compliance time under the baseline and two alternative investment scenarios at the level of the parent and the subsidiary, and the total compliance time at the level of the consolidated group under the three different tax regimes: the current (i), the CCTB (ii) and the CCCTB (iii).

As a result, per parent/subsidiary for the baseline investment scheme a total of 18 questionnaires (6 x 3 different tax regimes) was sent out. For the alternative investment schemes, a total of 12 questionnaires (4 x 3 different tax regimes) were issued to the respective Deloitte offices which are part of the Deloitte Corporate International Tax Network. Deloitte Belgium received the completed questionnaires back from the Deloitte offices in the respective EU Member States.

#### 2.1.2.2 Additional sensitivity analysis

In the aforementioned baseline and alternative investment schemes the parent and subsidiary entity are operating in identical industrial sectors, and the parent and the subsidiary are separate entities located in different EU Member States which are engaged in a number of intra-group transactions. The following questions were raised for sensitivity purposes by e-mail communication, together with the respective questionnaires, to corporate tax experts of the Deloitte Corporate International Tax Network in the respective EU Member States:

- 1) Would there be any change in the total corporate tax compliance time incurred if the parent and the subsidiary were to belong to different industrial sectors instead of one industrial sector (i.e. parent being an insurance company while the subsidiary is an industrial company)?

If any difference in the total corporate tax compliance time in one or more tax scenarios would occur, please indicate for each of the three different tax scenarios (current, CCTB and CCCTB) in the baseline and alternative investment schemes the percentage by which the total corporate compliance time would decrease/increase?

What would be the reasons for this difference in total compliance time in the different tax scenarios, if any?

- 2) Would there be any change in the total corporate tax compliance time incurred if the investment were operated by a single company which is not involved in any intra-group transactions?

If any difference in the total corporate tax compliance time in one or more tax scenarios would occur, please indicate for each of the three different tax scenario (current, CCTB and CCCTB) in the baseline and alternative investment schemes the percentage by which the total corporate compliance time would decrease/increase?

What would be the reasons for this difference in total compliance time in the different tax scenarios, if any?

- 3) Would there be any change in compliance time and cost under the CCCTB regime if the consolidated return were filed and the principal tax authority were at the level of the subsidiary instead of the parent. In this respect, a separate questionnaire was issued to the respective parent and subsidiary countries to obtain the estimated data on compliance time and cost incurred if that entity would only execute residual compliance tasks under the CCCTB instead of being the entity which files the consolidated return and has the contact with the principal tax authority in its jurisdiction.

These first two questions were answered by one corporate tax expert per tax jurisdiction.

### 2.1.2.3 Compliance time measurement principles

The respective questionnaires were divided into 10 corporate tax compliance formalities and tasks, which were further subdivided into more detailed corporate tax formalities.

The first step in the assessment was for the corporate tax expert to determine per corporate tax compliance formality/task whether according to common corporate tax practice in his jurisdiction the task/subtask is performed:

- 1) 100% in house (internal),
- 2) 100% outsourced (external), or
- 3) is a combination of internal and external.

Once the aforementioned assessment was made, the expert had in a second step to estimate in minutes the time which is needed to perform the corporate tax compliance related formalities in house and/or outsourced consistent with common practice in his Member State taking into consideration the current regime (i), the CCTB (ii) and the CCCTB (iii).

### 2.1.3 'Monetarisaton'

In order to monetarise the reported, internal and outsourced compliance time, taking into consideration the specific corporate tax practice of the EU Member considered in the study, the different experts expressed in the form of a percentage, the time required at three different skill levels (basic, medium and high) in order to perform the corporate compliance task under consideration.

The respective skill levels correspond for each level to a given salary cost/per hour in euro as determined for each of the respective EU Member States. The different professions that qualify for the three skill levels and the related salary costs were approved by the Services of DG Taxud. Appendices 6.2 and 6.3 include a list of the professions which were retained for the basic, medium and high skill levels, and the different wage levels in the respective EU Member States related to the respective skill levels.

The costs resulting from the monetarisation are all reported in euro.

Where the corporate tax compliance formality would be totally or partly outsourced, the corporate tax expert filing the questionnaire was required to insert the average fee, excluding VAT and expenses, that an external corporate tax consultant/professional would charge in his jurisdiction for the type of corporate tax compliance formality/task identified in the questionnaires.

The monetarisation of the total compliance time in the baseline and alternative investment flows considers which share of the total compliance time would be outsourced and which share would be dealt with in-house.

- the monetarisation is presented for large/medium-sized parent companies under baseline and alternative investments from the perspective of the parent and the subsidiaries under the three different tax scenarios, Current, CCTB and CCCTB;
- in addition, the monetarisation of the total compliance time (industrial sectors; single company without any intra-group transactions) is also applied to the total compliance time (decrease/increase) which results from the supplementary sensitivity analysis concerning different industrial sectors and a single company without any intra-group transactions.

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## 3. Measurement data

The objective of this study is to answer the question "what is the amount of additional corporate compliance time to be expected by a large or medium-sized representative EU parent company from setting up a new representative medium-sized subsidiary in an EU Member State other than the one in which the parent or any of its existing subsidiaries are established under the three different tax scenarios?"

An outline is given below of the basic understandings in each scenario.

In addition, the representative large and medium-sized parent companies and the representative medium-sized subsidiary are defined.

Finally, the cross border – intra-group transactions these companies are involved in and which would trigger transfer pricing (TP) compliance formalities are described.

### 3.1 Three different tax scenarios

The objective of the study is to estimate the additional corporate tax compliance time for the representative large and medium-sized EU parent that sets up a medium-sized EU subsidiary in another EU Member State under the following three different scenarios:

- a) the current situation with 27 different national tax codes and current administrative framework;
- b) a regime where a common corporate tax base (CCTB) is in place and the parent company has opted for it;
- c) a regime where a common consolidated corporate tax base (CCCTB) is in place and the parent company has opted for it.

In this section a description is provided of the current, the CCTB and the CCCTB regimes as defined for the purpose of this study.

### 3.1.1 Current national tax system

The “Current National Tax System” represents the current situation regarding the taxation of corporate income in the EU which implies 27 different national tax codes and a specific administrative framework in each of the 27 EU Member States. This regime constitutes the benchmark against which the two alternative scenarios (“CCTB” and “CCCTB”) are compared.

Under the current national tax system, the computation of the corporate income tax base of the companies’ is characterised by twenty-seven different corporate tax codes which serve to compute the corporate income tax base and liability for the company which is a tax resident in a given EU Member State.

The current regime also implies a so-called separate accounting (“SA”) model to allocate the corporate tax bases of multi-jurisdictional groups between tax jurisdictions. The SA model relies on the principle that the transfer price of any intra-group transaction has to be valued at arm’s length (i.e. at the going market price for a comparable transaction, as if it had taken place between non-related parties).

Once the tax bases attributable to each jurisdiction have been calculated according to the separate accounting model, multinational enterprises must file separate corporate tax returns in each of the EU Member States and execute corporate tax payments in the different EU Member States.

### 3.1.2 Common corporate tax base (“CCTB”)

The first alternative scenario under which the time incurred for complying with the different aforementioned corporate tax compliance items was evaluated is the so-called “Common Corporate Tax Base” scenario. This scenario assumes that the parent company and the subsidiaries in the different Member States calculate their corporate tax base based on one single set of corporate tax rules, the so-called CCTB rules, which would apply in all 27 EU Member States.

Under this scenario the taxable profit of the newly established representative EU subsidiary set up by a representative parent located in another EU Member State would also be governed by the CCTB rules. The same rules would apply at the level of the representative large or medium-sized parent. However, the corporate tax rate to be applied on the tax base as determined under CCTB rules would still be governed by the corporate tax legislation (tax rates, local tax credits and or other incentives) of the respective EU Member State in which the parent/subsidiary company is considered to be a tax resident.

The corporate tax filing obligations would also be governed by the specific tax legislation of the different 27 EU Member States. This would imply that under the CCTB, a single corporate tax return would still be filed for each company under the rules set by the tax legislation of the EU Member State in which the company is a tax resident, i.e. under the CCTB. parent and subsidiary have to file corporate tax returns under their respective legislations.

The CCTB tax rules are intended to simplify the tax base calculations. Moreover, these rules are common to the 27 EU Member States and are regarded as simpler than the corporate tax provisions in most of the national tax regimes and should thus, in principle, impact on corporate tax compliance time spent. In addition, it can be expected that the common rules will be more stable in time compared to the quickly changing tax environment under the current national tax system scenario, as all changes have to be agreed by all participating Member States.

A general overview is provided below of the rules and principles which would govern the determination of the taxable bases under the CCTB regime. For additional information on this regime reference is made to Working Paper 57 of the CCCTB Working Group, issued by the European Commission, in particular the rules relating to the tax base of individual companies. (“CCCTB: possible elements of technical outline” CCCTB WP057, p

7 – 21)<sup>2</sup>. The corporate expert teams obtained a Memo of which some provisions differ from the CCCTB WP57. These differences reflect more recent discussions within the CCCTB Working Group (WG) or the Commission Services.<sup>3</sup>

#### 3.1.2.1 Tax base

### Principles

The tax base under CCTB would be calculated as the difference between (i) the income subject to tax less exempt income and (ii) the deductible expenses and other deductible items. The tax base would be calculated on an annual basis. The various elements of the tax base are summed up in the following paragraphs.

Income would include income of any kind, whether monetary or non-monetary, including not only trading income but also proceeds from disposal of assets and rights, interest, dividends and other profit distributions, royalties, subsidies and grants, gifts, compensation and ex-gratia payments. Income would not include equity or debt raised by the taxpayer. Income would be considered to be net of VAT and other taxes and duties collected on behalf of Member States.

Exempt income would include subsidies directly linked to the acquisition, construction or improvement of a depreciable business asset, proceeds from the disposal of pooled assets, certain dividends, permanent establishment (PE) income and capital gains.

Deductible expenses and other deductible items would include all the expenses incurred by the taxpayer for business purposes in the production, maintenance or securing of income including costs of research and development or in the raising of equity or debt for business purposes.

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<sup>2</sup> However, WP57 does not reflect more recent discussions within the Working Group or the Commission Services (see the summary record of the last meeting of the CCCTB WG, published at [http://ec.europa.eu/taxation\\_customs/taxation/company\\_tax/common\\_tax\\_base/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm)).

<sup>3</sup> For summary records of meetings of the CCCTB WG, see [http://ec.europa.eu/taxation\\_customs/taxation/company\\_tax/common\\_tax\\_base/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm)).

The CCTB regime would also include non-deductible expenses including profit distributions, repayment of equity or debt, expenses related to assets which are considered non-business, 50% of entertainment costs, appropriation of retained earnings which constitute part of equity, corporate tax, bribes, fines and penalties, management costs to the extent they are related to exempt income (dividend, PE income and capital gains), monetary gifts and donations to non-recognised bodies, and costs related to acquisition, construction or improvement of fixed assets except those related to R&D. The R&D-related expenses would be deductible upfront even if they were of a capital nature. Interest on loans in order to acquire shareholdings would in principle be deductible.

Fixed business assets would be tangibles, intangibles, financial assets and proprietary benefits acquired for value or capable of being valued independently and used by the taxpayer in its business in order to maintain or secure income for more than 12 months. This kind of asset would be depreciated in accordance with rules described in the relevant section below. However, where the cost/value was less than EUR1,000, it would be immediately expensed.

Acquisition, construction or improvement costs would be recorded for each individual asset separately. A fixed asset register would be drawn up detailing the original cost, improvement cost and year of the purchase.

Assets not related to the business of the company would be non-depreciable.

Tangible assets not subject to wear and tear and obsolescence, such as land and fine art, intangible assets with an indefinite life and financial assets would not be depreciated unless the taxpayer demonstrated a permanent decrease in value. However, to the extent any gain related to a financial asset was exempt; any depreciation would not be tax deductible.

Inventories are not fixed assets and would not be depreciated.

## **Recognition and timing**

Income and expenses would be recognised on an accruals basis in the tax year to which they relate. This reflects general accounting practice and corresponds to the IFRS Framework, under which the effects of transactions and other events are recognised when they occur (and not at the moment when cash or its equivalent is received or paid). For a more detailed description of the recognition and timing rules under the CCTB regime, the tax experts were able to consult Working Paper 57 of the CCCTB Working Group, issued by the European Commission, in particular the rules related to the tax base of individual companies. (“CCCTB: possible elements of technical outline” CCCTB WP057, p 10 – 12, n° 32–42, op.cit.).

## **Measurement**

Income and expenditure would be measured according to the following principles: monetary consideration of the transaction, the market price in the absence of the relevant monetary consideration and the ‘at arm’s length’ price in case of a related party transaction.

The tax base, income and expenses would be measured in euro or translated into euro on the last day of the tax year at the average rate issued by the European Central Bank or the Central Bank of the state whose currency was being converted.

Gains and losses incurred on conversion of foreign currency to euro would be included in the tax base in the tax year when they were incurred.

Inventories would be valued on the last day of the tax year at the lower of cost and the net realisable value with the FIFO or average cost method. This implies that if the realisable value is less than cost, the difference is effectively written off through the stock adjustment.

## Depreciation

Under the CCTB regime a distinction would be made for depreciation purposes between long-term assets and short- to medium-term assets. Long-term assets (i.e. buildings, factories) would be depreciated on an individual basis whereas all other assets would be pooled for depreciation purposes.

The depreciation base would include the cost of acquiring, constructing or improving a fixed business asset including directly linked ancillary costs such as professional and legal fees and costs related to transportation and installation. The depreciation base would be reduced by a subsidy directly linked to the acquisition, construction or improvement.

The depreciation of a business asset would start in the year when an asset was acquired or brought into use, whichever came later.

The overall depreciation of an asset would amount to a maximum of 100% of the original acquisition, construction or improvement cost. An improvement cost is any expenditure that increases the capacity or its functioning and would arise for any expenditure which represents more than 10% of the initial depreciation base of a business asset.

The tax value of a business asset or pool of assets would mean the depreciation base less the sum of the depreciations deducted until that date.

- Assets depreciated on an "Individual Basis"

Assets would be depreciated on a straight line basis at a 2.5% rate per tax year for buildings and at 6.66% rate per tax year in case of long term tangible assets (business assets with a lifetime of 15 years).

Intangible business assets would be depreciated individually on a straight line basis over the period the asset enjoys legal protection or the right is granted, if these cannot be determined, the depreciation term would be 15 years.

In the year of acquisition or entry into use, full year depreciation would be deducted. No depreciation would be deducted in the year of disposal. Where an asset was disposed of during a tax year, its written-down value (tax value) would be deducted from the taxable basis in that year. This is a corollary of the taxation of the sales proceeds.

If the sales proceeds were re-invested in replacement assets within a certain period, the excess of proceeds over the tax written down value would be deducted from the tax base in the year of disposal and the depreciation base of the new replacement assets would be reduced by the same amount. The gain on a disposed asset could be deferred, on condition of reinvestment over the lifetime of the replacement assets.

– Assets depreciated on a “Pooled basis”

Assets other than those depreciated on an individual basis would form a single asset pool for depreciation purposes.

These pooled assets would be depreciated using the reducing balance method at a fixed rate (e.g. 20%) per annum. The disposal proceeds of pooled assets would be deducted from the available pool balance, deferring capital gains on assets.

The depreciation base is the tax written-down value of the asset pool at the start of the tax year, increased by the acquisition, construction or improvement costs of pooled business assets acquired or created during the year, less the sales proceeds of pooled business assets disposed of, and any compensation received during the tax year for the loss or destruction of such assets.

If the depreciation base as calculated were a negative amount, an amount would be added to bring the depreciation base to zero and the same amount would be added to the tax base. If the base were positive, the amount would be reduced by 20%. This

amount would form the deductible depreciation for the year. The application of this depreciation would provide the tax written-down value of the pool (tax value). This amount would constitute the tax written value at the start of next tax year.

– Decrease in value of non-depreciable assets

The permanent decrease in value of a non-depreciable asset would be deducted as depreciation. In the event of a disposal the proceeds would be taxed, and the costs and depreciation would be deducted from the base.

### **EU source income and EU PE income under CCTB**

Under the common corporate tax base regime, the domestic arrangement for EU source income would remain in place. This would thus leave potential for 27 different domestic corporate tax arrangements.

### **Losses under the CCTB regime**

Under the CCTB regime losses would only be eligible for carry forward, and for an indefinite period in time.

#### **3.1.2.2 Other parameters under the CCTB scenario**

For the purposes of the study and the associated time measurement all other existing parameters in the 27 EU Member States would remain in place under the CCTB scenario.

In particular, each EU Member state would continue to be free to choose their preferred statutory corporate tax rate, local tax incentives and the separate accounting mechanism for tax purpose.

In the absence of a consolidated taxable basis under the CCTB regime for the representative parent and its newly set up subsidiary in another EU Member State, all transfer pricing requirements for intra-group transactions, as determined by the

respective domestic legislation of the parent and the subsidiary are assumed to be remain unchanged compared to the current national tax system scenario.

Under the CCTB regime as assumed for this study, the parent and the subsidiary file a separate corporate tax return under the administrative framework in place in their respective EU Member State. The same goes for the payment of the corporate tax liability and any prepayment obligation of the corporate tax over the taxable period concerned, if any.

In addition, respective national legislations would be applicable in relation to claims against corporate tax assessments, tax audit, ruling regimes, advance pricing agreements, etc.

### 3.1.3 Common consolidated corporate tax base (“CCCTB”)

The second alternative scenario for which corporation tax compliance time was estimated under the study is the “Common Consolidated Corporate Tax Base” scenario. This regime is in principle optional, but it is assumed for the purpose of this study that the group has opted for this CCCTB regime.

Under this scenario, the parent company and the subsidiaries located in different EU Member States calculate tax on the basis of one single set of tax rules, the CCCTB rules, and their EU-wide consolidated tax base. In line with this scenario, the group only files one consolidated tax return group and Member States remain able to tax their corresponding fraction of the consolidated tax bases at their own rate.

One of the key features of the CCCTB scenario is the fact that companies are relieved from compliance with intra-group transfer pricing rules for their intra-group transactions within the EU. As a result of the redundancy of transfer pricing strategies for transactions within the Union, the compliance time related to transfer pricing obligations for companies essentially vanishes. In addition, a system of loss consolidation – which is similar to many EU Member States’ internal regimes – would be introduced.

### 3.1.3.1 Tax base

#### **Definition of group for CCCTB purposes**

Under the CCCTB provisions a group consists of an EU resident parent and its qualifying EU resident subsidiaries, whether or not the EU resident parent were controlled by a non-EU parent. However, in principle, a group would also include a group of EU-resident subsidiaries under the common control of a non-EU resident parent.

Qualifying subsidiaries are all immediate and lower-tier subsidiaries in which the parent company holds:

- a) a right to exercise more than 50% of the voting rights; and
- b) more than 75% of the rights giving entitlement to profit; and
- c) an ownership right amounting to more than 75% of the company's capital.

In view of the fact that for this study the representative EU parent directly owns 100% of the shares of the new representative medium-sized EU subsidiary and no changes of level of ownership arise, this subsidiary will qualify for the CCCTB group.

Consolidation would be mandatory for all companies opting for CCCTB which have a qualifying subsidiary and its PE in another EU Member State. This study and the measurement performed are based on the assumption that neither the parent nor the subsidiary has a PE in or outside the EU.

