

Impact of corporate income tax reforms at the EU level on European business taxpayers

Report on the impact on corporate income tax compliance costs

9 July 2008

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1 Objectives and outline of the study

- 1.1 The European Commission are conducting a regulatory impact assessment of the possible introduction of a Common Consolidated Corporate Tax Base (CCCTB) within the European Union (EU).
- 1.2 To assess the impact of the possible introduction of a CCCTB a study has been carried out by PricewaterhouseCoopers LLP (PwC) using information gathered from Multi National Companies (MNCs) to form a view of the impact on their corporate income tax compliance costs across the EU countries. The terms of reference for the study are at Appendix 1.
- 1.3 PwC developed a questionnaire to gather the data to estimate how a CCCTB will potentially impact tax compliance costs when compared with the current system of national tax systems in the EU. Additionally, data has been collected to enable a comparison with an alternative scenario, a Common Corporate Tax Base (CCTB) but which is not consolidated cross-border. A copy of the questionnaire is included at Appendix II
- 1.4 The questionnaire assisted MNCs to establish their cost of corporate income tax compliance, within the EU, under current national tax systems (scenario 1). MNCs were provided with a definition of compliance and a list of corporate income tax compliance activities. The questionnaire asks for data country by country within the European Union (EU), for each MNC, covering both internal time spent on tax compliance activities and fees paid to external providers for compliance services. Internal time includes dedicated tax resource plus resource in the shadow tax department (those in business functions such as accounting, finance, shared services, and transfer pricing) who also undertake corporate income tax compliance activities.
- 1.5 The questionnaire provides MNCs with information showing how the list of compliance activities will change in each alternative scenario. It then asked MNCs to provide data on how they expect the time spent and the cost of external advisors fees in relation to these activities to change under two further scenarios, a switch over to a fully consolidated CCCTB (scenario 2), and alternatively to the more limited case, the CCTB (scenario 3), where there is no consolidation but an implementation of a common tax base calculation in each country. The study assumes full implementation of these scenarios across the 27 countries within the EU. A copy of the schedule defining and listing corporate income tax compliance activities and how they will change is at Appendix III.
- 1.6 The questionnaire also asks MNCs whether they expect to incur one off costs on the switch over to each alternative scenario.
- 1.7 Data is requested for one year, and participants were asked to assume a normal year of operation in the alternative scenarios, say year 3 of the new regime rather than one of the initial years of changeover.
- 1.8 In addition to providing the data in 1.4 to 1.6 (the “quantitative data”), participants were asked a series of questions in relation to each of the base case and the two alternative scenarios to establish their views on the current system and the alternative proposals (the “qualitative data”).
- 1.9 Electronic questionnaires were provided to MNCs, and data has been gathered in the period from 9 April to 3 July 2008.

- 1.10 Briefings have been held with participating MNCs in conference calls, and on a one to one basis, to deal with any issues arising in connection with the completion of the questionnaires. Helplines were also available throughout the period and have been well used.
- 1.11 Findings from the study are factual, and represent the views of business based on the assumptions given to them in the questionnaire and in supplementary relevant documents all of which were agreed with the European Commission. This included the briefing book on WP57, 60 and 61 a copy of which is at Appendix IV.
- 1.12 The data provided by MNCs has been sense checked and queried where relevant to eliminate inconsistencies and amended where there are errors, for example where data has been incorrectly entered in the wrong data box. However, PwC has not verified or validated the data provided and does not give any representations or warranties as to the accuracy of the results of the study.
- 1.13 The data provided by MNCs has been anonymised and collated to include in the study results. MNCs participating in the study were asked if they were willing to share individual data with the EC on either a named or unnamed basis. As regards the study on compliance costs one MNC agreed to share their individual data with the EC. DG TAXUD of the European Commission has committed to treat this individual data as confidential, and to not publish individual results of any MNC.