The consolidation would extend to the entire tax base all EU taxpayers of a group. The consolidation implies consolidation of 100% of the tax base of all entities belonging to the CCCTB group.

The members of the CCCTB group would have the same tax year.

## Principles

As under the CCTB scenario, the common consolidated tax base would be calculated as the difference between (i) income subject to tax less exempt income and (ii) deductible expenses and other deductible items. See section 3.1 above for further detail on this computation method.

Under the CCCTB the consolidated tax base would not include any profit or loss on intra-group transactions between members of the consolidated group.

This includes any profits or losses on the disposal of stocks, fixed assets, shares in consolidated companies or other tangible or intangible assets. This implies that only transactions between the group and third parties and other non-consolidated group companies have any effect under the CCCTB regime.

The intra-group income and expenditure other than that related to depreciable assets can either be ignored completely (first approach) or can be included by each group company and netted off when the consolidation is carried out (second approach).

The intra-group transactions related to depreciable assets cannot be ignored completely as they need to be recorded at their tax written-down value.

For rules which would apply to stock valuation, please see Working Paper 57 of the CCCTB Working Group, issued by the European Commission, in particular the rules related to consolidation. (“CCCTB: possible elements of technical outline” CCCTB WP057, p 29, n° 114–115, op. Cit.).

Foreign income would be included in the CCCTB, under the principle of worldwide taxation, even if much of it would be exempt. The income to be taken into consideration would be income from permanent establishments, income from major shareholdings, income from portfolio shareholdings and royalties, patent and interest income.

In view of the aims of this study, which is to measure corporate tax compliance costs relating to setting up a new subsidiary in another Member State under three different tax scenarios, it was assumed that none of the group members, neither the parent nor the subsidiaries, receive income (dividends, interests, royalties income) from or make payments to third parties that would involve withholding tax formalities.

### **Sharing mechanism**

Under the CCCTB regime, once the EU-wide consolidated tax base has been determined, it would then be distributed among the various entities of the consolidated group according to a specific apportionment mechanism. The apportionment for sharing the consolidated tax base of a group of companies would be based on three company-specific factors, including labour (consisting of equal weighting for the payroll and number of employees), assets (without intangibles, and financial assets and inventory) and sales (measured 'at destination'). This multiple-factor formula should ensure the creation of a solid and non-volatile apportionment mechanism of the tax base across the different EU Member States concerned.

The share of the tax base would be apportioned to each individual entity in the consolidated group in accordance with the apportionment formula. This should enable each entity to calculate its tax liability on the basis of its specific situation (e.g. pre-existing losses, possible tax credits, etc.).

A safeguard clause would be introduced for situations where the outcome of the apportionment formula led to obviously unfair results for a specific company (e.g. the apportionment would not fairly represent the extent of the business activities carried out in the various countries concerned). Consequently, the use of an alternative method to share the tax base would be allowed.

#### **3.1.3.2 Administrative framework**

Another important element of the CCCTB scenario assumed under the study is that a simplified administrative framework would be in place that would facilitate the tax-related administrative requirements for companies operating cross-border. In this

respect, two new concepts would be introduced: “principal taxpayer” and “principal tax authority”.

The principal taxpayer would have primary responsibility for ensuring that the group complied with the administrative requirements of the CCCTB regime and for the filing of the consolidated self-assessment tax return.

Furthermore, the principal taxpayer would also be responsible for reporting the consolidated tax base, the share of the tax base of each taxpayer and every PE as well as the tax liability in each Member State. In principle, the principal taxpayer would be the ultimate parent company of the group resident in an EU Member State. However, where the ultimate parent is not a resident of a Member State, the principal taxpayer could be the EU-resident ultimate parent of an EU subgroup or the PE established in a Member State.

Where the principal taxpayer has one or more permanent establishments in other Member States, the principal taxpayer would file one consolidated return reporting the consolidated tax base, the share of the base of the head office and every permanent establishment broken down by Member State and the tax liability in each State.

This “one-shop stop” approach aims at combining the efficiency of a single consolidated return to a single principal tax authority with the provision of data to all relevant tax authorities and a jointly determined audit approach, which would be partly carried out by local tax administrations.

The principal tax authority would have primary responsibility for the verification of the consolidated tax return. It would also have the responsibility for issuing assessments or amended assessments relating to a consolidated tax return.

Taxpayer appeals of against the consolidated assessment would in first instance be heard by an administrative appeal body – consisting of representatives from Member State administrative appeal bodies or suitably qualified experts –located in each Member

State. Judicial appeals against decisions of the tax authority would be governed by the domestic rules of the Member State of that tax authority. Potential disputes between the tax authorities would be handled by an arbitration panel.

### 3.2 Description of the corporate tax formalities measured

The study of the measurement of the corporate compliance time in the case of a cross-border EU investment by a representative large/medium-sized EU parent in a representative medium-sized EU subsidiary was carried out in relation to 10 different Corporate Tax Compliance related formalities.

In the paragraphs below, we provide an overview of these Corporate Tax Compliance formalities followed by a short description.

#### 3.2.1 Record keeping for corporate tax purposes

Record keeping for corporate tax purposes includes solely the creation and the maintenance of records for tax purposes only, thus excluding records which are created and maintained for accounting purposes. Moreover, it includes creating and maintaining separate records for tax depreciation to the extent that the tax depreciation rules deviate from the principles set under local GAAP. This corporate tax compliance formality also includes the creation and maintaining of tax records in order to claim particular local tax benefits.

#### 3.2.2 Transfer pricing documentation for corporate tax

This corporate tax formality includes the creation and maintaining of documentation required in order to comply with the transfer pricing legislation set under a given tax jurisdiction. This might include the drafting of a transfer pricing policy, supported by a transfer pricing study including economic data and analysis and the drafting of the respective contractual documentation. In order to determine the compliance time, the need to update the policy, and the economic data and analysis is also considered.

### 3.2.3 Preparation of corporate tax computations

The compliance tasks in this formality are multiple and comprise in first instance the gathering of the relevant accounting data from the existing data. The computation of the taxable profit itself and the calculation of tax depreciation, if any. This also includes time incurred in order to apply the CFC (Controlled Foreign Corporation) legislation, thin capitalisation rules, transfer pricing rules, and the application of rules related to the taxation of EU foreign source profits between related entities. In addition, depending on the tax jurisdiction in which the taxpayer is located, this corporate tax formality might also include the computations regarding the setting off of losses, i.e. limitations in the deductible tax losses for a given tax year, the calculation of specific tax incentives and, if available, the calculation for national tax consolidation.

### 3.2.4 Prepayment of corporate taxes

If tax legislation required that corporate tax be prepaid, a corporate taxpayer may suffer compliance time in a given tax year in relation to this. The compliance time might be incurred in the gathering of the appropriate data in order to compute the appropriate self-assessments for prepayments, the computation of the prepayment and the execution of the payment.

### 3.2.5 Completing tax returns and tax payments

This formality relates to the compliance time needed in order to complete the tax return form and its attachments is to be reported, including the time needed by the taxpayer in order to file the corporate tax return form. In addition, the compliance time incurred in reviewing the corporate tax assessment issued by the tax authorities based on the return filed is considered, as is the time needed in order to execute the payment of corporate taxes based on the tax assessment issued by the tax authorities.

### 3.2.6 Dealing with the tax authorities

Corporate taxpayers may incur corporate compliance time resulting from requests for information issued by the corporate tax authorities, dealing with tax audits and potentially from time incurred in order to resolve pending tax claims, including corporate tax litigation which is pending before court.

### 3.2.7 Mutual agreement procedures on transfer pricing

In the event of a cross-border investment and related intra-group transaction, a corporate taxpayer might as a result of a tax audit in one Member State encounter a unilateral correction of its transfer pricing policy and in consequence of its taxable basis. In order to eliminate double taxation resulting from this correction, the taxpayer will be required to start a procedure with the competent authority and or an arbitration of its intra-group transfer pricing policy. The time resulting from such a procedure is for the purpose of the study treated as corporate compliance time.

### 3.2.8 Clearances and rulings for corporate tax

Here the compliance time is measured for time incurred by a corporate taxpayer in order to obtain from the corporate tax authorities an advance ruling or clearance on a specific item. This also includes time which would be incurred by the corporate taxpayer in order to obtain an advance pricing agreement for transfer pricing on one or more specific cross-border intra-group transactions.

### 3.2.9 Learning and education for corporate tax purposes

In view of the fact that corporate tax legislation is subject to a significant number of changes and that this happens on a frequent basis, a corporate taxpayer will have to make investments in keeping up to date with the changes to the corporate tax legislation and regulations.

This comprises time for reading tax periodicals, attending external tax seminars and in-house training in order to create awareness of the corporate tax rules and changes.

#### 3.2.10 Other cross-border tax compliance formalities

Under this section the compliance time incurred in other formalities related to cross-border investment is reported. This includes compliance time related to withholding tax formalities related to interest, dividend and royalty payments that are made between the parent and subsidiary when located in different EU Member states. These formalities include the preparation of withholding tax returns, the filing of these returns, the drafting of attachments and attestations to attach to the tax withholding returns in order to claim exemption and, if necessary, the time in order to execute the payment of any withholding tax on the aforementioned flows.

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## 4. Definition

### 4.1 Definition of the representative large and medium-sized parent companies and the representative medium-sized subsidiary

The first step in the study was the definition of the representative large and medium-sized EU parent and the representative medium-sized EU parent in accordance with the criteria of the European Commission in Recommendation 2003/361/EC. In this respect a search and analysis was performed on the basis of market data from Amadeus. The results of this search and analysis are dealt with in detail in section 4.1 of the Analysis chapter of this report.

Two types of representative EU parent company were identified and defined for the study: the so-called representative EU large parent and the representative EU medium-sized parent in order to obtain information on the relationship between compliance time and the size of the company. The subsidiary in the other EU Member State will for the study always qualify as a representative EU medium-sized subsidiary. Hereafter we provide the description of the respective EU large and medium-sized parent and the medium-sized subsidiary which have been retained for the purposes of this study. This description is based on the analysis performed in Amadeus and overview of the intra-group transactions in which the respective parent in its subsidiary are engaged.

The process of defining of a large and a medium-sized EU representative parent company and the relevant characteristics, taking into consideration the size of the representative companies and the cross-border nature of the investment, was carried out for the entire territory of the European Union. This work was carried out by Deloitte Belgium and involved experts from the Deloitte Corporate Finance and Transfer Pricing teams. In respect of this exercise, the following observations should be taken into account:

- the defining process resulted in one large and one medium-sized representative standard parent entity and one medium-sized representative subsidiary for the entire territory of the European Union;

- the characteristics taken into consideration for the respective representative standard entities considered the cross-border nature of the investment and transfer pricing formalities that they might trigger. The characteristics of the medium-sized parent and subsidiary, except for the number of employees, annual turnover and annual balance sheet total are thus different;
- in the defining process a description is provided of the intra-group transaction between the parent and the subsidiary that trigger tax compliance obligations;
- the statistical evidence is based on expert experience and the consultation of relevant databases, such as Amadeus.

#### 4.1.1 Representative large EU parent company

For the purpose of the study, the representative large EU parent company (hereafter large parent) in a production environment is defined as follows:

- the large parent is a tax-resident entity in an EU jurisdiction and has been constituted in the form of a limited company. Where different types of limited liability companies operate in a given EU Member State, the most common form for a large tax-resident parent was used;
- the large parent was constituted on January 1, 2000;
- the large parent operated out of the largest business city of the member state;
- the large parent is subject to the common tax regime in the EU state of residence and does not benefit from any particular tax holiday and/or tax benefit on any type of income received;
- the large parent has been since its establishment operating in a production environment; the company has a mixed status – on the one hand industrial activities and on the other holding activities;
- December 31, 2008, the headcount of the large parent exceeds 250 full-time equivalents;
- for the accounting year ending on December 31, 2008, the large parent has a balance sheet total of EUR75,559,000 and a turnover of EUR83,752,000<sup>4</sup>;
- the large parent realized an accounting profit before tax of EUR3,171,500<sup>5</sup> in the accounting year ending December 31, 2008;

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<sup>4</sup> Appendix 1: Balance sheet, large EU parent

- the large parent owns various shareholdings in subsidiaries, but it has since January 1, 2004 owned 99.9% of the shares of a new representative medium-sized subsidiary located in another EU Member State. This new representative medium-sized subsidiary also operates as a production entity;
- the new medium-sized EU subsidiary set up by the large parent company is established on January 1<sup>st</sup> of a given year and follows the same rules for annual accounts as the large parent company;
- the large parent has funded the new medium-sized subsidiary through the contribution of equity, paid in capital, for an amount of EUR850,000, and partially with loans that are granted by the parent for an amount of EUR787,000 which equals approximately 11.7%<sup>6</sup> of the total debt of the medium-sized subsidiary;
- the large parent has a dividend policy which requires that the subsidiaries distribute 50% of their annual profit after tax as a dividend to the large parent entity<sup>7</sup>;
- the intra-group loans granted by the large parent to the medium-sized subsidiary trigger interest income at the level of the large parent. The assumption is made that the interest rate is set at an arm's length rate. The interest payments are effectively to be paid by the medium-sized subsidiary before the end of each accounting year, i.e. December 31, 2008;
- the large parent is engaged in a number of specific intra-group transactions which represent 40%<sup>8</sup> of the turnover of the large parent and include the centralised acquisition of raw materials which are sold to different subsidiaries, including the representative medium-sized subsidiary at an arm's length price;
- the large parent buys at an arm's length price the semi-finished and finished goods that are produced by the subsidiary in order to sell these to third party customers;

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<sup>5</sup> Appendix 1: P&L large EU parent

<sup>6</sup> Data obtained from the BNB

<sup>7</sup> Simon Djankov, Tim Ganse, Caralee McLiesh, Rita Ramalho, Andrei Shleifer, "The effect of corporate taxes on investment and entrepreneurship", Fourth Draft, March 2009, World Bank, Harvard University.

<sup>8</sup> U.S. Census Bureau News, *U.S Goods Trade: Import & Exports Related-Parties 2008*, U.S. Department of Commerce, May 12, 2009; M. BONTURI and K. FUKASAKU, *Globalization and intra-firm trade: an empirical note*, OECD economic Studies no. 20, Spring 1983; W.J.ZEILE, February 1997 survey of current business: U.S. Intrafirm Trade in Goods, International Economy Accounts

- the large parent company provides management assistance to the medium-sized subsidiary company<sup>9</sup>. The management assistance rendered by the parent includes general day-to-day management services, accounting, general payroll and invoicing assistance, and debt collection. These management services are invoiced by the large parent on the basis of the effective time incurred by each of its employees in rendering these services increased by a cost plus of 5%;
- the large parent owns specific intellectual property which is put at the disposal of the medium-sized subsidiary in order to enable it to make use of the appropriate know-how in its production process. The large parent invoices on an annual basis a royalty not exceeding 1.5% of the turnover of the representative medium-sized subsidiary for the use of the know-how. The royalty is effectively to be paid by the subsidiary before the end of each accounting year;
- the large parent company does not receive any dividends and royalty income from companies outside the group (non-group member located in the EU or outside the EU);
- the large parent company does not make any dividend and royalty payments to non-group members (non-group members in the EU or outside the EU). As a result, there are for the purpose of this project no transactions that could involve a withholding tax resulting from payments made to or received from non-group members located in or outside the EU.

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<sup>9</sup> No valid percentage or nominal amount could be obtained from research.

<b>Accounting year ended December 31, 2008</b>			
<b>Balance Sheet (EUR '000)</b>			
<b>Fixed assets</b>	<b>28 989.0</b>	<b>Shareholder funds</b>	<b>29 083.0</b>
Intangible assets	590.5	Shareholder funds capital	5 764.0
Tangible fixed assets	14 330.0	Other shareholder funds	21 319.0
Other fixed assets	7 531.0		
		<b>Non-current liabilities</b>	<b>12 259.5</b>
<b>Current assets</b>	<b>46 570.0</b>	Non-current liabilities: LT debt	6 582.5
Stock	13 564.0	Other non-current liabilities	3 407.0
Debtors	17 153.5		
Other current assets	10 069.5	<b>Current liabilities</b>	<b>29 489.5</b>
Cash and cash equivalents	2 281.0	Current liabilities: loans	6 902.0
		Current liabilities: creditors	11 110.5
		Other current liabilities	7 484.0
Total assets	75 559.0	Total shareh. funds & liab.	70 832.0
Balance sheet difference		Balance sheet difference	4 727.0
<b>Adjusted Total assets</b>	<b>75 559.0</b>	<b>Adjusted Total equity &amp; liabilities</b>	<b>75 559.0</b>

<b>P &amp; L (EUR '000)</b>	
Operating revenue/turnover	83 752.0
<b>Operating profit/loss</b>	<b>3 950.5</b>
Financial revenues	673.0
Financial expenses	1 452.0
Financial profit/loss	-437.0
<b>P/L before tax</b>	<b>3 171.5</b>
Taxation	772.0
<b>P/L after tax</b>	<b>2 702.0</b>
Extr. and other revenues	177.0
Extr. and other expenses	142.0
Extraordinary and other P/L	0.0
<b>P/L for period</b>	<b>2 737.0</b>

#### 4.1.2 Representative medium-sized EU parent company

For the purpose of the study the representative medium-sized EU parent company (hereafter medium-sized parent) in a production environment is defined as follows:

- the medium-sized parent is a tax resident entity in a given EU jurisdiction and has been constituted in the form of a limited company. Where different types of limited liability companies operate in the EU Member State, the most common form for a medium-sized tax-resident parent has been used;
- the medium-sized parent was constituted on January 1, 2000;
- the medium-sized parent operates out of the largest business city of the member state;
- the medium-sized parent is subject to the common tax regime in the EU state of residence and does not benefit from any particular tax holiday and/or tax benefit on any type of income received;
- the medium-sized parent has since its establishment been operating in a production environment; the company has a mixed status on the one hand industrial activities and on the other holding activities;
- the headcount of the medium-sized parent on December 31, 2008, is more than 50 but less than 250 full-time equivalents;
- for the accounting year ending December 31, 2008, the medium-sized parent has a balance sheet total of EUR16,423,000 and a turnover of EUR20,260,000<sup>10</sup>;
- the medium-sized parent realized an accounting profit before tax of EUR625,000<sup>11</sup> over the accounting year ending December 31, 2008;
- the medium-sized parent owns various participations in subsidiaries, but it has since January 1, 2004 owned 99.9% of the shares of a new representative medium-sized subsidiary located in another EU Member State. This new representative medium-sized subsidiary also operates as a production entity;
- the new representative medium-sized EU subsidiary that is set up by the large parent company is established on January 1<sup>st</sup> of a given year and follows the same rules for annual accounts as the large parent company;

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<sup>10</sup> Annexe 1: Balance sheet medium EU parent

<sup>11</sup> Annexe 1: P&L medium EU parent

- the medium-sized parent has funded the medium-sized subsidiary through the contribution of equity, in the form of paid in capital, for an amount of EUR850,000, and partially with loans that are granted by the parent for an amount of EUR787,000 which equals approximately 11,7%<sup>12</sup> of the total debt of the medium-sized subsidiary;
- the medium-sized parent has a dividend policy which requires that the subsidiaries distribute 50% of their annual profit after tax as a dividend to the large parent entity<sup>13</sup>;
- the intra-group loans granted by the medium-sized parent to the medium-sized subsidiary trigger an interest income at the level of the medium-sized parent. The assumption is made that the interest rate is set at an arm's length rate. The interest payments are effectively to be paid by the medium-sized subsidiary before the end of the accounting year i.e. December 31, 2008;
- the medium-sized parent is engaged in a number of specific intra-group transactions which represent 40%<sup>14</sup> of the turnover of the medium-sized parent and include the centralized acquisition of raw materials which are sold to a different subsidiary, including the representative medium-sized subsidiary at an arm's length price;
- the medium-sized parent buys at an arm's length price the semi-finished and finished goods that are produced by the subsidiary in order to sell them to third party customers;
- the medium-sized parent company provides management assistance to the medium-sized subsidiary company<sup>15</sup>. The management assistance rendered by the medium-sized parent is limited to general day to day management service. These management services are invoiced by the medium-sized parent on the basis of the effective time incurred of each of its employees in rendering these services increased by a cost plus of 5%;

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<sup>12</sup> Data obtained from the BN

<sup>13</sup> Simon Djankov, Tim Ganse, Caralee McLiesh, Rita Ramalho, Andrei Shleifer, "*The effect of corporate taxes on investment and entrepreneurship*", Fourth Draft, March 2009, World Bank, Harvard University.