2 Headline results

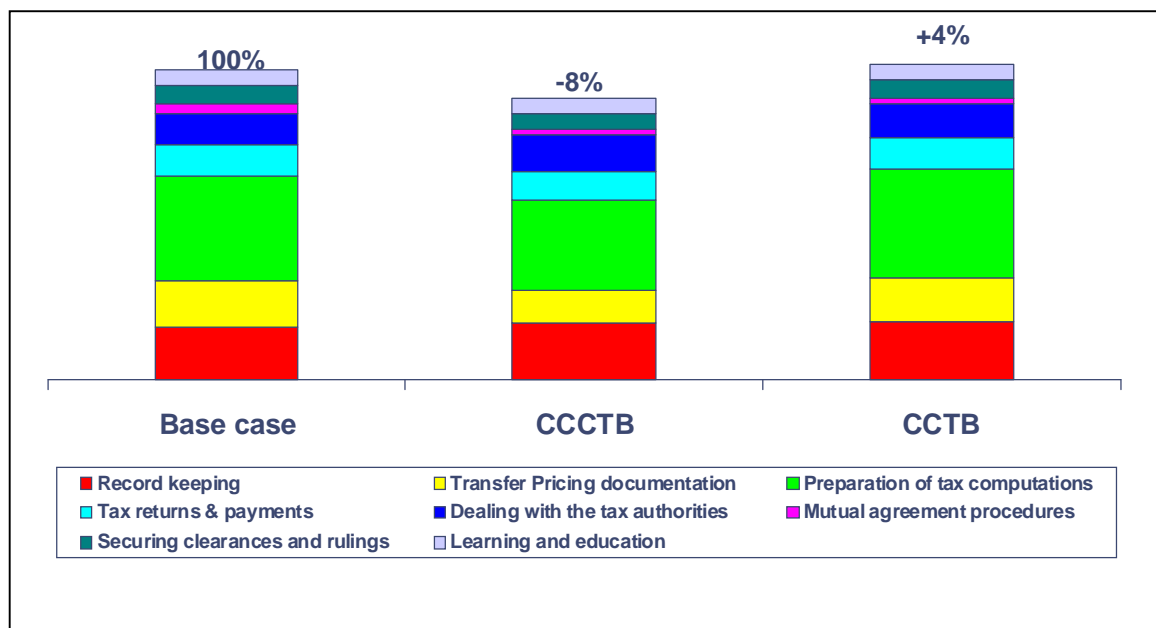
Participation and level of data provision

2.1 17 MNCs participated in the study on compliance costs providing quantitative data and qualitative views on how they expected their compliance costs to change. They are considered to represent a reasonable cross section of business tax payers, in terms of size of business, industry sector and spread of activities across the EU.

Scenario 1 – the base case

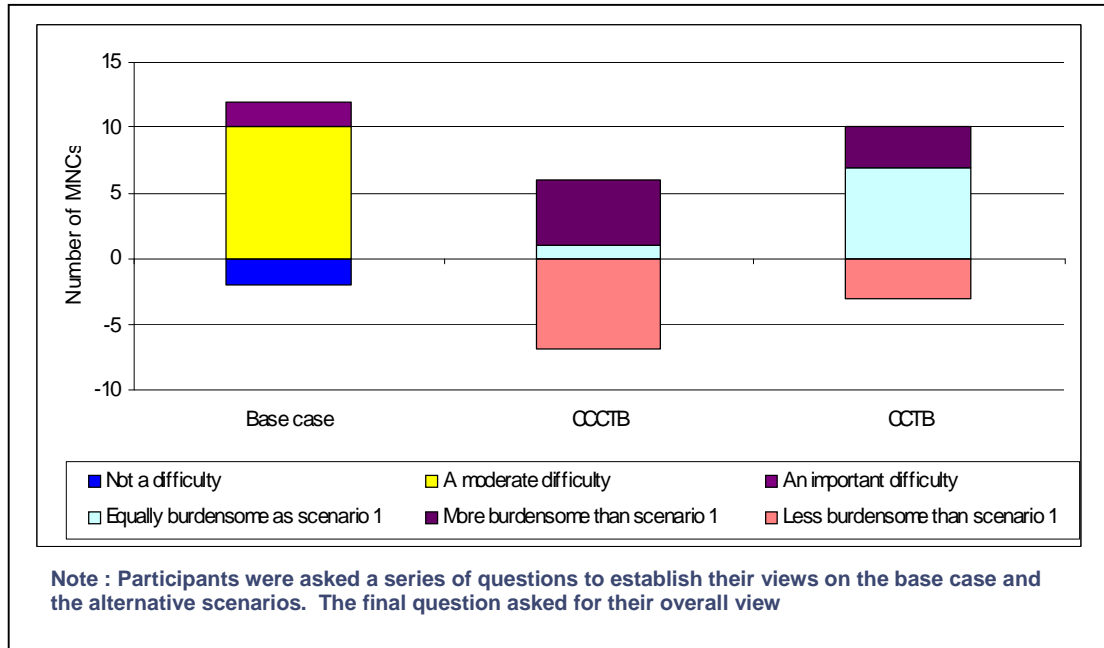
2.2 Figure 1 shows the time spent by participants on corporate tax compliance activities across the EU under the current national tax systems. The most time consuming activities are keeping the records required for tax purposes, preparation of tax computations and transfer pricing documentation. Further details are in figure 8.