<sup>14</sup> U.S. Census Bureau News, *U.S Goods Trade: Import & Exports Related-Parties 2008*, U.S. Department of Commerce, May 12, 2009; M. BONTURI and K. FUKASAKU, *Globalization and intra-firm trade: an empirical note*, OECD economic Studies no. 20, Spring 1983; W.J.ZEILE, February 1997 survey of current business: U.S. Intrafirm Trade in Goods, International Economy Accounts ...

<sup>15</sup> No valuable percentage or nominal amount could be obtained from research....

- the medium-sized parent owns specific intellectual property. However, this intellectual property is not put at the disposal of the medium-sized subsidiary. The medium-sized parent thus invoices no royalty income to the medium-sized subsidiary;
- the medium-sized parent company does not receive any dividend and royalty income from companies outside the group (non-group member located in the EU or outside the EU);
- the medium-sized parent company does not make any dividend and royalty payment to non-group members (non-group members in the EU or outside the EU). As a result there are for the purpose of this project no transactions that could involve a withholding tax resulting from payments made to or received from non-group members located in or outside the EU.

<b>Accounting year ended December 31, 2008</b>			
<b>Balance Sheet (EUR '000)</b>			
<b>Fixed assets</b>	<b>5 038.0</b>	<b>Shareholder funds</b>	<b>5 353.0</b>
Intangible assets	115.5	Shareholder funds capital	1 000.0
Tangible fixed assets	2 877.0	Other shareholder funds	3 577.0
Other fixed assets	673.5		
		<b>Non-current liabilities</b>	<b>2 276.0</b>
<b>Current assets</b>	<b>11 385.0</b>	Non-current liabilities: LT debt	1 283.0
Stock	3 110.5	Other non-current liabilities	445.0
Debtors	4 763.0		
Other current assets	1 845.0	<b>Current liabilities</b>	<b>7 343.0</b>
Cash and cash equivalents	528.0	Current liabilities: loans	1 613.0
		Current liabilities: creditors	2 964.0
		Other current liabilities	1 501.5
Total assets	16 423.0	Total shareh. funds & liab.	14 972.0
Balance sheet difference		Balance sheet difference	1 451.0
<b>Adjusted Total assets</b>	<b>16 423.0</b>	<b>Adjusted Total equity &amp; liabilities</b>	<b>16 423.0</b>

<b>P &amp; L (EUR '000)</b>	
Operating revenue/turnover	20 260.0
<b>Operating profit/loss</b>	<b>858.0</b>
Financial revenues	79.0
Financial expenses	312.0
Financial profit/loss	-180.0
<b>P/L before tax</b>	<b>625.0</b>
Taxation	181.5
<b>P/L after tax</b>	<b>443.5</b>
Extr. and other revenues	58.0
Extr. and other expenses	29.0
Extraordinary and other P/L	0.0
<b>P/L for period</b>	<b>472.5</b>

#### 4.1.3 Representative medium-sized EU subsidiary company

For the purpose of the study the representative medium-sized EU subsidiary company (hereafter medium-sized subsidiary) in a production environment is defined as follows:

- the medium-sized subsidiary is a tax resident entity in a given EU jurisdiction and has been constituted in the form of a limited company; where different types of limited liability companies operate in the EU Member State, the most common form for a medium-sized tax-resident subsidiary was used ;
- the medium-sized subsidiary was constituted on January 1, 2004, by a representative parent located in another EU Member State;
- the medium-sized subsidiary that is set up by the parent company is established on January 1<sup>st</sup> of a given year and follows the same rules for annual accounts as the parent company;
- the medium-sized subsidiary operates out of the largest business city of the EU Member State in which it is established;
- the medium-sized subsidiary is subject to the common tax regime in the EU state of residence and does not from any particular tax holiday and/or tax benefit on any type of income received;
- the medium-sized subsidiary has since its establishment been operating in a production environment; the company has no mixed status and is solely active in the production/marketing and sale of its production and has no holding activities;
- the headcount of the medium-sized subsidiary on December 31, 2008, is more than 50 but less than 250 full-time equivalents;
- for the accounting year ending on December 31, 2008, the medium-sized subsidiary has a balance sheet total of EUR11,632,000 and a turnover of EUR18,279,000<sup>16</sup>;
- the medium-sized subsidiary realized an accounting profit before tax of EUR584,000<sup>17</sup> over the accounting year ending December 31, 2008;

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<sup>16</sup> Appendix 1: Balance sheet, medium-sized EU subsidiary

<sup>17</sup> Appendix 1: P&L, medium-sized EU subsidiary

- the medium-sized subsidiary was funded by the representative parent through the contribution of equity, paid in capital, for an amount of EUR850,000, and partially with loans that are granted by the parent for an amount of EUR787,000 which equals approximately 11.7%<sup>18</sup> of the total debt of the medium-sized subsidiary;
- the representative parent has a dividend policy which requires that the medium-sized subsidiary distribute 50% of its annual profit after tax as a dividend to the representative parent entity<sup>19</sup>, in the case at hand the dividend payment will amount to EUR228,000 (50% of the profit after tax);
- the intra-group loans granted by the representative parent to the medium-sized subsidiary trigger an interest expense at the level of the medium-sized subsidiary. The assumption is made that the interest rate is set at an arm's length rate. The interest payments are effectively to be paid by the medium-sized subsidiary before the end of the accounting year, i.e. December 31, 2008;
- the medium-sized subsidiary is engaged in a number of specific intra-group transactions which represent 40%<sup>20</sup> of the turnover of the medium-sized subsidiary. These include the sale of the semi-finished and finished goods to the representative parent. The remainder of its production is sold to third party customers;
- the medium-sized subsidiary acquires raw materials from its representative parent, which are acquired at an arm's length price;
- the medium-sized subsidiary receives management services from its representative parent company<sup>21</sup>. The management assistance rendered by the medium-sized parent is limited to general day-to-day management services. These management services are invoiced by the medium-sized parent on the basis of the effective time incurred of each of its employees in rendering these services increased by a cost plus of 5%.

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<sup>18</sup> Data obtained from Belgian National Bank (BNB).

<sup>19</sup> Simon Djankov, Tim Ganse, Caralee McLiesh, Rita Ramalho, Andrei Shleifer, "*The effect of corporate taxes on investment and entrepreneurship*", Fourth Draft, March 2009, World Bank, Harvard University.

<sup>20</sup> U.S. Census Bureau News, *U.S Goods Trade: Import & Exports Related-Parties 2008*, U.S. Department of Commerce, May 12, 2009; M. BONTURI and K. FUKASAKU, *Globalization and intra-firm trade: an empirical note*, OECD economic Studies no. 20, Spring 1983; W.J.ZEILE, February 1997 survey of current business: U.S. Intrafirm Trade in Goods, International Economy Accounts .....

<sup>21</sup> No valid percentage or nominal amount could be obtained from research.

- Where the parent is a large representative parent, the aforementioned management services also include accounting, general payroll and invoicing assistance and debt collection. These services are invoiced on the same basis as general day-to-day management on a 5% cost plus basis;
- the representative parent owns specific intellectual property. However, this intellectual property is not put at the disposal of the medium-sized subsidiary where its parent is a medium-sized entity. The medium-sized parent thus invoices no royalty income to the medium-sized subsidiary. Where the representative parent is a large entity, then specific know-how is put at the disposal of the representative medium-sized subsidiary in exchange for the payment of a royalty of 1.5% of the turnover of the representative medium-sized parent. This annual royalty is effectively to be paid by the representative medium-sized subsidiary to the large representative parent before the end of each accounting year;
  - the medium-sized subsidiary company does not receive any dividends and royalty income from companies outside the group ( non-group member located in the EU or outside the EU ) or inside the group;
  - the medium-sized subsidiary company does not make any dividend and royalty payments to non-group members (non-group members in the EU or outside the EU). As a result there are for the purpose of this project no transactions that could involve a withholding tax resulting from payments made to or received from non-group members located in or outside the EU.

<b>Accounting year ended December 31, 2008</b>			
<b>Balance Sheet (EUR '000)</b>			
<b>Fixed assets</b>	<b>3 145.0</b>	<b>Shareholder funds</b>	<b>3 836.0</b>
Intangible assets	34.0	Shareholder funds capital	850.0
Tangible fixed assets	2 266.0	Other shareholder funds	2 253.0
Other fixed assets	26.0		
		<b>Noncurrent liabilities</b>	<b>1 087.0</b>
<b>Current assets</b>	<b>8 487.0</b>	Non-current liabilities: LT debt	239.0
Stock	2 156.0	Other non-current liabilities	296.0
Debtors	3 197.0		
Other current assets	1 491.0	<b>Current liabilities</b>	<b>5 645.5</b>
Cash and cash equivalents	368.0	Current liabilities: loans	501.0
		Current liabilities: creditors	2 116.5
		Other current liabilities	1 591.0
Total assets	11 632.0	Total shareh. funds & liab.	10 568.5
Balance sheet difference		Balance sheet difference	1 063.5
<b>Adjusted Total assets</b>	<b>11 632.0</b>	<b>Adjusted Total equity &amp; liabilities</b>	<b>11 632.0</b>

<b>P &amp; L (EUR '000)</b>	
Operating revenue/turnover	18.279,0
<b>Operating profit/loss</b>	<b>706,0</b>
Financial revenues	52,0
Financial expenses	174,0
Financial profit/loss	-82,0
<b>P/L before tax</b>	<b>584,0</b>
Taxation	128,0
<b>P/L after tax</b>	<b>456,0</b>
Extr. and other revenues	43,0
Extr. and other expenses	51,0
Extraordinary and other P/L	0,0
<b>P/L for period</b>	<b>448,0</b>

## 4.2 Description of cross border – intra-group transactions triggering TP compliance formalities

Intercompany transactions can generally be divided into three types of transactions: goods, services and intellectual property transactions. Financial transactions are generally speaking considered as a specific type of service. Therefore, practitioners usually refer to four types of transactions. Bundling transactions is generally accepted where transactions are so closely linked that they cannot reliably be evaluated on a separate basis.

In the paragraphs below, the possible link between the nature of the transaction and the size of the company is discussed. All four types of transactions are observed.

### 4.2.1 Goods transactions

Goods transactions include all sale and purchase of physical goods. These may be raw materials, semi-finished goods or finished goods.

Important characteristics for goods include physical features, quality and reliability. Other factors that may impact price-setting are the availability of the goods in the market along with volume and supply of the goods.

#### 4.2.1.1 OECD reference

The different characteristics for goods and services are laid out in section 1–9 of the OECD transfer pricing guidelines for multinational enterprises and tax administrations (hereafter the “OECD Guidelines”).

#### 4.2.1.2 Practice/applicability

Group manufacturing companies are generally expected to have intercompany goods transactions regardless of the companies’ size.

It is, however, true that the occurrence and size of these transactions will tend to be closely associated with the size of the companies/group.

It is worth noting also that there is a tendency, notably at the level of the larger groups, for activities to be organised through toll manufacturing arrangements where goods are no longer exchanged, but rather constitute manufacturing services.

An indication of volume goods transactions can generally be found in the sales levels, in the cost of goods sold levels, and in the inventory and accounts receivables/payables levels.

#### 4.2.1.3 Intra-group goods transactions

Some research<sup>22</sup> on intra-group (trade) transactions has focused on estimating the percentage of intra-group sales in total reported sales. This percentage appears to vary between 40% and 70% depending on the location of the companies and of the date of the research. Taking into account the date of the research, we believe 40% is a more appropriate estimate.

#### 4.2.2 Service transactions

In transfer pricing terms, an intercompany service has been rendered when an activity performed for one or more group companies by another group company provides an economic or commercial value to the beneficiary of that activity. When determining the value of a service, the nature and extent of that service must be taken into consideration.

##### 4.2.2.1 OECD reference

Services are extensively discussed in chapter VII of the OECD Guidelines.

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<sup>22</sup> U.S. Census Bureau News, *U.S Goods Trade: Import & Exports Related-Parties 2008*, U.S. Department of Commerce, May 12, 2009; M. BONTURI and K. FUKASAKU, *Globalization and intra-firm trade: an empirical note*, OECD economic Studies no. 20 , Spring 1983; W.J.ZEILE, February 1997 survey of current business: U.S. Intrafirm Trade in Goods, International Economy Accounts

#### 4.2.2.2 Practice/applicability

Based on past experience, it appears that large groups are more likely to centralise services, often either at the parent company or at the level of a dedicated service centre. Additionally, being generally more sophisticated, they will tend to more promptly charge central value-adding management services that might otherwise be overlooked and not be charged by smaller companies.

It is expected that the services centralisation at the level of the main operating companies discussed above to be reflected, for instances, in a higher ratio of operating expenses to sales.

#### 4.2.2.3 Intra-group service transactions

We have not been able to identify surveys suggesting the magnitude of intercompany charges related to services. Moreover, it appears difficult to draw conclusions on this on the basis of the accounts published in Amadeus and used for defining the representative companies.

#### 4.2.3 Intellectual property transactions

Intellectual property transactions include both sale and licensing of intellectual property ("IP"). Commercial IP includes legal property rights, including trademarks, trade names, patents, design rights, know how, trade secrets, customer lists, etc.

For intellectual property, important characteristics that may affect the price setting include the form of the transaction (e.g. sale or licensing), the type of IP, duration and degree of protection, along with expected benefits from the use of IP, the latter taking into account limitations imposed by the licensor, e.g. geographic, exclusivity, the right to sublicense, etc.

#### 4.2.3.1 OECD reference

The different characteristics for IP transactions are summarized in sections 1–9 of the OECD Guidelines. IP transactions are extensively discussed in chapter VI of the OECD Guidelines.

#### 4.2.3.2 Practice/applicability

From experience, larger companies are more likely to have developed IP than medium-sized companies. Similarly, larger groups are more likely to centralise IP in an IP company. We have also observed that larger companies are more likely to charge the IP to the group companies actually using it.

The presence of intellectual property is obvious where intangible assets are reported in the balance sheet. However, the book value of intangibles may be very different from the market value.

#### 4.2.3.3 Intra-group intellectual property transactions

The intangibles in the representative balance sheets we have constructed are:

	kEUR
Large parent	591
Medium parent	116
Large subsidiary	244
Medium subsidiary	34

#### 4.2.4 Financial transactions

Financial transactions typically include transactions such as loans, deposits, cash pooling, guarantees, hedging, derivatives, etc.

#### 4.2.4.1 OECD reference

Services are extensively discussed in chapter VII of the OECD Guidelines. However, there is little guidance available with regard to financial transactions. OECD does, however, recognise the importance of some financial transactions in “The Taxation of Global Trading of Financial Instruments”, a revised and updated version of the discussion draft “The Taxation of Global Trading of Financial instruments”, released on 14 February 1997.

#### 4.2.4.2 Practice/applicability

The most basic financial transactions, observable in even smaller group, are loans. The most sophisticated transactions, such as hedging and dealing in derivatives would tend to take place rather between group companies belonging to larger groups.

Larger groups can be expected to be more likely to have in-house banking activities – often located in one single legal entity active in a region of the globe or throughout the world.

Understandably, a dedicated finance company would typically have operating losses but a positive net profit.

#### 4.2.4.3 Intra-group financial transactions

Assuming that the volume of financial transactions would be closely related to the volume of sales, one could tentatively estimate that of all the loans booked on balance sheets, 40% relate to intercompany transactions. However, common sense suggests that subsidiaries would be more likely to be financed by intercompany loans than parent companies.

#### 4.2.5 Conclusion

If it is obvious that production companies would tend to have significant volume of goods transaction, this is not always true in the case of a toll-manufacturing arrangement, for instance. There, the most significant transaction would be one of services.

Furthermore, as all four types of transactions represent potentially a significant transfer of value, it appears difficult to single out one type of transaction as less significant for production companies.



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## 5. Analysis

### 5.1 Analysis of the average of all investment flows

#### 5.1.1 Large EU parents with medium-sized EU subsidiaries

##### 5.1.1.1 Introduction

Hereafter we provide the analysis of the measurement of time and costs obtained by the mathematic average of the time and cost of all investment flows (baseline and alternative investment). The average in the three different tax regimes is obtained as follows:

- computation of the average of the total time and cost measured in the nine scenarios at the level of the large parent companies in France, Hungary and Spain for all the investments flows (baseline and alternative) is added up with the same data at the level of the medium-sized German, Greek and Polish subsidiary;
- computation of the percentage change for total time and cost in the CCTB and CCCTB regime compared to the current regime;
- computation of the ratio of compliance time and costs as a percentage of consolidated turnover.

The consolidated turnover of the large/medium-sized parent and medium-sized subsidiary was obtained by taking the sum of their respective turnovers EUR 83,752,000 (large parent), EUR 20,260,000 (medium-sized parent) and EUR 18,279,000 (medium-sized subsidiary), which was corrected for intra-group transactions between parent and subsidiary, which were estimated at 40% of the total turnover. This brings the consolidated turnover for a group with a large parent to EUR 61,218,600 and for a group with a medium-sized parent to EUR 23,123,400.

### 5.1.1.2 Average of total time and cost for all investment flows for group with large parent

Consolidated average overall investment flows - Large Parent										
	Current			CCTB			CCCTB			
	Time (min.)	Cost (€)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Total time/cost (min/€)	87 362	140 604	78 768	-9.84	136 891	-2.64	26 649	69.50	52 940	-62.35
Cost/turnover ratio (%)		0.23			0.22	-2.64			0.09	-62.35
Consolidated turnover (€)	61 218 000									

The overall average for all investment flows of the additional time triggered by a new investment by a large EU parent in a medium-sized EU subsidiary in another EU country under the current regime is estimated at 87,362 minutes. The average compliance cost (internal and external time) for all investments flows is estimated at EUR140,604. The aforementioned costs represent 0.23% of the consolidated turnover for a group with a large EU parent.

Under the current regime, the tax expert estimates that dealing with the tax authorities, transfer pricing documentation, clearances/rulings and to lesser extent mutual agreement procedures represent 89.65% of the total compliance cost.

The introduction of the CCTB regime is considered to lead for a large EU parent investing in an EU medium-sized subsidiary in an estimated reduction in compliance time of 9.84% (78,768 minutes) and an estimated reduction in compliance costs of 2.64% (EUR136,891) compared to the current regime with 27 different tax regimes. The compliance cost under CCTB remains fairly equal when set against the consolidated turnover since it remains at 0.22%.