Figure 1 – Time spent on corporate income tax compliance activities across the EU



2.3 The majority of participants found the current national tax systems difficult. The areas participants found difficult included transfer pricing, calculating taxable profits under the different rules in member states, dealing with several different tax authorities and keeping up to date with the different tax rules and regulations. Figure 2 shows the participants' overall view on the base case. Figure 10 provides further detail.

Figure 2 – Participants’ overall views on the base case and the alternative scenarios



Scenario 2 – CCCTB

- 2.4 Participants predicted that on average the time spent on corporate income tax compliance in the EU would fall by 8% in a CCCTB (see Figure 1). The main areas of change are reductions in the time spent on the preparation of tax computations and on transfer pricing documentation, and an increase in time spent dealing with tax authorities. Further details are in figure 11. Note that transfer pricing documentation in the context of a CCCTB relates to record keeping for the formulary apportionment.
- 2.5 The results for the CCCTB show an important difference between the predicted impact on time spent in the location in which the participants Principal Tax Payer and Principal Tax Authority are likely to be located, and the time spent in other locations. Participants predicted that on average the time spent in the country that would become the PTP/PTA location would rise by 15% and the time spent in the other locations would fall by 23%. Figures 13 and 15 provide further detail.
- 2.6 MNCs views on the CCCTB scenario were mixed. Figure 2 shows their views overall on the requirements of a CCCTB system. Around half the participants felt a CCCTB would be less burdensome than the current systems, and around half felt it would be equally or more burdensome. Further detail is in Figure 19. The areas of compliance activity that participants felt would be less burdensome were keeping up to date with rules and regulations, single filing of the tax return and dealing with a single tax authority, and applying for clearances and rulings.