The modest change in corporate compliance time and cost in the CCTB regime results from the fact that the main corporate compliance cost drivers under the current regime remain essentially unchanged regarding time and cost under the CCTB regime, in particular:

- transfer pricing documentation;
- clearances and rulings;
- mutual agreement procedures.

Under a CCTB regime the tax experts estimate on average a reduction in compliance time and cost in relation to the following corporate compliance tasks:

- record keeping for corporate tax;
- preparation of corporate tax computations;
- prepayments;
- corporate tax returns and payment.

The difference in the percentage reduction in time (-9.84%) and cost (-2.64%) can be explained by the fact that the higher savings in time relate to internal activities which are less expensive.

The introduction of the CCCTB regime is considered to lead for a large EU parent investing in an EU medium-sized subsidiary in a significant reduction in compliance time of 69,50% (26.649 minutes) corresponding to an estimated reduction in compliance costs of 62,35% (EUR 26.649) compared to the current regime with 27 different tax regimes. The substantial cost decrease positively affects the compliance cost as a percentage of consolidated turnover, which drops to 0.09%.

The significant cost decrease under the CCCTB is triggered by the fact that all compliance cost related to transfer pricing will be eliminated under the CCCTB regime, in particular:

- transfer pricing documentation (-100%)

- mutual agreement procedures (-100%)
- clearances and rulings (-88.55%).

Moreover, the following corporate tax compliance tasks are estimated to reduce in cost under the CCCTB regime, however to a lesser extent:

- learning and education (-59.69%)
- dealing with tax authorities (-19.17%).

The tax expert estimates under the CCCTB an increase of cost for the following corporate tax compliance tasks:

- corporate tax return (+52.62%)
- preparation of corporate tax computation (+73.14%)
- corporate tax returns and payment (+209.84%)
- prepayments for corporate tax (+175.71%).

However, the increase in compliance cost for these 4 corporate compliance tasks under the CCCTB regime does not eliminate the significant compliance cost saving which results from the suppression of all corporate compliance tasks related directly or indirectly to transfer pricing.

## 5.1.2 Medium-sized EU parents with medium-sized EU subsidiary

### 5.1.2.1 Introduction

Hereafter we provide the analysis of the measurement obtained through the average of all investment flows (baseline and alternative investment flows) for a group with a

medium-sized parent. The average in the three different tax regimes is obtained in a similar method as described in the section of large EU parents with medium-sized EU subsidiary under 5.1.1.1.

#### 5.1.2.2 Average of total time and cost for all investment flows

Consolidated average overall investment flows – Medium-sized Parent										
	Current		CCTB				CCCTB			
	Time (min.)	Cost (€)	Time (min.)	Time Diff. (%)	Cost(€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff.(%)
Total time/cost(min/€)	83 747	127 706	74 754	-10.74%	124 837	-2.25%	24 184	-71.12%	42 190	-66.96%
Cost/turnover ratio (%)		0.55%			0.54%	-2.25%			0.18%	-66.96%
Consolidated turnover(€)	23 123 400									

The overall average for all investment flows (baseline and alternative) of the additional time triggered by a new investment by a medium-sized EU parent in a medium-sized EU subsidiary in another EU country is under current regime estimated at 83.747 minutes. The average cost (internal and external time) for all investment flows is estimated at EUR 127,706. This compliance cost represents 0.55% of the consolidated turnover for a group with a medium-sized EU parent.

The drivers of the corporate compliance cost under the current regime for a group with a medium-sized parent are identical as those for a group with a large parent, in particular:

- dealing with tax authorities;
- transfer pricing documentation;

- clearances and rulings;
- mutual agreement procedure.

The four corporate compliance tasks mentioned above represent 89.55% of the total compliance cost under the current regime.

The introduction of the CCTB regime is considered to lead for a medium EU parent investing in an EU medium-sized subsidiary in an estimated reduction in compliance time of 10.74% (74,754 minutes) and an estimated reduction in compliance costs of 2.25% (EUR 24,837) compared to the current regime with 27 different tax regimes.

The compliance cost set in relation to the consolidated turnover of the group with a medium-sized parent results in a ratio of 0.54%. This ratio is similar to that for a group with a large parent (0.55%).

The moderate change in compliance time and the even more moderate reduction in the compliance cost results from the fact that under the CCTB the main corporate tax compliance cost drivers remain largely unchanged, in particular:

- transfer pricing documentation;
- clearances/rulings;
- mutual agreement procedure.

The tax expert estimates under CCTB regime a reduction in compliance time and cost for the following corporate compliance tasks:

- record keeping for corporate tax;
- preparation of the corporate tax computation;
- prepayments;
- corporate tax returns and payment.

The introduction of the CCCTB regime is considered to lead for a medium-sized EU parent investing in an EU medium-sized subsidiary in a estimated reduction in compliance time of 71,12% (minutes 24.184) corresponding to an estimated reduction in

compliance costs of 66,96% (EUR 42.190) compared to the current regime. The compliance cost set against the consolidated turnover results in a ratio of 0.18%.

The considerable estimated reduction in compliance time and cost with the introduction of the CCCTB are for a group with a medium-sized parent similar to those for a group with a large parent:

-	documentation	transfer pricing	(-100%)
-	agreement	mutual	(-100%)
-	compliance	cross-border tax	(-100%)
-	rulings	clearances and	(-88.42%)
-	education	learning and	(-60.31%)
-	authorities	dealing with tax	(-24.5%).

However, the tax experts estimate that the CCCTB regime would trigger additional compliance cost being more modest compared to a group with a large parent. The additional compliance cost is triggered for the following corporate compliance tasks:

-	for tax purposes	record keeping	(+22.92%)
-	the corporate tax computation	preparation of	(+27.03%)

-	corporate tax	
return and payments	(+178.50%)	
-	prepayments for	
corporate tax	(+135.18%).	

On the basis of the estimate date one can conclude that for a group with a medium-sized parent the additional cost on the aforementioned compliance cost is more moderate compared to a group with a large parent.

The aforementioned compliance cost are not eliminating the significant saving in compliance time and cost under the CCCTB related to the compliance costs which are directly or indirectly linked to transfer pricing and which form under the current regime the major part of the corporate compliance cost.

### 5.1.3 Compliance time and cost for a medium-sized EU parent compared to a large EU parent

<b>LARGE PARENT</b>	<b>Current Regime</b>	<b>CCTB</b>	<b>Diff. (%)</b>	<b>CCCTB</b>	<b>Diff (%)</b>
Time (min.)	87 362	78 768	-9.84	26 649	-69.50
Cost (€)	140 604	136 891	-2.64	52 940	-62.35
Consolidated turnover (€)	61 218 000	61 218 000		61 218 000	
Cost as % cons. turnover	0.23	0.22		0.09	
<b>MEDIUM-SIZED PARENT</b>	<b>Current Regime</b>	<b>CCTB</b>	<b>-</b>	<b>CCCTB</b>	<b>-</b>
Time (min.)	83 747	74 754	-10.74	24 184	-71.12
Cost (€)	127 706	124 837	-2.25	42 190	-66.96
Consolidated turnover (€)	23 123 400	23 123 400		23 123 400	
Cost as % cons. turnover	0.55	0.54		0.18	
<b>Cost Diff. Medium vs Large (€)</b>	<b>-12 898</b>	<b>-12 054</b>		<b>-10 750</b>	
<b>Cost Diff. Medium vs Large (%)</b>	<b>-9.17</b>	<b>-8.81</b>		<b>-20.31</b>	

Time Diff. Medium vs Large (min.)	-3 615.00	-4 014.00		-2 465.00	
Time % Diff. Medium vs Large (€)	-4.14	-5.10		-9.25	

Overall the compliance time, and by consequence the compliance cost, does not differ much in the three scenarios in the case of a group with Large Parent versus a group with Medium-sized parent. The burden of the additional compliance time and cost for an additional investment in a medium-sized subsidiary by a group with a medium-sized EU parent is almost as important compared to the same investment made by a group with a large EU parent.

The trend of compliance effort and cost variance between the three different scenarios is similar for both the large and medium-sized parents. This can be explained by the fact that the requirements and variances related to the Transfer Pricing activities in the three tax scenarios are alike in the case of a large parent versus a medium-sized parent. The difference noted between a group with a large parent and medium-sized parent is that under CCCTB regime the increase of some corporate tax compliance cost is more moderate for a group with a medium-sized parent, in particular record keeping for tax purposes, preparation of corporate tax computations, prepayments and corporate tax returns and payments.

## 5.2 Analysis of measurement data of the baseline investment flows

Hereafter we analyze the measurement data obtained for the EU parent companies with a medium-sized Greek subsidiary, i.e. the baseline investment. This analysis is based on the averages of the measurement data obtained for the whole group of companies in the baseline investment, i.e. the French parent, the Spanish parent, the Hungarian parent and the Greek subsidiary. These averages are calculated as follows:

- in a first stage the time and cost measured at the level of each parent company is added on an individual basis to the measurement data of the Greek subsidiary. For the Greek subsidiary 2 sets of measurement data for the CCCTB regime have been obtained: one for the situation where the compliance activities are centralised at the level of the Greek subsidiary ("CCCTB Sub lead"-scenario) and one for the situation where the compliance activities are centralised at the level

of the parent ("CCCTB Parent lead"-scenario). For the current analysis, only the "CCCTB Parent lead"-scenario is analyzed;

- in a second stage the average of these 3 consolidations is calculated.

The averages are analyzed in detail for a large EU parent with a medium-sized Greek subsidiary:

- first the variances of the total amount of estimated additional time spent and cost incurred under the CCTB regime and the CCCTB regime compared to the current regime are evaluated;
- subsequently an evaluation is made of the variances of each of the 10 identified compliance activities. It is appreciated whether the established variances are consistent with the respective regimes.

Finally, the average of the total amount of estimated additional time spent and cost incurred by this large EU parent is compared to the average of the additional compliance time and cost incurred by a medium-sized EU parent with a medium-sized Greek subsidiary.

## 5.2.1 Large EU parent with Greek subsidiary

### 5.2.1.1 Total estimated time spent/cost

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost(€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	43 363		15 791		31 331		90 295		74 694		106 086	
<b>CCTB</b>	38 984	-10.10%	14 397	-8.83%	30 028	-4.16%	87 800	-2.76%	69 012	-7.61%	102 197	-3.67%
<b>CCCTB</b>	14 404	-66.78%	7 020	-55.55%	12 922	-58.76%	47 269	-47.65%	27 327	-63.42%	54 289	-48.83%

Under the **current regime**, the additional investment will trigger additional compliance time regarding transfer pricing documentation for corporate tax and mutual TP agreement procedures (resp. 19,771 and 6,156 minutes) and dealing with tax authorities for corporate tax (25,004 minutes).

Compared to the current regime, the total amount of additional compliance time spent and compliance costs incurred by a large EU parent company with a Greek subsidiary **under the CCTB regime** will slightly decrease: the additional time spent will decrease by -7.61% whereas the total additional cost will decrease by -3.67%:

- there is close to **no change** in additional time spent on transfer pricing documentation, on mutual agreement procedures on transfer pricing and on other cross border corporate tax compliance formalities compared to the current regime;
- there is a **decrease** of additional time spent and cost incurred on record keeping for corporate tax purposes, preparation of corporate tax computations, prepayments for corporate tax, corporate tax returns and payments and dealing with tax authorities;
- there is an **increase** of additional time/cost spent on clearances and rulings for corporate tax, learning and education.

The decrease of the total additional **time spent** is **twice as large** as the decrease of the total additional **costs incurred**. This is explained by the fact that the decrease in additional time spent by the internal department (-10.10%) is more than twice as large as the decrease in additional time spent by external advisors (-4.16%). In other words, the largest decrease in additional time spent is noted in the additional time spent at the lowest average wage cost.

On average the different experts seem to expect that relatively speaking a transition to the CCTB regime will lead to a shift of activities from the internal department to external advisors.

Compared to the current regime, the total amount of additional time spent and cost incurred by a large EU parent company with a Greek subsidiary **under the CCCTB regime**

will decrease significantly: the additional time spent will decrease by –63.42% whereas the total additional cost will decrease by –48.83%:

- the additional time/cost spent on transfer pricing documentation, on mutual agreement procedures on transfer pricing and on other cross border corporate tax compliance formalities disappears entirely;
- there is a decrease of additional time/cost on dealing with the tax authorities, clearances and rulings for corporate tax and learning and education for corporate tax;
- with respect to record keeping for corporate tax purposes there is a decrease of additional time spent but a large increase of additional cost incurred;
- with respect to the preparation of corporate tax computations, the prepayments for corporate tax and corporate tax returns and payments there is a large increase of additional time spent as well as additional cost incurred (see also below).

Under the CCCTB regime the relative difference between the decrease in time spent by the internal department (66.78%) and the decrease in time spent by the external advisors (58.76%) is much lower than under the CCTB regime. This is an indication of the fact that compared to the CCTB regime, the additional time spent by the internal department and the additional time spent by the external advisors will be more equally divided.

Under the CCCTB regime there is a large increase of additional cost incurred on the preparation of corporate tax computations, the prepayments for corporate tax and corporate tax returns and payments. This increase must be understood against the following background.

Under the current regime the parent and the subsidiary are individually responsible for these compliance tasks for their respective tax jurisdictions. However, under the CCCTB

regime these tasks will be centralised at the level of the company performing the role of 'central taxpayer'. It is the central taxpayer's responsibility to (1) ensure that the entire group complies with the administrative requirements of the CCCTB regime and to (2) file the consolidated self-assessment tax return, reporting the consolidated tax base, the attribution of the tax base to the respective countries taking into consideration the three attribution criteria.

The tax experts estimate on average that under the CCCTB regime the central taxpayer will incur more time on these compliance activities than under the current regime or under the CCTB regime. This is also shown in the measurement data.

This viewpoint can be demonstrated by the estimate of the French experts. They believe that setting up a new subsidiary in another state would under the current regime or under the CCTB regime not give rise to any (material) additional time spent or costs incurred on these compliance activities at the parent level, whereas they estimate that under the CCCTB large amounts of additional time will need to be spent on these compliance activities at the level of French parent.

The next question to be answered is whether this increase of additional time spent and cost incurred on these compliance activities at the level of the central taxpayer, the parent, is not compensated with a decrease of time spent and cost incurred at the level of the other members of the group, i.e. medium-sized subsidiary. From the study it appears that under a CCCTB a decrease will occur, but that this decrease is much less significant than the increase at the level of the central taxpayer, i.e. the parent. It is true that in a "CCCTB Parent lead"-scenario, i.e. the situation where under the CCCTB regime the compliance activities are centralised at the level of the parent company, the subsidiary will not have to file tax returns as there is only one consolidated return reporting the consolidated tax base. On the other hand it can be expected that the group members will have to provide the central taxpayer with the same information that is needed for the apportionment for sharing the consolidated tax base.

More in particular, the group members will have to keep record on the three company specific factors on which the apportionment is based: labour (consisting of equal weighed payroll and number of employees), assets (without intangibles and financial assets and inventory) and sales (measured 'at destination'). Whenever needed, the group members will have to communicate this information to central taxpayer, which is at the occasion of the tax computation, the prepayments or the preparation of the corporate tax return.

But why are the percentages of increase of additional time and cost spent on these activities under the CCCTB regime that result from the study relatively high?

This is because in the opinion of the French experts a large French parent will under the current or CCTB regime incur no additional time or cost on these activities when setting up a new subsidiary in another European country. The French experts estimate that any additional time or cost to be spent on these activities will only be situated at the level of the new subsidiary, excluding any intervention of the French parent company. However, under the CCCTB regime the French parent will function as the principal taxpayer which will give rise to rather large amounts of additional time and cost to be spent on these activities (e.g. if additional time spent would rise from 1 to 5.00, than the percentage of increase would be 5.00%).

When evaluating the average of the consolidated data for only a large Hungarian parent and a Greek subsidiary on the one hand, and a large Spanish parent and a Greek subsidiary on the other hand, these experts estimate that the additional time spent and cost incurred on these activities, with the exception of record keeping, also increased, albeit at a far less percentage:

- preparation of corporate tax computations: additional time up +19.82%, additional cost up +29.76%;
- prepayments for corporate tax: additional time up +116.14%, additional cost up +34.08%;
- corporate tax return and payments: additional time up +68.80%, additional time up +20.46%;
- the additional time for record keeping for corporate tax purposes decrease by - 67.22% and the additional cost decrease by -42.60%.

The consolidation of the large Hungarian and Spanish parent with a medium-sized Greek subsidiary results in the CCCTB regime in a reduction in the total estimate time of -69.72% and the total additional cost decreases with -58.22%.

#### 5.2.1.2 Record keeping for corporate tax purposes

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	4 853		1 160		751		1 532		5 604		2 692	
<b>CCTB</b>	3 620	-25.41	818	-29.50	729	-2.96	1 488	-2.90	4 349	-22.40	2 305	-14.36
<b>CCCTB</b>	2 892	-40.42	1 232	6.23	1 334	77.60	4 705	207.10	4 226	-24.60	5 937	120.56

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **record keeping for corporate tax**:

- under the CCTB regime:
  - o the total amount of additional time spent will decrease by 22.40% whereas the total additional cost will decrease by 14.36%;
  - o the budget savings are realied internally: the internal department will spend 25.41% less time, whereas the external advisors will only spend 2.90% less additional time.

It is expected that the implementation of the CCTB rules would give rise to a saving of additional time spent and costs incurred on record keeping for corporate tax purposes. These figures seem to confirm that on average the application of the CCTB tax rules is expected to be less burdensome than the application of the current 27 national tax codes. Indeed, it is the intention that the CCTB rules on the tax base calculation are simplified compared to the current national tax provisions. Also, the common rules can be expected to be more stable in time as all changes have to be agreed upon by all participating 27 Member States. This implies that the record keeping method for tax purposes will not have to be adapted frequently to new regulation.

- under the CCCTB regime the total amount of additional time spent will decrease by -24.60% but the total amount of additional cost will increase by 120.56%. This is due to large increase of additional time spent by external advisors: the significant decrease in additional time spent by the internal department (-40.42%) does not result in a saving of additional cost incurred by the internal department. On the contrary there is an increase of +6.23%. This can be explained by the fact that more senior profiles will engage in this compliance activity under the CCCTB. In addition, there is an significant increase of additional time spent (+77.60%) and cost (increase of +207%) incurred by external advisors. There is thus also an important shift from additional time spent by the internal department to time spent by external advisors.

The involvement of more senior internal profiles and higher involvement of external advisors for this corporate compliance task under the CCCTB, compared to the current regime and CCTB, can be explained by the fact that for these two regimes the taxable basis is determined on a standalone basis whereas the CCCTB regime takes a “consolidated” approach. In principle, the knowledge and expertise for the latter is mainly governed by more senior profiles within an internal department, to the extent this knowledge is not available in-house involvement of external advisors will be required. Moreover, one should bear in mind when considering the estimates of the experts in respect with this particular task that tax consolidation is currently not available in some EU Member states for group companies which are located in the same EU Member state, this is the case for Greece.

### 5.2.1.3 Transfer pricing documentation for corporate tax

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost(€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Current	10 792		3 811		8 978		19 356		19 771		23 167	
CCTB	10 399	-3.64	3 675	-3.57	9 093	1.27	19 424	0.35	19 492	-1.41	23 099	-0.29
CCCTB	0	-100.00	0	-100.00	0	-100.00	0	-100.00	0	-100.00	0	-100.00

The additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **transfer pricing documentation** for corporate tax purposes under the CCTB regime compared to the current regime will remain practically the same. This is consistent with the CCTB-model: in the absence of a consolidated taxable basis all transfer pricing requirements for intra-group transactions, as determined by the respective domestic legislation of the parent and the subsidiary, are assumed to remain unchanged compared to the current national tax system scenario notwithstanding the fact that a common tax base is introduced.

The additional time spent and costs incurred on transfer pricing documentation disappear entirely suppressed under the CCCTB regime. This is consistent with the CCCTB model whereby companies engaged in an investment in another EU Member State are relieved of compliance with intra-group pricing rules for their intra-group transactions within the EU. This can be considered as one of the main drivers for the reduction in compliance time and the associated cost under the CCCTB regime.

#### 5.2.1.4 Preparation of corporate tax computations

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost(€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	1 756		597		469		1 172		2 224		1 770	
<b>CCTB</b>	1 643	-6.42	550	-7.92	395	-15.78	987	-15.78	2 038	-8.39	1 537	-13.13
<b>CCCTB</b>	2 988	70.22	1 236	106.89	1 260	168.80	3 722	217.48	4 249	91.00	4 958	180.14

The following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **the preparation of corporate tax computations** compared to the current regime:

- under the **CCTB regime**:
  - o there is a moderate decrease of 8.39% in the total amount of additional time spent whereas the total additional cost will decrease by 13.13%;

- there is a larger saving on the budgeted additional time spent by external advisors than on the budgeted additional time spent by the internal department. This translates into a higher percentage saving of additional cost than the percentage saving of additional time spent.

Under the CCTB regime the taxable profit is calculated on one single set of corporate tax rules, the CCTB rules, but the calculation of the corporate tax due would still be governed by national corporate tax legislation. Whereas it could then be expected that under the CCTB rules the additional time spent and costs incurred on the preparation of corporate tax computations would remain at the same level, the measurement data show a decrease, albeit a rather moderate one, in additional time spent and costs incurred on this compliance activity. This is probably due to the fact that the preparation of corporate tax computations is not limited to the actual calculation of the taxable base, but will involve the application of rules which remain national.

As seen above, it is expected that the calculation of the taxable base would be simplified and more stable under CCTB, resulting in less additional time to be spent and additional costs to be incurred in the preparation of the corporate tax computations.

- Under the **CCCTB regime** the total amount of additional time spent will increase by 91% whereas the total amount of additional cost will increase by 180.14%. This is because the experts estimate that on average the increase in additional time spent and additional cost incurred by external advisors is more than twice as high as the additional time spent and additional cost incurred by the internal department.

It is estimated that in view of his increased responsibilities the central taxpayer, i.e. the large parent, will incur much more additional time and cost on the preparation of corporate tax computations whereas the time spent and additional cost incurred on this compliance activity by the other group company, i.e. the

subsidiary, will not entirely vanish. Indeed, the latter company will have to keep records of the parameters that are taken into account for the apportionment for sharing the consolidated tax base, provide the central taxpayer with this information and other information in respect with the corporate tax compliance items, to be complied with at the parent level.

Also here the involvement of more senior internal profiles and higher involvement of external advisors for this corporate compliance task under the CCCTB, compared to the current regime and CCTB regime, can be explained by the fact that for the last two regimes the taxable basis is determined on a standalone basis whereas the CCCTB takes a “consolidated” approach. In principle, the knowledge and expertise for the latter is mainly governed by the more senior profiles within an internal department, to the extent this knowledge is not available in-house involvement of external advisors will be required in order to cover this corporate compliance task under the CCCTB regime. Moreover, one should bear in mind when considering the estimates of the experts in respect with this particular task that in some EU Member states tax consolidation is currently not available for group companies which are located in the same EU Member state.

#### 5.2.1.5 Prepayments for corporate tax

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	303		121		325		813		628		933	
<b>CCTB</b>	257	-15.33	102	-15.38	272	-16.23	681	-16.23	529	-15.80	783	-16.12
<b>CCCTB</b>	1 675	452.25	649	437.75	708	117.99	2 090	157.19	2 384	279.36	2 738	193.46

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **the prepayments for corporate tax**:

- under the CCTB regime:

- there is a similar decrease in the total amount of additional time (-5.80%) and additional cost (-16.12%);
- there is a similar saving in the budgeted additional time spent by external advisors (-16.23%) as in the budgeted additional time spent by the internal department (-15.33%).

The same remark as for the additional time spent on the preparation of tax computations applies. The prepayments for corporate tax are based on a substantiated estimate of the corporate tax base. As seen above, it is expected by the tax experts that the calculation of the taxable base would under the CCTB be simplified and more stable, resulting in less additional time/costs to be spent on the prepayments for corporate tax.

- under the CCCTB regime the total amount of additional time spent will increase by 279.36% whereas the total amount of additional cost will increase by 193.46%. This is because the experts estimate on average that the increase in additional time spent and additional cost incurred by the internal department (437.74%) is much higher than the additional time spent and additional cost incurred by the external advisors (279.36%).

It is expected that in view of his increased responsibilities the central taxpayer will incur much more additional time and additional cost on the prepayments for corporate tax whereas the additional time spent and the additional cost incurred on this activity by the other group company will not entirely vanish. Based on the sharing mechanism each individual entity of the consolidated group will be apportioned a share of the tax base.

It is essential, in order to make the correct prepayments of the overall corporate tax liability during a taxable period that these elements of the subsidiary are considered, otherwise companies might incur penalties and additional amounts for insufficient prepayments.

The involvement of more senior internal profiles and the higher involvement of external advisors for this corporate compliance task under the CCCTB might be explained by a “consolidated” approach at the level principal taxpayer, i.e. parent. In principle, the knowledge and expertise regarding “consolidation” is for an important part only governed by senior profiles within an internal department. In a number of organizations this knowledge is not available in-house which requires necessary the involvement of external advisors in order to cover this corporate compliance task under the CCCTB. Moreover, one should bear in mind when considering the estimates of the experts in respect with this particular task that in some EU Member states tax consolidation is currently not available for group companies which are located in the same EU Member state.

The larger involvement of high in-house profiles and external advisors both at a higher cost results in a higher cost under the CCCTB for this corporate tax compliance compared to the current and CCTB regime.

#### 5.2.1.6 Corporate tax returns and payments

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Current	707		212		240		600		947		812	
CCTB	651	-7.92	194	-8.31	204	-15.00	510	-15.00	855	-9.72	704	-13.25
CCCTB	2 366	234.83	932	339.64	863	259.72	2 750	358.33	3 229	241.14	3 682	353.45

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred on **corporate tax returns and payments** by a large EU parent company with a Greek subsidiary:

- under the **CCTB regime**:
  - o there is a decrease in the total amount of additional time (-9.72%) and slightly higher decrease in additional cost (-13.25%);

- the saving in the budgeted additional time spent by external advisors (-15.00%) is twice as high as the saving in the budgeted additional time spent by the internal department (-7.92%).

It is expected by the corporate tax experts that the preparation of the corporate tax return under the CCTB would be simplified and more stable. It is estimated that this will result in a reduction in the compliance time required by the internal department to prepare a corporate tax return under the CCTB. Moreover, they consider an even larger reduction in advice and assistance needed by corporate taxpayers from external advisors in order to comply with the preparation and filing of the corporate tax return under the CCTB. The reduction in internal and external time needed to comply with this compliance task under the CCTB results in a corresponding drop in the overall compliance cost.

- under the **CCCTB regime** it is estimated by the experts that the total amount of additional time spent will increase by 241.14% whereas the total amount of additional cost will increase by 353.45%. This is because the increase in additional time spent/cost incurred by the external advisors (+259.72%) is higher than the additional time spent/cost incurred by the internal departments (+234.83%);

It is expected that in view of his increased responsibilities the principal taxpayer will incur much more additional time and cost on corporate tax returns and payments whereas the time/cost spent on this activity by the other group company will not entirely vanish. The principal taxpayer is responsible for filing the consolidated tax return reporting the consolidated tax base, the breakdown of this consolidated taxable base between Member States and the corporate payment of the tax liability in each state that is part of the consolidated group. The other group companies will have to gather and keep records of the information on the different parameters taken into account for the apportionment of the tax base as well as provide information regarding the specific elements that have an influence on their tax liability.

The involvement of more senior internal profiles and the higher involvement of external advisors for this corporate compliance task under the CCCTB might be explained by a “consolidated” approach at the level principal taxpayer, i.e. parent. In principle, the knowledge and expertise regarding “consolidation” is for an important part only governed by senior profiles within an internal department. In a number of organizations this knowledge is not available in-house which requires necessary the involvement of external advisors in order to cover this corporate compliance task under the CCCTB.

The larger involvement of high in-house profiles and external advisors, both at a higher cost, results in a higher cost under the CCCTB for this corporate tax compliance compared to the current and CCTB regime.

#### 5.2.1.7 Dealing with the tax authorities for corporate tax

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	11 954		4 555		13 050		36 667		25 004		41 221	
<b>CCTB</b>	9 201	-23.03	3 629	-20.31	10 890	-16.55	32 347	-11.78	20 091	-19.65	35 976	-12.72
<b>CCCTB</b>	3 478	-70.91	2 480	-45.55	7 283	-44.19	28 528	-22.20	10 761	-56.96	31 007	-24.78

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **dealing with the tax authorities**:

- under the CCTB regime:
  - o there is a decrease in the total amount of additional time (-19.65%) and a decrease in the total additional cost (-12.72%);

- there is a higher saving in the budgeted additional time spent by the internal department (-23.03%) than in the budgeted additional time spent by the external department (-16.55%). As a result, the saving in compliance costs is lower than the reduction in time.

On average the experts believe that less additional time will be spent on dealing with the tax authorities. This can be explained by the fact that it is intended that CCTB rules be much simpler and clearer than the current different national tax codes. It is estimated that a straightforward common tax base under the CCTB regime will give less rise to discussions/dealings with the tax authorities.

- under the CCCTB regime the total amount of additional time spent will decrease by 56.96% whereas the total amount of additional cost will decrease by 24.78%. This is because the decrease in the additional time spent by the internal department (-70.91%) is much higher than the additional time spent/cost incurred by the external advisors (-44.19%).

Under the CCCTB regime it can be expected that the principal taxpayer will spend less additional time dealing with the tax authorities because of the unified taxation rules under the CCCTB, including the elimination of transfer pricing for intra-group transactions within the EU. In addition, it can be estimated that local entities, i.e. subsidiaries, will incur much less additional time on this compliance activity as this part of the compliance work will be centralised at the level of the principal taxpayer, which will deal with the principal tax authority.

#### 5.2.1.8 Mutual agreement procedures on transfer pricing

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	3 101		1 549		3 054		12 684		6 156		14 233	
<b>CCTB</b>	3 101	0.00	1 549	0.00	3 054	0.00	12 684	0.00	6 156	0.00%	14 233	0.00
<b>CCCTB</b>	0	-100.00	0	-100.00	0	-100.00	0	-100.00	0	-100.00%	0.00	-100.00

The additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **mutual agreement procedures on transfer pricing** for corporate tax purposes under the CCTB regime compared to the current regime are estimated to remain the same. This is consistent with the CCTB model: notwithstanding the introduction of a common tax base all transfer pricing requirements for intra-group transactions remain in place under the CCTB. The correct profit allocation over the different EU Member States of an intra-group transaction remains key in the absence of a consolidated taxable basis.

The additional time spent and costs incurred on transfer pricing documentation disappear entirely under the CCCTB regime. This is consistent with the CCCTB model whereby it is expected that companies are relieved of compliance with intra-group pricing rules for their intra-group transactions within the EU. As a result, no compliance time and related cost resulting from mutual agreement procedures will be incurred under the CCCTB regime.

#### 5.2.1.9 Clearances and rulings for corporate tax

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	3 968		1 877		3 921		15 709		7 889		17 585	
<b>CCTB</b>	4 134	4.20	1 928	2.76	4 674	19.21	17 269	9.93	8 809	11.66	19 197	9.17
<b>CCCTB</b>	389	-90.20	199	-89.38	994	-74.64	3 912	-75.10	1 383	-82.46	4 111	-76.62

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **clearances and rulings for corporate tax**:

- under the CCTB regime:
  - o there is an increase in the total amount of additional time (+11.66%) and an increase in the total additional cost (+9.17%);

- there is a higher increase in the budgeted additional time spent by external advisors (+19.21%) than the increase of the budgeted additional time spent by the internal department (+4.20%).

A possible explanation for the slight increase in additional time spent on clearances and rulings could lie in the fact that under the CCTB regime, companies would approach the tax authorities in a pro-active manner to ascertain in advance the corporate tax consequences or treatment of a considered cross-border transaction through a clearance or ruling. This position by corporate taxpayers can be explained by the fact that under the CCTB regime the corporate tax rates applied by the different EU Member states are still determined by each member state and that a correct profit allocation between the different EU Member States, in absence of tax consolidation, is essential to have a correct taxable basis and related tax liability for each of the Member States.

In obtaining an advance ruling or clearance on the functions, risks of each of the entities involved in a cross-border transaction and the related profit allocation corporate taxpayer can avoid substantial discussions with the tax authorities and potential additional corporate tax liabilities resulting from a tax audit. The correct profit allocation remains essential under the CCTB in case there would still be important differences in corporate tax rates between the Member States notwithstanding a unified tax base.

The fact that the common tax base under the CCTB is estimated more stable and consistent than the current 27 different regimes is possible an additional incentive for corporate taxpayers to safeguard through an advance ruling or clearance the corporate tax consequences of important cross-border transaction. In particular the fact that the CCTB will be more stable would also have a favourable effect on the longevity of an advance ruling or clearance once granted by the tax authorities.

- under the CCCTB regime the total amount of additional time spent will decrease substantially, i.e. by 82.46%, whereas the total amount of additional cost will decrease by 76,62%. The decrease in additional time spent by the internal department (-90.20%) is higher than the decrease in additional time spent by the external advisors (-74.64%).

Under the CCCTB regime it can be expected that the principal taxpayer will spend less additional time on clearances and rulings because of the simplified rules on determining the consolidated corporate tax base. Moreover, most of the significant items for seeking advance clearances and rulings will disappear with the CCCTB regime since transfer pricing becomes a non-issue in EU intra-group transactions. In addition, it can be expected that local entities will incur much less additional time on this compliance activity as the largest part of the compliance work will be centralised at the level of the principal taxpayer, which will file clearance and ruling requests with the principal tax authority.

#### 5.2.1.10 Learning and education for corporate tax

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
Current	2 576		917		466		1 541		3 041		2 457	
CCTB	2 624	1.90	957	4.41	640	37.47	2 192	42.25	3 264	7.34	3 149	28.13
CCCTB	617	-76.06	292	-68.11	479	2.86	1 563	1.44	1 095	-63.98	1 855	-24.50

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **learning and education for corporate tax**:

- under the CCTB regime:
  - there is an increase in the total amount of additional time (7.34%) and an increase in the total additional cost (28.13%);

- there is a much higher increase of the budgeted additional time spent by external advisors (37.47%) than the increase of the budgeted additional time spent by the internal department (1.90%).

The slight increase for learning and education under the CCTB regime can be explained by the fact that the experts estimate that two regimes will co-exist – the common tax base under the CCTB and the national regime of the 27 Member States in respect of applicable rates, tax credits, tax incentives use of tax losses, etc. The experts estimate that this co-existence will be less efficient from a learning and education perspective.

- under the CCCTB regime: the total amount of additional time spent will decrease by 63.98% whereas the total amount of additional cost will only decrease by 24.50%. The additional time spent by the internal department decreases drastically (-76.06%) whereas the tax expert estimates that there will be a slight increase in terms of the additional time spent by the external advisors (2.86%). The reduction of the time incurred in learning and education of the corporate tax regime under the CCCTB regime can be explained by a substantial simplification of the tax regime, in particular since all transfer pricing related items regarding intra-group EU transaction can be disregarded in the learning and education process of internal and external tax professionals. Moreover, additional efficiency in time and cost can be expected to be realized through a possible centralization of the education and learning process under the CCCTB.

#### 5.2.1.11 Any other cross-border corporate tax compliance formality

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	3 353		994		77		222		3 430		1 216	
<b>CCTB</b>	3 353	0.00	994	0.00	77	0.00	220	-1/00	3 430	0.00%	1 214	-0.18%
<b>CCCTB</b>	0	-100.00	0	-100.00	0	-100.00	0	-100.00	0	-100.00%	0	-100.00%

When making comparisons with the current regime, the following observations can be made in respect of the additional time spent and costs incurred by a large EU parent company with a Greek subsidiary on **any other cross border corporate tax compliance formality**:

- under the CCTB regime: there is no or very limited variance in the total amount of additional time or cost spent on what are essentially withholding tax formalities;
- under the CCCTB regime: the total amount of additional time and cost disappears entirely. This is consistent with the CCCTB model whereby each Member State would receive its fair share of tax based on the apportionment mechanism. Therefore, there is no further need for withholding on dividends, interest or royalty payments for intra-group payments within the EU.

#### 5.2.1.12 Country-specific remarks

<b>CCTB</b>	<b>Consolidated Average</b>	<b>French parent/ Greek subsidiary</b>	<b>Spanish parent/ Greek subsidiary</b>	<b>Hungarian parent/ Greek subsidiary</b>
<b>Additional time spent</b>	-7.61%	-6.68%	-6.56 %	-11.40%
<b>Additional cost incurred</b>	-3.67%	2.67%	-4.30%	-8.15%

Under the CCTB regime the additional time spent would decrease in all baseline investments.

The decrease in additional time spent by the Hungarian parent with a Greek subsidiary is somewhat higher than the consolidated average. This is mainly because it is expected

that on average the additional time spent on education and learning will increase slightly (by 7.34%), whereas the Hungarian experts believe that this additional time spent on education and learning under the CCTB regime, a much more stable regime than the current Hungarian one will decrease by 17.31%.

Under the CCTB regime the additional cost incurred would decrease for a Spanish parent with a Greek subsidiary, as well as a Hungarian parent with a Greek subsidiary.

On the other hand, the additional cost incurred by a French parent with a Greek subsidiary would increase. Whereas the decrease in time spent by the internal department is similar (consolidated average: -10.10%; French parent/Greek subsidiary: -10.96%), there is a difference in variance in the additional time spent by the external advisors. Whereas the consolidated averages show a decrease of 4.16%, the additional time spent by external advisors of a French parent with a Greek subsidiary would increase by 1.25%.

<b>CCCTB</b>	<b>Average</b>	<b>French parent/ Greek subsidiary</b>	<b>Spanish parent/ Greek subsidiary</b>	<b>Hungarian parent/ Greek subsidiary</b>
<b>Additional time spent</b>	-63.42%	-41.97%	-66.42%	-78.50%
<b>Additional cost incurred</b>	-48.83%	-1.15%	-52.28%	-89.76%

Under the CCCTB regime the expert estimates that the additional time spent would decrease significantly in all baseline investments. The decrease is less significant for a French parent with a Greek subsidiary. This is because the large decrease in additional time spent on TP documentation and mutual TP agreement procedures is partly offset by significant increases in estimated time spent on the preparation of corporate tax computations, prepayments for corporate tax and corporate tax returns and payments.