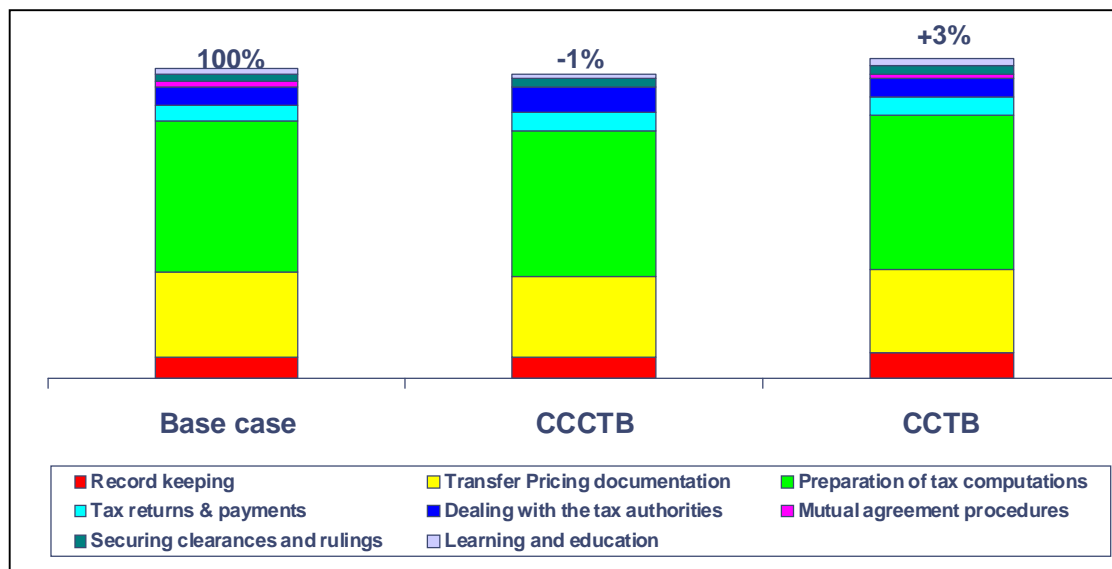
Scenario 3 - CCTB

- 2.7 Participants predicted that on average the time spent on corporate income tax compliance in the EU would rise by 4% in a CCTB (see Figure 1). The main area of change was an increase in time spent keeping records for tax purposes. Further details are in Figure 20.
- 2.8 Figure 2 shows that the majority of participants feel that overall a CCTB will be equally burdensome to the current national tax systems. Figure 24 shows that this is also the majority view on the individual aspects of a CCTB system.

Cost of compliance

- 2.9 Figure 3 shows that the standard cost of tax compliance on average for participants reduces by 1% under a CCCTB and increases by 3% under a CCTB scenario. It is important to note that the standard cost does not represent the actual cost to participants. Time spent has been monetised on a standard basis and added to spend on external advisors for compliance services, in order to establish the impact on the cost of tax compliance. Further detail of the standard cost methodology is in section 7. Further details of the impact of a CCCTB on standard cost are in Figure 25 and of a CCTB in Figure 27.

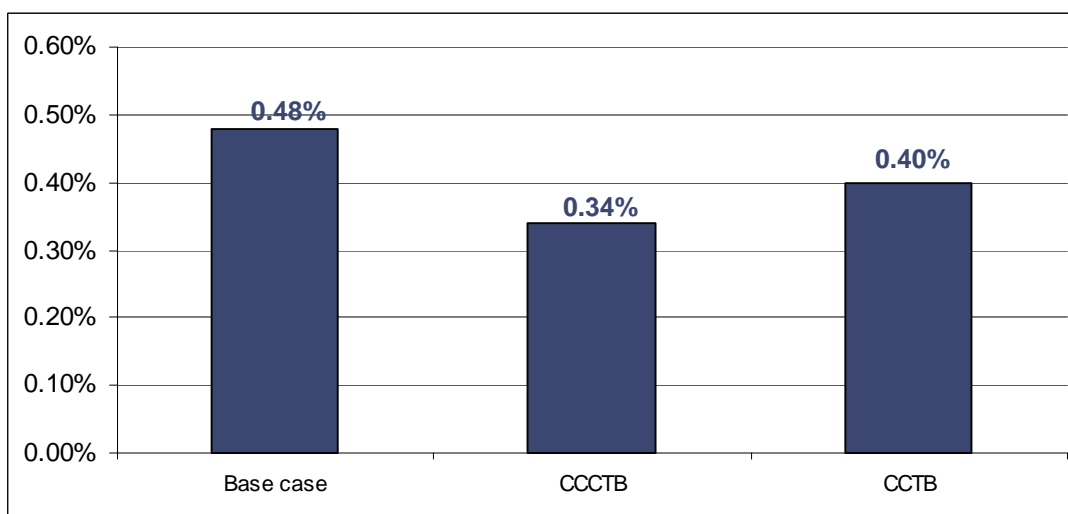
Figure 3 – Standard cost of corporate income tax compliance across the EU



- 2.10 A comparison of Figures 1 and 3 shows that under a CCCTB standard cost reduces less than the time spent (1% as compared to 8%). This reflects the underlying movements of time in the PTP/PTA location and in all other locations (see 2.5). The PTP/PTA for participants tends to be in more expensive locations in terms of staff salaries.

2.11 For those participants who also participated in the ETR study, their standard cost has been expressed as a percentage of their cash tax charge. Figure 4 shows that this percentage will fall under both the CCCTB and CCTB scenarios. This result is a combination of the movements in the standard cost of tax compliance and the movements in the cash tax charge as established in the ETR study. The cash tax charge (average of first two years) increases in both the CCCTB and the CCTB scenarios.

Figure 4 – Standard Cost of tax compliance as a percentage of participants cash tax charge



One-off costs

2.12 Participants indicated that they expect to incur one-off costs on the change over from the current national tax systems to either a CCCTB or a CCTB. The majority expected to incur costs in training staff, setting up new processes and systems, and in making calculations to decide whether to opt into the new system and in setting up asset pools for depreciation. The majority also expected to incur costs for external consulting or advice and on software license fees. Figure 30 provides more detail.

2.13 Those participants who were able to provide a number estimated that on average the level of one-off costs would be around €0.4m.

3 Participation and level of data provision

3.1 The number of MNCs participating in the compliance costs study was 17. Figure 5 sets out the level of data provided by the participants.

Figure 5 – Participation in the study on corporate income tax compliance costs

Number of MNCs participating in the study	17
Number that gave quantitative data on scenario 1 (the base case)	16
Number that gave quantitative data on scenario 2 (CCCTB)	9
Number that gave quantitative data on scenario 3 (CCTB)	9
Number of the 9 that also participated in the ETR study	8
Number that gave qualitative data	14

3.2 The study results are considered to be a reasonable cross section in terms of the size of businesses included. The turnover of participants in the EU ranged from less than €500m to more than €2bn. The number of employees in the EU ranged from less than 500 to over 50,000.

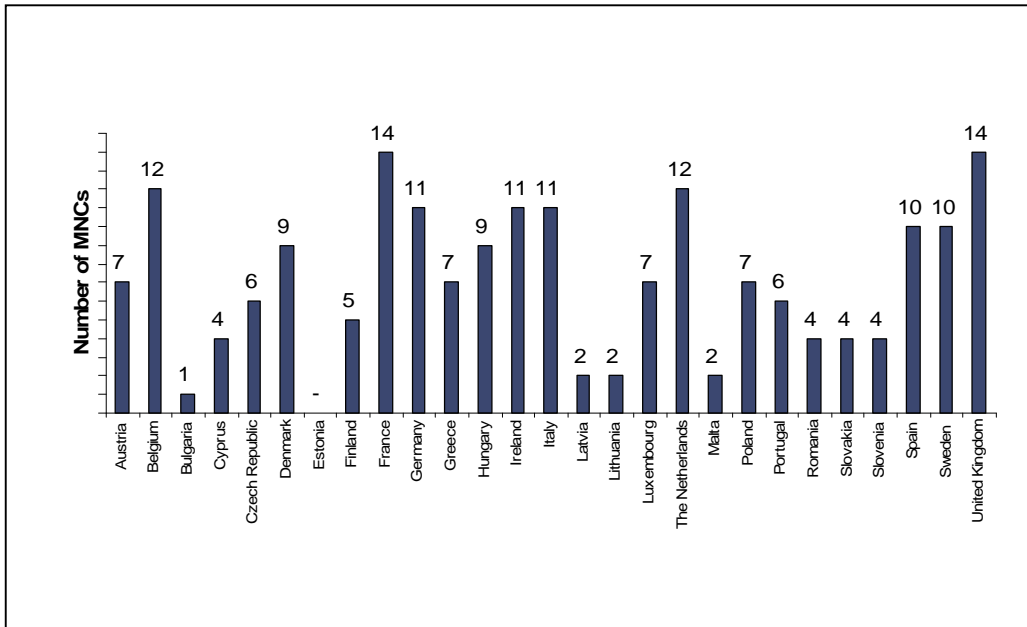
3.3 The study results are considered to represent a reasonable cross section of industry sectors as shown in Figure 6.