Under the CCCTB regime the additional cost incurred would decrease drastically, except for **the French parent with a Greek subsidiary**. This can be explained as follows:

- under the current regime a Greek subsidiary will incur additional time in an amount of 41,840 minutes, whereas under the CCCTB regime where the compliance activities are centralised at the level of the (French) parent, the Greek subsidiary will only incur additional time in an amount of 2,221 minutes, i.e. a decrease of 39,619 minutes;
- under the current regime the French parent will incur additional time in an amount of 9,073 minutes, whereas under the CCCTB regime where the French parent takes the lead, it will incur additional time in an amount of 27,323 minutes, i.e. an increase of 18,250 minutes;
- per balance there is a decrease of 21,369 minutes;
- the average wage cost for the Greek subsidiary is far lower than the average wage cost of the French parent;
- the additional cost spent by the Greek subsidiary under the current regime amounts to EUR37,963, whereas under the CCCTB regime this amounts to EUR2,353,80. This is a saving of EUR35,609.20;
- the additional cost spent by the French subsidiary under the current regime amounts to EUR14,443.12, whereas under the CCCTB regime, this amounts to EUR49,448.62. This is an increase of EUR35,005.50;
- per balance there is a saving of EUR603.50 which is 1.15% of the consolidated additional cost under the current regime (EUR52,406.47).

For a **Hungarian parent with a Greek subsidiary**:

- the saving in additional time spent is somewhat higher. According to the Hungarian experts, there will be a saving of additional time spent on record keeping of 71.98%, whereas under the consolidated averages, this saving amounts to 24.60%;
- the saving in additional cost is somewhat higher than the average. This can be explained by the fact that, under the CCCTB regime, the consolidated additional time spent by external advisors decreases by 92.37%, whereas the consolidated additional time spent by the internal department decreases by 'only' 71.09%.

## 5.2.2 Medium-sized EU parent with Greek subsidiary

	Large parent				Medium-sized parent			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	74 694		106 086.33		72 265		97 094.74	
<b>CCTB</b>	69 012	-7.61	102 197.29	-3.67	67 227	-6.97	94 295.31	-2.88
<b>CCCTB</b>	27 327	-63.42	54 289.07	-48.83	23 920	-66.90	42 439.84	-56.29

This table shows the variance in total additional time spent and costs incurred by a medium-sized EU parent with a Greek subsidiary under the different regimes as well as the percentage changes in additional time spent under the CCTB regime and the CCCTB regime compared to the current regime. From these figures it can be concluded that:

- the size of the parent only has a minor impact on the total additional time spent/cost incurred when setting up a new EU subsidiary;
- for a medium-sized EU parent the introduction of the CCTB regime will lead to a slightly lower saving in additional time spent and cost incurred. This is also true for all variances for each of the compliance activities identified. In other words, the saving for each individual compliance activity at the level of a medium-sized parent is slightly lower than the saving for the same compliance activity at the level of the large parent;
- for a medium-sized EU parent the introduction of the CCCTB regime will lead to a slightly higher saving in additional time and a moderately higher saving in additional cost incurred. The bigger difference for the additional cost spent is due to the fact that a medium-sized parent will realise a larger saving on additional time spent by external advisors (-65.76%) than a large parent (-58.76%).

## 5.3 Analysis of measurement data averages in the alternative investment scenario

### 5.3.1 Large EU parent with medium-sized EU subsidiary

Baseline investment: Greek subsidiary	Alternative investment 1: German subsidiary	Alternative investment 2: Polish subsidiary
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	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	74 694		106 086.33		49 515		91 141.03		137 877		224 584.56	
<b>CCTB</b>	69 012	-7.61	102 197.29	-3.67	46 820	-5.44	88 899.71	-2.46	120 472	-12.62	219 574.56	-2.23
<b>CCCTB</b>	27 327	-63.42	54 289.07	-48.83	25 741	-48.01	52 145.15	-42.79	26 880	-80.50	52 385.32	-76.67

This table compares the total amounts of and the variances in additional time spent and costs incurred by a **large EU parent** with a **Greek subsidiary** under the different regimes with the total amounts of and the variances in additional time spent and cost incurred by (1) a large EU parent with a **German subsidiary** and (2) a large EU parent with a **Polish subsidiary** under the different regimes. From these figures it can be concluded that:

- under the current regime a large EU parent will in the alternative investment scenario 1 incur considerably less additional time/cost whereas under alternative investment scenario 2 this large EU parent will incur considerably more additional time/cost. Indeed, it follows from the measurement data that compared to a large EU parent with a Greek subsidiary:
  - o a large EU parent with a German subsidiary will, for example, incur less additional time on record keeping for corporate tax purposes (5,604 minutes vs. 900 minutes), on transfer pricing documentation (19,771 minutes vs. 7,738 minutes) and on dealing with tax authorities (25,004 minutes vs. 13,849 minutes);
  - o a large parent with a Polish subsidiary will, for example, incur more additional time on transfer pricing documentation (39,257 minutes vs. 19,771 minutes), clearances and rulings (26,080 minutes vs. 7,889 minutes), and learning and education (24,080 minutes vs. 3,041 minutes).
  
- the introduction of the CCTB regime will in the alternative investment scenarios lead to a moderate saving in additional time (alternative 1: -5.44%; alternative 2: -12.62%). The saving in additional cost (alternative 1: -2.46%; alternative 2: -2.23%) is slightly lower than the saving in additional time spent because the saving in additional time spent by the internal department (alternative 1: -7.72%; alternative 2: -20.80%) is larger than the additional time spent by the external

- advisors (alternative 1: -2.33%; alternative 2: -1.60%). These are the same trends as observed in the baseline investment scenario (see above);
- the introduction of the CCCTB regime will in the alternative investment scenarios lead to a considerable saving in additional time spent (alternative 1: -48.01%; alternative 2: -80.50%) and additional cost (alternative 1: -42.79%; alternative 2: -76.67%).

The relative difference between these savings in the alternative investment scenarios is smaller than under the baseline investment scheme. This can be explained by the fact that the decrease in additional time spent by external advisors under the alternative investment scheme is relatively more significant than the decrease in additional time spent by the external advisors under the baseline investment scenario.

- the decrease in additional time/cost under the CCTB regime and the CCCTB regime for a large parent with a Polish subsidiary is higher than under the baseline investment scenario. This is due to the fact that, according to the Polish experts, current Polish tax legislation is rather unclear and subject to frequent changes, necessitating a rather large amount of time on learning and education. Indeed, under the current regime the additional time spent by a large EU parent with a Polish subsidiary on learning and education makes up 17.46% of the total amount of additional time spent, whereas under the baseline investment scenario, the portion of additional time spent on this compliance activity is only 4.19%. The Polish experts expect that with the introduction of the CCTB regime or the CCCTB regime in Poland, a very clear set of tax rules will be put in place that will not be subject to frequent changes, resulting in far less time to be spent on learning and education:
  - o under the CCTB regime the Polish experts expect a decrease in this additional time spent of 19.68%, whereas the average figures show an increase of 7.34%;

- under the CCCTB regime the Polish experts expect a decrease in this additional time spent of 91.15%, whereas the average figures show an decrease of 63.98%;

### 5.3.2 Medium-sized EU parent with medium-sized EU subsidiary

Large EU parent (see also above)

	Baseline investment: Greek subsidiary				Alternative investment 1: German subsidiary				Alternative investment 2: Polish subsidiary			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	74 694		106 086.33		49 515		91 141.03		137 877		224 584.56	
<b>CCTB</b>	69 012	-7.61	102 197.29	-3.67	46 820	-5.44	88 899.71	-2.46%	120 472	-12.62	219 574.56	-2.23
<b>CCCTB</b>	27 327	-63.42	54 289.07	-48.83	25 741	-48.01	52 145.15	-42.79%	26 880	-80.50	52 385.32	-76.67

Medium-sized EU parent

	Baseline investment: Greek subsidiary				Alternative investment 1: German subsidiary				Alternative investment 2: Polish subsidiary			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	72 265		97 094.74		46 701		81 107.31		132 275		204 916.22	
<b>CCTB</b>	67 227	-6.97	94 295.31	-2.88	44 623	-4.45	79 730.70	-1.70	112 412	-15.02	200 486.33	-2.16
<b>CCCTB</b>	23 920	-66.90	42 439.84	-56.29	23 382	-49.93	41 493.20	-48.84	25 249	-80.91	42 637.81	-79.19

This table compares the total amounts of and the variances in additional time spent and costs incurred by a **medium-sized EU parent with a Greek subsidiary** under the different regimes with the total amounts of and the variances in additional time spent and cost incurred by (1) a medium-sized EU parent with a **German subsidiary** and (2) a medium-sized EU parent with a **Polish subsidiary** under the different regimes.

With respect to a **medium-sized EU parent with a German subsidiary**, the same trends are observed as for the medium-sized parent with a Greek subsidiary:

- the size of the parent does not have a significant impact on the total additional time spent/cost incurred when setting up a German subsidiary;
- the introduction of the CCTB regime will lead to a slightly lower saving on additional time spent and cost incurred compared to a large EU parent with a German subsidiary. This is because it is expected that under the CCTB regime a

- medium-sized EU parent with a German subsidiary will spend more additional time on learning and education. Furthermore, it is expected that the additional time spent by a medium-sized EU parent on clearances and rulings will be higher under the CCTB regime, whereas for a large EU parent this would stay practically the same;
- the introduction of the CCCTB regime will lead to a slightly higher saving on additional time and a moderately higher saving on additional cost incurred compared to a large EU parent with a German subsidiary.

With respect to a medium-sized EU parent with a Polish subsidiary, the following trends are observed:

- the size of the parent does not have a significant impact on the total additional time spent on compliance activities when setting up a new Polish subsidiary. However, compared to a large EU parent a medium-sized EU parent will incur significantly less additional cost when setting up a Polish subsidiary;
- the introduction of the CCTB regime will lead to a slightly higher saving on additional time spent and cost incurred. This trend differs from the one observed in the baseline investment scenario;
- the introduction of the CCCTB regime will lead to a slightly higher saving on additional time and a moderately higher saving on additional cost incurred compared to a large EU parent with a Polish subsidiary. This is also in line with the baseline investment scenario and the alternative investment scenario with a German subsidiary.

#### 5.4 Sensitivity Analysis

For sensitivity purposes, the expert teams were asked to estimate the impact on additional time spent and additional cost incurred if the parent and the subsidiary were to be in different activity sectors or when all intra-group transactions are eliminated.

In addition, consideration needs to be given to whether the variances in a "CCCTB Sub lead"-scenario, i.e. the situation whereby under the CCCTB regime all compliance activities would be centralised at the level of the subsidiary, would be (materially) different from the variances in a "CCCTB Parent lead"-scenario, i.e. a situation whereby under the CCCTB regime all compliance activities would be centralised at the level of the parent.

#### 5.4.1 Different sectors and intra-group transactions

In the baseline and alternative investment scenarios the parent and subsidiary entity are considered to be operating in identical industrial sectors, and the parent and the subsidiary are separate entities located in different EU Member States which are engaged in a number of intra-group transactions. For sensitivity purposes, two questions were raised with the country experts.

The data received from the expert teams in answer to these sensitivity questions are analysed in this section for the EU parent companies with a Greek subsidiary. Similar to the measurement data analysis, this analysis is also based on consolidated averages:

- First, the impact of the sensitivity analysis is calculated on an individual basis taking into account the information received from the different expert teams;
- Second, the consolidated average is calculated ('consolidated Q1 average');
- Then, this consolidated average is compared to the consolidated average as calculated in the measurement data analysis.

##### 5.4.1.1 Analysis question 1 – impact of activity sector differentiation

Would there be any change in the total corporate tax compliance time incurred where the parent and the subsidiary belong to different industrial sectors instead of one industrial sector (i.e. parent being an insurance company while the subsidiary is an industrial company)?

###### 5.4.1.1.1 *Large parent*

Average Large Parent - Greek Subsidiary						
	Current		CCTB		CCCTB	
	Time (min.)	Cost (€)	Time (min.)	Cost (€)	Time (min.)	Cost (€)
Consolidated average	74 694	106 086	69 012	102 197	27 327	54 289
Consolidated Q1 average	84 026	118 181	71 332	107 888	29 402	58 717
Diff. after Q1 (%)	12.49	11.40	3.36	5.57	7.59	8.16

As a rule there should not automatically be a significant impact on the total corporate tax compliance time incurred in the current regime and CCTB regime where the parent and the subsidiary belong to different industrial sectors instead of one industrial sector, regardless of the investment scenario. In other words, generally speaking, the determination of the corporate tax base is indifferent irrespective of the industrial sectors in which the entities are active. The German and Polish experts even believe that there would be a slight decrease in compliance time incurred under the current regime and the CCTB regime because it can be expected that there would be a lower level of business relations between parent and subsidiary and therefore also fewer transfer pricing requirements to be complied with.

However, there were reports of specific sectors requiring more additional compliance time:

- according to Spanish experts, compliance for the banking and insurance industries could be more time-consuming (increase of up to 10%), as there are special obligations could result in an overall higher corporate tax compliance time;
- according to the Greek experts, an increase of at least 15% in tax compliance requirements under the current regime could be expected for a subsidiary that is active in an industrial sector. These companies are required to keep/maintain additional accounting books, are subject to special tax incentives, etc. The Greek Books and Records Code is a very detailed and formalistic law and affects corporate and VAT compliance time/cost.

If the parent or the subsidiary were to belong to one of the sectors mentioned specifically for example banking, then the additional compliance time would under the current regime increase on average by 12.49% and the additional compliance time by 11.40%.

On average, the experts believe that under the CCCTB regime the fact that the parent would be required to be aware of and familiar with different business operations and tax issues specifically related to the activity sector of the subsidiary could entail an increase in the total corporate compliance time/cost. The average increase in additional time has been evaluated at around 7.59%, whereas the average additional compliance cost has been estimated at 8.16%.

#### 5.4.1.1.2 Medium-sized parent

Average Medium-sized Parent - Greek Subsidiary						
	Current		CCTB		CCCTB	
	Time (min.)	Cost (€)	Time (min.)	Cost (€)	Time (min.)	Cost (€)
Consolidated average	72 265	97 095	67 227	94 295	23 920	42 440
Consolidated Q1 average	81 338	108 393	69 506	99 355	25 916	46 031
Diff. after Q1 (%)	12.56	11.64	3.39	5.37%	8.35%	8.4%

For a medium-sized parent the same changes have been reported in terms of percentages as for a large parent. In other words, the size of the parent is irrelevant for the sensitivity analysis.

#### 5.4.2 Analysis question 2 – elimination of intra-group transactions

Would there be any change in the total corporate tax compliance time incurred if the investment were made by a single company which is not involved in any intra-group transactions?

##### 5.4.2.1 Large parent

Average Large Parent - Greek Subsidiary						
	Current		CCTB		CCCTB	
	Time (min.)	Cost (€)	Time (min.)	Cost (€)	Time (min.)	Cost (€)

Consolidated average	74 694	106 086	69 012	102 197	27 327	54 289
Consolidated Average after Q2	60 612	87 781	56 252	84 938	27 782	55 113
Diff. after Q2 (%)	-18.85	-17.26	-18.49	-16.89	1.67	1.52

According to **all except the French** experts, the fact of the investment being made by a single company not involved in any intra-group transaction would have a significant impact on the additional compliance time spent (current regime: -18.85%; CCTB regime: -18.49%) and additional cost incurred (current regime: -17.26%; CCTB regime: -16.89%) under the **current regime** and the **CCTB regime**, as no transfer pricing documentation or mutual agreement procedures on transfer pricing would be required. The reported percentages vary between - 15 % (Spain), over - 20 % (Greece) and - 27 % (Germany) to - 92 % (Hungary). The significant decrease in Hungary can be explained by the relatively high administrative burden relating to the fulfilment of transfer pricing obligations.

The French experts do not anticipate a major change in compliance cost under the current regime or the CCTB regime.

According to **all except the French** experts, the fact that the investment would be made by a single company which is not involved in any intra-group transaction does not have an impact on the total compliance cost incurred under the CCCTB regime. This is a result of the assumption that under the **CCCTB regime** the companies would be relieved of transfer pricing documentation requirements.

The **French** experts, on the contrary, anticipate that this fact would result in a slight increase (5%) in the total corporate compliance time. According to the French experts, this increase is the result of a lack of experience with neutralisation of intra-group operations as well as the overall implications of taking part in the determination of the taxable income of a newly set-up business. The average increase in additional time has been evaluated at around 1.67% whereas the average additional compliance cost has been estimated at 1.52%.

However, as this additional time and additional cost relates to a lack of experience, it can be expected that with experience these increases will gradually fade away.

### 5.4.2.2 Medium-sized parent

Average Medium-sized Parent - Greek Sub						
	Current		CCTB		CCCTB	
	Time (min.)	Cost (€)	Time (min.)	Cost (€)	Time (min.)	Cost (€)
Consolidated average	72 265	97 095	67 227	94 295	23 920	42 440
Consolidated Average after Q2	58 916	80 569	55 061	78 851	24 247	43 034
Diff. after Q2 (%)	-18.47%	-17.02	-18.10	-16.38	1.37	1.40

On average the changes reported for a medium-sized parent company are slightly lower than those for a large parent company. This can probably be explained by the fact that a large company can be expected to engage in more intra-group transactions than a medium-sized company.

### 5.4.3 "CCCTB Parent lead"-scenario vs. "CCCTB Sub lead"-scenario

In the measurement data analysis it was assumed that under the CCCTB regime the compliance activities were centralised at the level of the EU parent and that the subsidiary would only incur a minimum amount of additional time or cost in its support to its parent.

The next section looks at whether the variances established would be (materially) different if under the CCCTB regime the compliance activities were to be centralised at the level of the Greek subsidiary and the EU parent only provided (limited) support to the subsidiary in this respect.

#### 5.4.3.1 Large parent

	Internal	External	Total
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	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	43 363		15 791		31 331		90 295		74 694		106 086	
<b>CCCTB Parent lead</b>	14 404	-66.78	7 020	-55.55%	12 922	-58.76%	47 269	-47.65	27 327	-63.42%	54 289	-48.83
<b>CCCTB Sub lead</b>	20 400	-52.96	6 551	-58.52%	11 131	-64.47%	23 252	-74.25	31 532	-57.79%	29 803	-71.91

Similarly to the “CCCTB Parent lead”-scenario, the “CCCTB Sub lead”-scenario will also lead to considerable savings in additional time spent and additional cost incurred.

However, whereas under the “CCCTB Parent lead”-scenario the percentage of total additional time saving (-63.42%) exceeds the percentage of cost saving (-48.83%), this will be different under the “CCCTB Sub lead”-scenario (-57.79% and -71.91% respectively). This can be explained by the fact that under the “CCCTB Parent lead”-scenario the saving on additional cost incurred by the external advisors (-47.65%) will be significantly lower than under the “CCCTB Sub lead”-scenario (-74.25%).

Moreover, whereas the total additional time spent in the "CCCTB Parent lead"-scenario (27,327 minutes) would be lower than the total additional time spent under the "CCCTB Sub lead"-scenario (31,532 minutes), the additional cost incurred under the "CCCTB Parent lead"-scenario (EUR54,289) is much higher than in the "CCCTB Sub lead"-scenario (EUR29,803 EUR). This is a combination of the fact that (1) the average wage cost in Greece is lower than the average wage cost in the parent countries and (2) in a "CCCTB Sub lead"-scenario, much more additional time will be spent by the internal department than in a "CCCTB Parent lead"-scenario.