Figure 6 – Industry sectors included in the study results

	Number of participant MNCs in each sector
Banking	1
Beverages	1
Pharmaceutical	2
Oil and gas	1
Retail	3
Travel (transport)	1
Media and Entertainment	2
Support	2
Telecommunications	1
Technology	1
Electricity	1
Food producers	1

3.4 The MNCs that participated have taxable entities in 26 EU countries with only one country excluded, this being Estonia. The data provided by MNCs that participated covered 24 countries. Those countries for which no data was reported were Bulgaria, Cyprus and Estonia. Figure 7 shows the taxable entities across the EU for MNCs participating in the study.

Figure 7 – Taxable entities in the EU for MNCs participating in the compliance costs study.

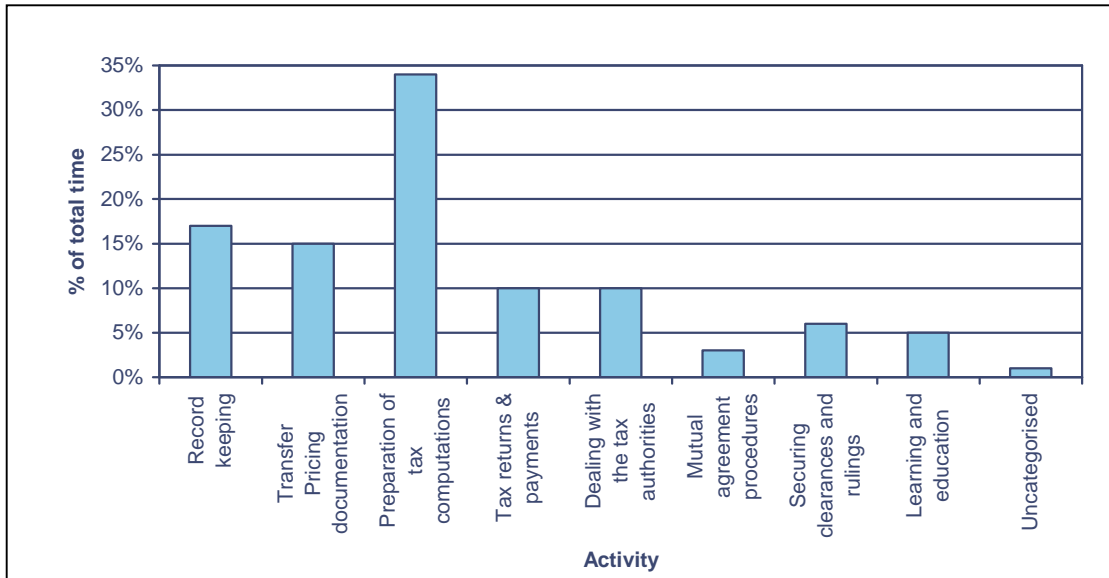


3.5 MNCs do not keep records of the time spent or cost of corporate income tax compliance. They found it time consuming to measure this and many MNCs who were interested in the study declined to participate because of the resource required to do so and the short timeline. Over 60 MNCs expressed interest in the study but the majority of these did not participate. The two main reasons given were, firstly, insufficient resource and secondly, limited spread of business activities across the EU.