#### 5.4.3.2 Medium-sized parent

	Internal				External				Total			
	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)	Time (min.)	Time Diff. (%)	Cost (€)	Cost Diff. (%)
<b>Current</b>	43 530		16 270		28 734		80 825		72 265		97 095	
<b>CCCTB Parent</b>	14 080	-67.65	6 671	-59.00%	9 840	-65.76	35 769	-55.75	23 920	-66.90	42 440	-56.29

<b>lead</b>												
<b>CCCTB</b>												
<b>Sub</b>	19 902	-54.28	6 345	-61.00%	10 762	-62.55	22 181	-72.56	30 664	-57.57	28 526	-70.62
<b>lead</b>												

For a medium-sized parent, basically the same trends can be observed as for a large parent.



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## 6. Appendix 1

### 6.1 Analysis of the measurement data in order to define the representative parent and subsidiary

The objective is, on the one hand, the definition of the representative large and medium-sized parent companies and the representative medium-sized subsidiary.

#### 6.1.1 Limitation of the study

During the course of this study, we have referred to a variety of financial and other information. We have relied on the *Amadeus* database for the information and financial data on the comparable companies selected. Our procedures did not include either a review of the published annual reports or an independent verification of the financial data contained in the database, and consequently we do not express any opinion on any financial or other information referred to in this study. Additionally, we have not made any adjustments to the financial data contained in the database.

The conclusions in the present report are not binding on any party and should not be considered a representation, warranty or guarantee that other parties will concur with our conclusion. Similarly, our conclusions are not binding on the European Commission and it should use own judgement in deciding whether or not to concur with our conclusions.

#### 6.1.2 European Commission SME definition

As a starting point, the SME definition as defined by the European Commission has taken into account.

*“On 6 May 2003 the Commission adopted a new Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation 96/280/EC as from 1 January 2005. The revision takes account of the economic developments since 1996 and the lessons drawn from the application of the definition. It increases legal certainty,*

*while reducing possibilities of its abuse, particularly with regard to state aid, Structural Funds and the Research and Development Framework Programme.*

*This Recommendation concerns all Community policies applied within the European Economic Area in favour of SMEs and is addressed to the Member States, the European Investment Bank and the European Investment Fund.*

*The definition will be adopted in a number of Community acts and programmes and integrated in the field of state aids where SMEs can benefit from exemption provisions including aid for R&D and vocational training.*

*The revision ensures that enterprises which are part of a larger grouping and could therefore benefit from a stronger economic backing than genuine SMEs, do not benefit from SME support schemes.*

*The increase of the financial ceilings is designed to take into account subsequent price and productivity increases since 1996, however the headcount ceilings remain fixed.”*

The new SME thresholds can be found below.<sup>23</sup>

Enterprise category	Headcount	Turnover	Balance sheet total
Medium-sized	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ €2 million	≤ €2 million

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<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/03/652&format=HTML&aged=0&language=EN&guiLanguage=en>

### 6.1.3 Analysis of the representative medium-sized and large parent companies

#### 6.1.3.1 Alternative size thresholds for parent companies through market data from Amadeus

For this approach, Deloitte made use of a publicly available financial information database, selected the most relevant companies as per the scope of this analysis, prepared some statistics and drawn conclusions on representative size thresholds.

##### *6.1.3.1.1 Amadeus search*

The search for companies involved the use of Bureau van Dijk's Amadeus database (update 174 of March 2009), which contains qualitative and quantitative information on more than 1.5 million European companies.

Companies were included for preliminary consideration if they met the criteria listed below.

##### **6.1.3.1.1.1 Criterion 1: independence –ultimate owner**

We searched for ultimate owners of a group having subsidiaries within or outside the European Union. The Amadeus database allows selection of 'Global ultimate owners', owning at least one subsidiary of a given type in a given country.<sup>24</sup> No restrictions with respect to the subsidiaries were taken into account. As a result, the selected companies are expected not to have shareholders with a majority holding.

After the application of this criterion, the set was reduced to **81,545** companies.

##### **6.1.3.1.1.2 Criterion 2: geography – countries considered**

In our search process, we have taken a pan-European set approach. Geographically, the analyses undertaken covered only companies incorporated in one of the Member States of the European Union (27).

After the application of this criterion, the set was reduced to **62,657** companies.

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<sup>24</sup> 50.01% (following IAS/IFRS standards) has been selected as the minimum percentage hold by its Ultimate Owner (Global and Domestic).

#### 6.1.3.1.1.3 Criterion 3: NACE 1 industry classification codes

Amadeus contains several industry classification code systems. These codes classify companies by functions performed and products offered. We used the NACE 1 code system. Since we are looking for production companies, the following codes were selected, which are all the production codes:

- 15: Manufacture of food products and beverages;
- 16: Manufacture of tobacco products;
- 17: Manufacture of textiles;
- 18: Manufacture of wearing apparel; dressing and dyeing of fur;
- 19: Tanning and dressing of leather: manufacture of luggage, handbags, saddles, harness and footwear;
- 20: Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials;
- 21: Manufacture of pulp, paper and paper products;
- 22: Publishing, printing and reproduction of recorded media;
- 23: Manufacture of coke, refined petroleum products and nuclear fuel;
- 24: Manufacture of chemicals and chemical products;
- 25: Manufacture of rubber and plastics products;
- 26: Manufacture of other non-metallic mineral products;
- 27: Manufacture of basic metals;
- 28: Manufacture of fabricated metal products, except machinery and equipment;
- 29: Manufacture of machinery and equipment n.e.c.
- 30: Manufacture of office machinery and computers;
- 31: Manufacture of electrical machinery and apparatus n.e.c;
- 32: Manufacture of radio, television, and communication equipment and apparatus;
- 33: Manufacture of medical, precision and optical instruments, watches and clocks;
- 34: Manufacture of motor vehicles, trailers and semitrailers;
- 35: Manufacture of other transport equipment;
- 36: Manufacture of furniture; manufacturing n.e.c.

After the application of this criterion, the set was reduced to **9,955** companies.

#### **6.1.3.1.1.4 Criterion 4: type of accounts**

We are looking for unconsolidated accounts of ultimate owners of group companies. Therefore, we selected (1) companies with both consolidated and unconsolidated accounts as well as (2) companies with unconsolidated accounts only. When both consolidated and unconsolidated accounts are available, we retained unconsolidated accounts for further analysis purposes.

After the application of this criterion, the set was reduced to **7,533** companies.

#### **6.1.3.1.1.5 Criterion 5: diagnostic ratio 1 – minimum turnover**

In order to eliminate companies too small to be relevant for the purpose of this analysis, we used minimum turnover as a first diagnostic ratio. We selected companies with a minimum turnover of EUR5m during the last available financial year.

After the application of this criterion, the set was reduced to **4,167** companies.

#### **6.1.3.1.1.6 Criterion 6: diagnostic ratio 2 – minimum balance sheet total**

Minimum balance sheet total was selected as a second diagnostic ratio. We selected companies with a minimum balance sheet total of EUR1m during the last available financial year.

After the application of this criterion, the set was reduced to **4,165** companies.

#### **6.1.3.1.1.7 Criterion 7: diagnostic ratio 3 – minimum employees**

A final diagnostic ratio concerns the number of employees. We selected only companies with a minimum of 50 employees during the last available financial year.

After the application of this criterion, the set was reduced to **3,057<sup>25</sup>** companies.

#### **6.1.3.1.1.8 Result**

The Amadeus search yielded a set of **3,036** companies. The data downloaded on which we evaluated the relevant relative size of medium-sized and large parent companies were:

- sales;
- balance sheet total;
- number of employees;
- number of subsidiaries.

Even though these criteria had already been chosen in the definition of the set, we expect they have, in the selection process, only contributed to the exclusion of micro and small companies, but, generally speaking, have not affected the threshold “medium-sized” to “large”.

Besides sales, balance sheet total and number of employees, a fourth criterion was selected to compare and categorise the companies in the set: the number of subsidiaries.

This criterion may be an indication of how much transfer pricing is likely to be an issue for the groups analysed. Indeed, it can be expected that companies with more subsidiaries are more exposed to cross border – intra-group transactions. However, it should be noted that the reliability of Amadeus – or the underlying data feed – in reporting the number of subsidiaries by selected company may not be as high as one

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<sup>25</sup> Since the Amadeus database contains a download limit for Danish and Swedish data, we were not able to download the financials for 21 Swedish and Danish companies. Consequently, our final set contains **3,036** companies.

would wish. Additionally, transfer pricing exposure would exist between a company and its foreign branches, but that relationship will not be directly 'readable' in the Amadeus data.

#### 6.1.3.2 Analysis of balance sheet and profit & loss account for the representative medium-sized and large parent companies

##### 6.1.3.2.1 Description of the process

The first step of the process includes **downloading** a set of companies from the Amadeus database. For this analysis, Deloitte made use of the same set of companies as described under 6.1.3.1, i.e. a set of 3,036 companies.

In the next step, Deloitte **classified** companies as large or medium-sized parent companies by using the European Commission's SME definition as set by the Commission in Recommendation 2003/361/EC.

On the one hand, a company is assumed to be large if:

- it employs 250 employees or more; or
- it employs 50 employees or more to less than 250 employees, and
- has sales of more than EUR 50 million, and
- total assets of more than EUR 43 million.

On the other hand, a company is considered to be of medium size if:

- it employs 50 employees or more to less than 250 employees; or
- it employs less than 50 employees but has sales of more than 10 million EUR and less or equal to EUR 50 million, and
- total assets of more than EUR 10 million and less or equal than EUR 43 million.

For both the representative large and medium-sized companies, Deloitte has calculated **median** and **average values** of several items of the balance sheets and P&L's of selected companies.

Finally, Deloitte computed **representative median and average balance sheets and P&Ls** for the large parent companies as well as for the medium-sized parent companies.

*6.1.3.2.2 Balance sheet and profit & loss account for the representative large parent company*

**6.1.3.2.2.1 Balance sheet based on median data**

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>28.989,0</b>	<b>Shareholder funds</b>	<b>29.083,0</b>
Intangible assets	590,5	Shareholder funds capital	5.764,0
Tangible fixed assets	14.330,0	Other shareholder funds	21.319,0
Other fixed assets	7.531,0		
		<b>Non current liabilities</b>	<b>12.259,5</b>
<b>Current assets</b>	<b>46.570,0</b>	Non current liabilities: LT debt	6.582,5
Stock	13.564,0	Other non-current liabilities	3.407,0
Debtors	17.153,5		
Other current assets	10.069,5	<b>Current liabilities</b>	<b>29.489,5</b>
Cash and cash equivalents	2.281,0	Current liabilities: loans	6.902,0
		Current liabilities: creditors	11.110,5
		Other current liabilities	7.484,0
Total assets	75.559,0	Total shareh. funds & liab.	70.832,0
Balance sheet difference		Balance sheet difference	4.727,0
<b>Adjusted Total assets</b>	<b>75.559,0</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>75.559,0</b>

As presented above, computed total assets (EUR75,559.000) differ from computed total shareholders' funds and liabilities (EUR70,831.000), resulting in a balance sheet total difference of EUR4,727.000. We expect the origins of the differences are:

- computation of the median on individual items of the P&L and the balance sheet that are later totalled, leading to possible mismatches;
- shortcomings in the data reported in Amadeus (e.g. different exchange rates for different balance sheet items, head accounts not always equal to the sum of sub-accounts).

### 6.1.3.2.2 Balance sheet based on average data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>317.287,0</b>	<b>Shareholder funds</b>	<b>229.411,1</b>
Intangible assets	12.984,3	Shareholder funds capital	34.804,2
Tangible fixed assets	57.574,7	Other shareholder funds	194.606,8
Other fixed assets	247.042,6		
		<b>Non current liabilities</b>	<b>139.545,1</b>
<b>Current assets</b>	<b>212.436,4</b>	Non current liabilities: LT debt	73.421,1
Stock	40.447,4	Other non-current liabilities	70.894,1
Debtors	42.427,9		
Other current assets	129.363,5	<b>Current liabilities</b>	<b>159.555,8</b>
Cash and cash equivalents	25.223,4	Current liabilities: loans	27.421,9
		Current liabilities: creditors	35.623,8
		Other current liabilities	101.510,0
Total assets	529.723,4	Total shareh. funds & liab.	528.512,0
Balance sheet difference		Balance sheet difference	1.211,4
<b>Adjusted Total assets</b>	<b>529.723,4</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>529.723,4</b>

Again, total assets (EUR529,723,400) differ from total shareholders' funds and liabilities (EUR528,512,000) by EUR1,211,400. We expect the difference might be explained by shortcomings in Amadeus data, as explained under section 6.1.3.2.2.1.

Noticeable here is the relative size of the average company, as it is heavily influenced by the (very, very) large ones in the computation of the average, a bias that is avoided in the computation of the median.

### 6.1.3.2.2.3 P&L based on median data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	83.752,0
<b>Operating profit / loss</b>	<b>3.950,5</b>
Financial revenues	673,0
Financial expenses	1.452,0
Financial profit / loss	-437,0
<b>P/L before tax</b>	<b>3.171,5</b>
Taxation	772,0
<b>P/L after tax</b>	<b>2.702,0</b>
Extr. and other revenues	177,0
Extr. and other expenses	142,0
Extraordinary and other P/L	0,0
<b>P/L for period</b>	<b>2.737,0</b>

Since the Amadeus database does not represent 'Cost of Goods Sold' in a consistent way for different companies and since 'Cost of Goods Sold' is defined differently under different GAAPs in Europe, we did not include it in the P&L's presented in this report.

Due to shortcomings inherent to the computation of a series of medians<sup>26</sup> and of some data from the Amadeus database<sup>27</sup>, it should be noted that the amounts for P/L before tax, P/L after tax and P/L for the period are not equal to the median of the data for these items downloaded from Amadeus database. In order to match the different items of the P&L, Deloitte calculated P/L before tax, P/L after tax and P/L for the period based on the other items of the P&L.

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<sup>26</sup> See discussion on the matter above, in relation to balance sheet data.

<sup>27</sup> E.g. profit lines not equal to preceding income line(s) less cost line(s).

#### 6.1.3.2.2.4 P&L based on average data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	396.627,7
<b>Operating profit / loss</b>	<b>18.121,2</b>
Financial revenu	30.081,9
Financial expenses	15.409,0
Financial profit / loss	13.834,8
<b>P/L before tax</b>	<b>32.794,0</b>
Taxation	6.038,5
<b>P/L after tax</b>	<b>25.913,6</b>
Extr. and other revenu	8.684,9
Extr. and other expenses	3.479,1
Extraordinary and other P/L	5.384,9
<b>P/L for period</b>	<b>31.145,4</b>

Again, in order to match the different items of the P&L, Deloitte calculated P/L before tax, P/L after tax and P/L for the period based on the other items of the P&L. As explained before, for the average statistics, the differences are due to shortcomings in Amadeus data.

6.1.3.2.3 Balance sheet and profit & loss account for the representative medium-sized parent company

6.1.3.2.3.1 Balance sheet based on median data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>5.038,0</b>	<b>Shareholder funds</b>	<b>5.353,0</b>
Intangible assets	115,5	Shareholder funds capital	1.000,0
Tangible fixed assets	2.877,0	Other shareholder funds	3.577,0
Other fixed assets	673,5		
		<b>Non current liabilities</b>	<b>2.276,0</b>
<b>Current assets</b>	<b>11.385,0</b>	Non current liabilities: LT debt	1.283,0
Stock	3.110,5	Other non-current liabilities	445,0
Debtors	4.763,0		
Other current assets	1.845,0	<b>Current liabilities</b>	<b>7.343,0</b>
Cash and cash equivalents	528,0	Current liabilities: loans	1.613,0
		Current liabilities: creditors	2.964,0
		Other current liabilities	1.501,5
Total assets	16.423,0	Total shareh. funds & liab.	14.972,0
Balance sheet difference		Balance sheet difference	1.451,0
<b>Adjusted Total assets</b>	<b>16.423,0</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>16.423,0</b>

Again, total assets (i.e. EUR16,423,000) differ from total shareholders' funds and liabilities (i.e. EUR14,972,000) by EUR1,451,000. For an explanation of this difference, as well as for more details about other inconsistencies in the balance sheet, please see section 6.1.3.2.2.1.

#### 6.1.3.2.3.2 Balance sheet based on average data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>9.618,8</b>	<b>Shareholder funds</b>	<b>9.108,0</b>
Intangible assets	726,5	Shareholder funds capital	2.289,1
Tangible fixed assets	4.659,5	Other shareholder funds	6.820,0
Other fixed assets	4.254,1		
<b>Current assets</b>	<b>14.948,2</b>	<b>Non current liabilities</b>	<b>4.767,5</b>
Stock	4.418,0	Non current liabilities: LT debt	3.638,9
Debtors	6.079,6	Other non-current liabilities	1.236,9
Other current assets	4.468,6		
Cash and cash equivalents	1.679,1	<b>Current liabilities</b>	<b>10.730,0</b>
		Current liabilities: loans	3.532,8
		Current liabilities: creditors	3.937,4
		Other current liabilities	3.430,9
Total assets	24.567,0	Total shareh. funds & liab.	24.605,5
Balance sheet difference	38,5	Balance sheet difference	
<b>Adjusted Total assets</b>	<b>24.605,5</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>24.605,5</b>

Total assets (i.e. EUR24,567,000) differ from total shareholders' funds and liabilities (EUR 24,605,500) by only EUR 38,500 here. For more information about differences and inconsistencies, please see section 6.1.3.2.2.2.

#### 6.1.3.2.3.3 P&L based on median data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	20.260,0
<b>Operating profit / loss</b>	<b>858,0</b>
Financial revenues	79,0
Financial expenses	312,0
Financial profit / loss	-180,0
<b>P/L before tax</b>	<b>625,0</b>
Taxation	181,5
<b>P/L after tax</b>	<b>443,5</b>
Extr. and other revenues	58,0
Extr. and other expenses	29,0
Extraordinary and other P/L	0,0
<b>P/L for period</b>	<b>472,5</b>

For information on inconsistencies in the P&L based on median data, please see section 6.1.3.2.2.3.

#### 6.1.3.2.3.4 P&L based on average data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	24.084,8
<b>Operating profit / loss</b>	<b>1.061,6</b>
Financial revenues	736,4
Financial expenses	799,3
Financial profit / loss	-77,9
<b>P/L before tax</b>	<b>998,7</b>
Taxation	388,7
<b>P/L after tax</b>	<b>610,0</b>
Extr. and other revenues	399,7
Extr. and other expenses	236,8
Extraordinary and other P/L	119,2
<b>P/L for period</b>	<b>772,9</b>

For information on inconsistencies in the P&L based on average data, please see section 6.1.3.2.2.4.

#### 6.1.3.2.4 Conclusion

The following general conclusions can be drawn with respect to the balance sheet and profit & loss accounts for the representative large and medium-sized parent companies:

- representative annual accounts based on averages are materially bigger than those based on medians. This can be explained by the fact that there are several (super) large companies in both categories;
- therefore, the use of the median is confirmed as the preferred choice to estimate the representative annual accounts, as the average appears to be heavily biased by the presence of (super-)large companies in the set;
- the representative (median) large parent company appears to be roughly four times as large as the representative (median) medium-sized parent company, both in terms of sales (EUR 84m [large] vs. EURm 20 [median]) and in terms of balance sheet total (EUR 76m [large] vs. EUR 16m [median]).
- below, as a reminder, the official thresholds:

Enterprise category	Headcount	Turnover	Balance sheet total
Medium-sized	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ €2 million	≤ €2 million

#### 6.1.4 Analysis of the representative medium-sized (and large) subsidiaries

##### 6.1.4.1 Alternative size thresholds for subsidiaries through market data from Amadeus

For this approach, Deloitte made use of a publicly available financial information database, selected the most relevant companies as per the scope of this analysis, prepared some statistics and drew conclusions on the representative size thresholds.

###### 6.1.4.1.1 Amadeus search

Similar to the previous section, we used Bureau van Dijk's Amadeus database (update 174 of March 2009) to identify a new set of companies, consisting of medium (and large) subsidiaries.

Companies were included for preliminary consideration if they met the criteria listed below.

###### **6.1.4.1.1.1 Criterion 1: independence – has a parent company**

We have searched for companies having a parent company within or outside the European Union. The Amadeus database allows selecting 'Independence' as a criterion in a search.

We selected companies recording (1) a shareholder with more than 50% direct ownership (= directly majority owned) or (2) a shareholder with more than 50% total ownership (=indirectly majority owned). As a result, the selected companies are expected to be subsidiaries.

After the application of this criterion, the set was reduced to **858,611** companies.

#### **6.1.4.1.1.2 Criterion 2: geography – countries considered**

In our search process, we took a pan-European set approach. Geographically, the analyses undertaken covered only companies incorporated in one of the Member States of the European Union (27).

After the application of this criterion, the set was reduced to **751,317** companies.

#### **6.1.4.1.1.3 Criterion 3: NACE 1 industry classification codes**

Amadeus contains several industry classification code systems. These codes classify companies by functions performed and products offered. We used NACE 1 code system. Since we are looking for production companies, the following codes were selected, which are all the production codes:

- 15: Manufacture of food products and beverages;
- 16: Manufacture of tobacco products;
- 17: Manufacture of textiles;
- 18: Manufacture of wearing apparel; dressing and dyeing of fur;
- 19: Tanning and dressing of leather: manufacture of luggage, handbags, saddler, harness and footwear;
- 20: Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials;
- 21: Manufacture of pulp, paper and paper products;
- 22: Publishing, printing and reproduction of recorded media;
- 23: Manufacture of coke, refined petroleum products and nuclear fuel;
- 24: Manufacture of chemicals and chemical products;
- 25: Manufacture of rubber and plastics products;
- 26: Manufacture of other non-metallic mineral products;
- 27: Manufacture of basic metals;
- 28: Manufacture of fabricated metal products, except machinery and equipment;
- 29: Manufacture of machinery and equipment n.e.c.

- 30: Manufacture of office machinery and computers;
- 31: Manufacture of electrical machinery and apparatus n.e.c.
- 32: Manufacture of radio, television, and communication equipment and apparatus;
- 33: Manufacture of medical, precision and optical instruments, watches and clocks;
- 34: Manufacture of motor vehicles, trailers and semitrailers;
- 35: Manufacture of other transport equipment;
- 36: Manufacture of furniture; manufacturing n.e.c.

After the application of this criterion, the set was reduced to **149,142** companies.

#### **6.1.4.1.1.4 Criterion 4: type of accounts**

We were looking for unconsolidated accounts of subsidiaries from group companies. Therefore, we selected (1) companies with both types of accounts as well as (2) companies with unconsolidated accounts only. When both consolidated and unconsolidated accounts are available, we selected only unconsolidated accounts.

After the application of this criterion, the set was reduced to **121,119** companies.

#### **6.1.4.1.1.5 Criterion 5: diagnostic ratio 1 – minimum turnover**

In order to select the largest companies available in the database, we used minimum turnover as a first diagnostic ratio. We selected companies with a minimum turnover of EUR 5,000,000 during the last available financial year.

After the application of the criterion, the set was reduced to **50,117** companies.

#### **6.1.4.1.1.6 Criterion 6: diagnostic ratio 2 –minimum balance sheet total**

Minimum balance sheet total was selected as a second diagnostic ratio. We selected companies with a minimum balance sheet total of EUR1m during the last available financial year.

After the application of this criterion, the set was reduced to **49,955** companies.

#### 6.1.4.1.1.7 Criterion 7: diagnostic ratio 3 – minimum employees

A final diagnostic ratio includes the number of employees. We selected only companies with a minimum number of employees of 50 during the last available financial year.

After the application of this criterion, the set was reduced to **33,813**<sup>28</sup> companies.

#### 6.1.4.1.1.8 Result

The Amadeus search yielded a set of **33,626** companies. Similar to the previous section, the set of companies already contains some thresholds by selecting diagnostic ratios to reduce the set to determine small and medium enterprises ('SME's). These criteria, which will be used in our further analysis, are the following:

- Sales;
- Balance sheet total;
- Number of employees.

The maximum of data points one can use in a data series for a 2-D chart in Excel is **32,000**. Therefore, we did not take into account the smallest 1,626 observations for the charts presented below.

#### 6.1.4.2 Analysis of balance sheet and profit & loss account for the representative medium and large subsidiary companies

##### 6.1.4.2.1 Description of the process

Similar to section 6.1.3.2.1, as a starting point a set of companies was **downloaded** from the Amadeus database. For this analysis, Deloitte made use of the same set of companies as described under 6.1.4.2.1, i.e. a set of 33,626 companies.

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<sup>28</sup> Since the Amadeus database contains a download limit for Danish and Swedish data, we were not able to download the financials for 187 Swedish and Danish companies. Consequently, our final set contains **33,626** companies.

Again, Deloitte **classified** the companies as large or medium-sized subsidiaries by using the European Commission's SME definition as described under sections 6.1.2 and 6.1.3.2.1.

For both the representative large and medium-sized companies, Deloitte calculated **median** and **average values** of several items of the balance sheets and P&L's of selected companies.

Finally, Deloitte computed **representative median and average balance sheets P&Ls** for the large subsidiaries as well as for the medium-sized subsidiaries.

*6.1.4.2.2 Balance sheet and profit & loss account for the representative large subsidiaries*

**6.1.4.2.2.1 Balance sheet based on median data**

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>20.744,0</b>	<b>Shareholder funds</b>	<b>22.691,0</b>
Intangible assets	244,0	Shareholder funds capital	5.460,0
Tangible fixed assets	12.939,0	Other shareholder funds	13.174,0
Other fixed assets	690,0		
		<b>Non current liabilities</b>	<b>7.051,0</b>
<b>Current assets</b>	<b>43.015,5</b>	Non current liabilities: LT debt	604,0
Stock	10.075,0	Other non-current liabilities	3.199,5
Debtors	14.203,0		
Other current assets	9.724,0	<b>Current liabilities</b>	<b>29.266,0</b>
Cash and cash equivalents	1.245,0	Current liabilities: loans	1.962,5
		Current liabilities: creditors	10.413,0
		Other current liabilities	9.225,0
Total assets	63.759,5	Total shareh. funds & liab.	59.008,0
Balance sheet difference		Balance sheet difference	4.751,5
<b>Adjusted Total assets</b>	<b>63.759,5</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>63.759,5</b>

Total assets (EUR63,759,500) differ from the total shareholders' funds and liabilities (EUR 59,008,000) by EUR 4,751.500. For an explanation about this difference, as well as for more details about other inconsistencies in the balance sheet, please see section 6.1.3.2.2.1.

#### 6.1.4.2.2.2 Balance sheet based on average data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>98.262,8</b>	<b>Shareholder funds</b>	<b>78.942,3</b>
Intangible assets	10.048,6	Shareholder funds capital	24.428,4
Tangible fixed assets	39.411,2	Other shareholder funds	54.394,0
Other fixed assets	49.381,8		
		<b>Non current liabilities</b>	<b>46.153,3</b>
<b>Current assets</b>	<b>119.757,9</b>	Non current liabilities: LT debt	23.946,7
Stock	28.131,6	Other non-current liabilities	25.540,0
Debtors	36.630,4		
Other current assets	55.119,3	<b>Current liabilities</b>	<b>93.446,4</b>
Cash and cash equivalents	11.654,5	Current liabilities: loans	25.380,7
		Current liabilities: creditors	29.258,6
		Other current liabilities	44.931,3
Total assets	218.020,6	Total shareh. funds & liab.	218.542,0
Balance sheet difference	521,4	Balance sheet difference	
<b>Adjusted Total assets</b>	<b>218.542,0</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>218.542,0</b>

Total assets (EUR218,020,600) differ from total shareholders' funds and liabilities (EUR218,542,000) by only EUR514,000. For more information about this balance sheet difference, and about other differences and inconsistencies, please see section 6.1.3.2.2.2.

#### 6.1.4.2.2.3 P&L based on median data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	90.604,0
<b>Operating profit / loss</b>	<b>3.709,0</b>
Financial revenues	580,5
Financial expenses	1.006,0
Financial profit / loss	-193,0
<b>P/L before tax</b>	<b>3.283,5</b>
Taxation	611,0
<b>P/L after tax</b>	<b>2.672,5</b>
Extr. and other revenues	200,0
Extr. and other expenses	269,0
Extraordinary and other P/L	0,0
<b>P/L for period</b>	<b>2.603,5</b>

For information on inconsistencies in the P&L based on median data, please see section 6.1.3.2.2.3.

#### 6.1.4.2.2.4 P&L based on average data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	258.281,6
<b>Operating profit / loss</b>	<b>12.373,3</b>
Financial revenues	8.857,8
Financial expenses	4.930,7
Financial profit / loss	3.875,6
<b>P/L before tax</b>	<b>16.300,4</b>
Taxation	3.528,6
<b>P/L after tax</b>	<b>12.771,8</b>
Extr. and other revenues	5.340,3
Extr. and other expenses	6.682,7
Extraordinary and other P/L	-1.120,7
<b>P/L for period</b>	<b>11.429,3</b>

For information on inconsistencies in the P&L based on average data, please see section 6.1.3.2.2.4.

6.1.4.2.3 Balance sheet and profit & loss account for the representative medium-sized subsidiaries

6.1.4.2.3.1 Balance sheet based on median data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>3.145,0</b>	<b>Shareholder funds</b>	<b>3.836,0</b>
Intangible assets	34,0	Shareholder funds capital	850,0
Tangible fixed assets	2.266,0	Other shareholder funds	2.253,0
Other fixed assets	26,0		
		<b>Non current liabilities</b>	<b>1.087,0</b>
<b>Current assets</b>	<b>8.487,0</b>	Non current liabilities: LT debt	239,0
Stock	2.156,0	Other non-current liabilities	296,0
Debtors	3.197,0		
Other current assets	1.491,0	<b>Current liabilities</b>	<b>5.645,5</b>
Cash and cash equivalents	368,0	Current liabilities: loans	501,0
		Current liabilities: creditors	2.116,5
		Other current liabilities	1.591,0
Total assets	11.632,0	Total shareh. funds & liab.	10.568,5
Balance sheet difference		Balance sheet difference	1.063,5
<b>Adjusted Total assets</b>	<b>11.632,0</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>11.632,0</b>

Total assets (EUR11,632,000) differ from total shareholders' funds and liabilities (EUR10,568,500) by EUR1,063,500. For more information about this difference, as well as for more details about other inconsistencies, please see section 6.1.3.2.2.1.

#### 6.1.4.2.3.2 Balance sheet based on average data

<b>Balance sheet (th EUR)</b>			
<b>Fixed assets</b>	<b>6.406,0</b>	<b>Shareholder funds</b>	<b>6.391,0</b>
Intangible assets	617,4	Shareholder funds capital	2.493,3
Tangible fixed assets	4.019,1	Other shareholder funds	3.900,8
Other fixed assets	1.818,3		
<b>Current assets</b>	<b>11.462,9</b>	<b>Non current liabilities</b>	<b>3.043,8</b>
Stock	3.258,5	Non current liabilities: LT debt	2.035,2
Debtors	4.651,6	Other non-current liabilities	1.188,2
Other current assets	3.557,3		
Cash and cash equivalents	1.235,4	<b>Current liabilities</b>	<b>8.472,1</b>
		Current liabilities: loans	2.296,3
		Current liabilities: creditors	3.161,8
		Other current liabilities	3.229,9
Total assets	17.868,9	Total shareh. funds & liab.	17.906,9
Balance sheet difference	38,1	Balance sheet difference	
<b>Adjusted Total assets</b>	<b>17.906,9</b>	<b>Adjusted Total shareh. funds &amp; liab.</b>	<b>17.906,9</b>

Total assets (EUR17,868,900) differ from and total shareholders' funds & liabilities (EUR17,906,900) by only EUR38,100. For more information about differences and inconsistencies, please see section 6.1.3.2.2.2.

#### 6.1.4.2.3.3 P&L based on median data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	18.279,0
<b>Operating profit / loss</b>	<b>706,0</b>
Financial revenues	52,0
Financial expenses	174,0
Financial profit / loss	-82,0
<b>P/L before tax</b>	<b>584,0</b>
Taxation	128,0
<b>P/L after tax</b>	<b>456,0</b>
Extr. and other revenues	43,0
Extr. and other expenses	51,0
Extraordinary and other P/L	0,0
<b>P/L for period</b>	<b>448,0</b>

For information on inconsistencies in the P&L based on median data, please see section 6.1.3.2.2.3.

#### 6.1.4.2.3.4 P&L based on average data

<b>P&amp;L (th EUR)</b>	
Operating revenue/turnover	23.250,7
<b>Operating profit / loss</b>	<b>1.028,9</b>
Financial revenues	309,2
Financial expenses	395,1
Financial profit / loss	-85,8
<b>P/L before tax</b>	<b>943,1</b>
Taxation	327,7
<b>P/L after tax</b>	<b>615,3</b>
Extr. and other revenues	404,4
Extr. and other expenses	421,9
Extraordinary and other P/L	-24,4
<b>P/L for period</b>	<b>597,9</b>

For information on inconsistencies in the P&L based on average data, please see to section 6.1.3.2.2.4.

#### 6.1.4.2.4 Conclusion

The following general conclusions can be drawn with respect to the balance sheet and profit & loss accounts for the representative large and medium-sized subsidiaries:

- representative annual accounts based on averages are materially bigger than those based on medians. This can be explained by the fact that there are several (super-) large companies in both categories;
- the use of the median is confirmed as the preferred choice to estimate the representative annual accounts, as the average appears to be heavily biased by the presence of (super-) large companies in the set;
- the representative (median) large subsidiary appears to be roughly five times as big as the representative (median) medium-sized subsidiary, both in terms of sales (EUR 91m [large] vs. EUR18m [median]) and in terms of balance sheet total (EUR 64m [large] vs. EUR 12m [median]);
- interestingly, we observe that the median sales of the representative large parent (EUR 84m) are smaller than those of the representative large subsidiary (EUR 91m). We expect this may be explained by how companies are classified as subsidiaries and/or parents, by holding structures. However, this perceived anomaly does not

persist when sales are measured by average (large parent [EUR396m], large subsidiary [EUR 258m]);

- below, as a reminder, the official thresholds:

Enterprise category	Headcount	Turnover	Balance sheet total
Medium-sized	< 250	≤ €50 million	≤ €43 million
Small	< 50	≤ €10 million	≤ €10 million
Micro	< 10	≤ €2 million	≤ €2 million



## 6. Appendix 2

### 6.2 Different skill levels

HIGH	MEDIUM	BASIC
LEGISLATORS, SENIOR OFFICIALS AND MANAGERS	PROFESSIONALS	CLERKS
LEGISLATORS AND SENIOR OFFICIALS	PHYSICAL, MATHEMATICAL AND ENGINEERING SCIENCE PROFESSIONALS	OFFICE CLERKS
LEGISLATORS	PHYSICISTS, CHEMISTS AND RELATED PROFESSIONALS	SECRETARIES AND KEYBOARD-OPERATING CLERKS
SENIOR GOVERNMENT OFFICIALS	MATHEMATICIANS, STATISTICIANS AND RELATED PROFESSIONALS	NUMERICAL CLERKS
TRADITIONAL CHIEFS AND HEADS OF VILLAGES	COMPUTING PROFESSIONALS	MATERIAL-RECORDING AND TRANSPORT CLERKS
SENIOR OFFICIALS OF SPECIAL-INTEREST ORGANISATIONS	ARCHITECTS, ENGINEERS AND RELATED PROFESSIONALS	LIBRARY, MAIL AND RELATED CLERKS
CORPORATE MANAGERS	LIFE SCIENCE AND HEALTH PROFESSIONALS	OTHER OFFICE CLERKS
DIRECTORS AND CHIEF EXECUTIVES	LIFE SCIENCE PROFESSIONALS	CUSTOMER SERVICES CLERKS
PRODUCTION AND OPERATIONS DEPARTMENT MANAGERS	HEALTH PROFESSIONALS (except nursing)	CASHIERS, TELLERS AND RELATED CLERKS
OTHER DEPARTMENT MANAGERS	NURSING AND MIDWIFERY PROFESSIONALS	CLIENT INFORMATION CLERKS
GENERAL MANAGERS	TEACHING PROFESSIONALS	
GENERAL MANAGERS	COLLEGE, UNIVERSITY AND HIGHER EDUCATION TEACHING PROFESSIONALS  SECONDARY EDUCATION TEACHING PROFESSIONALS PRIMARY AND PRE-PRIMARY EDUCATION TEACHING PROFESSIONALS  SPECIAL EDUCATION TEACHING PROFESSIONALS OTHER TEACHING PROFESSIONALS OTHER PROFESSIONALS BUSINESS PROFESSIONALS LEGAL PROFESSIONALS ARCHIVISTS, LIBRARIANS AND RELATED INFORMATION PROFESSIONALS  SOCIAL SCIENCE AND RELATED PROFESSIONALS WRITERS AND CREATIVE OR PERFORMING ARTISTS RELIGIOUS PROFESSIONALS	

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## 6. Appendix 3

### 6.3 Wage levels of the respective EU Member States for different skill levels

All amounts in EURO/hour

Member State	High	Medium	Low
Germany	46,40	43,15	24,93
Greece	21,51	16,74	9,74
Spain	37,11	23,94	12,89
France	51,14	47,02	20,71
Hungary	11,66	7,78	4,87
Poland	13,02	10,37	5,01



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## 6. Appendix 4

### 6.4 Overview foreign expert team members

- **France:** **Taj – Neuilly**  
Mr. Benoît Dambre  
Mr. Laurent Schwab  
Mr. Benoit Philipart
  
- **Spain:** **Deloitte – Madrid**  
Mr. Miguel Gutiérrez  
Mr. Antonio Gutiérrez  
Mr. Ramón Arias
  
- **Hungary** **Deloitte – Budapest**  
Mr. Attila Vonnak  
Mr. Laszlo Winkler  
Mrs. Annamaria Koszegi
  
- **Germany** **Deloitte – Düsseldorf**  
Mr. Martin Temme  
Mr. Gerd Bunzeck  
Mrs. Uta Haiss
  
- **Greece** **Deloitte – Athens**  
Mrs. Eleftheria Ignatidou  
Mr. Konstantinos Axiotis  
Mr. Ioannis Tentes
  
- **Poland** **Deloitte – Poznan**  
Mr. Madej Lukasz  
Mr. Tomasz Walczak  
Mr. Marcin Mroczek