4 Scenario 1- the Base Case

- 4.1 Scenario 1, the base case, represents the current system with 27 different corporate income tax codes and tax systems across the EU.
- 4.2 Participants were asked to complete a data sheet for every country in the EU in which they had taxable entities. They were asked to provide data on the estimated time spent in each country on corporate income tax compliance activities by:
- both the dedicated tax resource; and
 - any others in the company (shadow tax department) involved in these activities.
- In providing the data on the time spent it is important to note that this is an estimate made by participants as MNCs do not generally require their staff to keep timesheets.
- 4.3 Participants were also asked to provide data on their spend on external advisers for corporate income tax compliance activities.
- 4.4 Participants were provided with a definition and a list of activities for corporate income tax compliance. These were defined and agreed with the European Commission (see Appendix III). Eight areas of activity were identified as follows:
1. Record keeping-creating and maintaining any records required for tax purposes (additional to books and records required mainly for accounting purposes).
 2. Transfer Pricing documentation- creating and maintaining documentation required for compliance with transfer pricing.
 3. Preparation of tax computations- gathering data for tax purposes, calculating taxable profit, tax claims and elections etc.
 4. Tax returns and payments- completing and submitting tax returns and making tax payments.
 5. Dealing with the tax authorities- dealing with queries, tax audits and investigations by the tax authorities and resolution of tax disputes including appeals and litigation.
 6. Mutual agreement procedures for transfer pricing- competent authority and/or arbitration on transfer pricing.
 7. Clearances and rulings- application for advanced clearances and rulings and advance pricing agreements.
 8. Learning and education- keeping up to date with changes to, and training staff on, tax rules and regulations.
- 4.5 Figure 8 shows the estimated amount of time spent by participants on average on each area of activity in the base case under the current national tax systems. Three areas of activities (keeping the additional records required for tax purposes, transfer pricing documentation and preparing tax computations) are viewed by participants on average as the most time consuming activities with regard to the base case national tax systems.

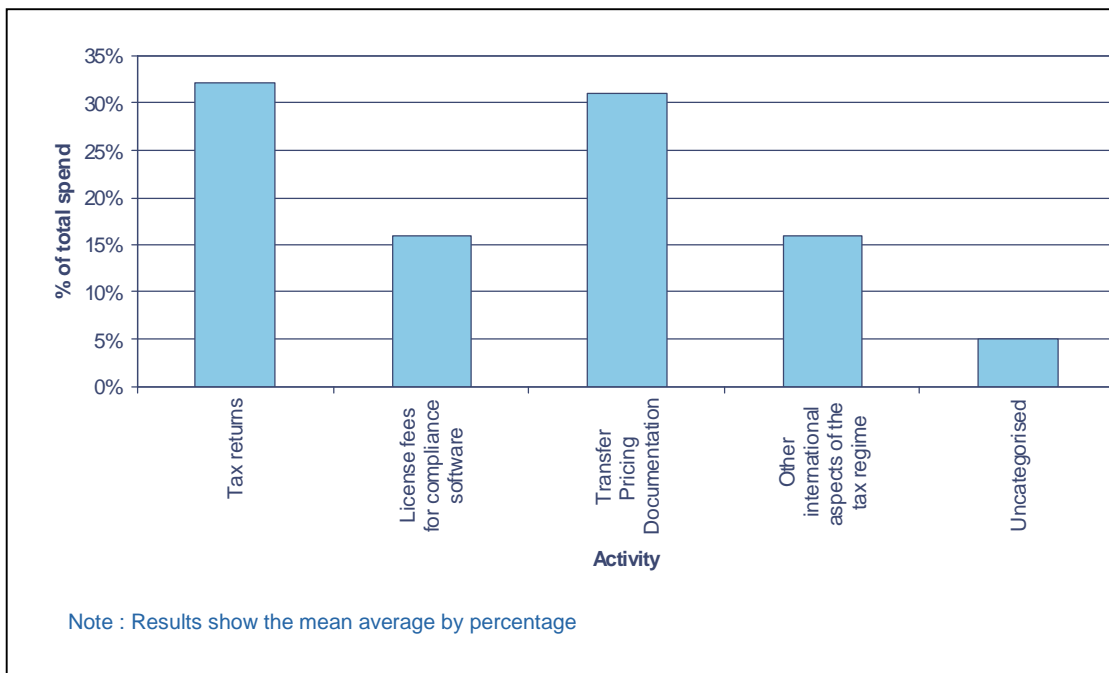
Figure 8 Scenario 1 (Base case) - time spent on corporate income tax compliance activities across the EU by participants



Note: Results show the mean average by percentage. Mean average is defined in 5.4

4.6 Participants were also asked to provide data on the fees paid to external advisors for corporate income tax compliance services. Figure 9 shows that on average for participants more than 30% of these external costs relate to each of the preparation of tax returns and transfer pricing documentation. Just over 15% relates to other international aspects of the tax regime.

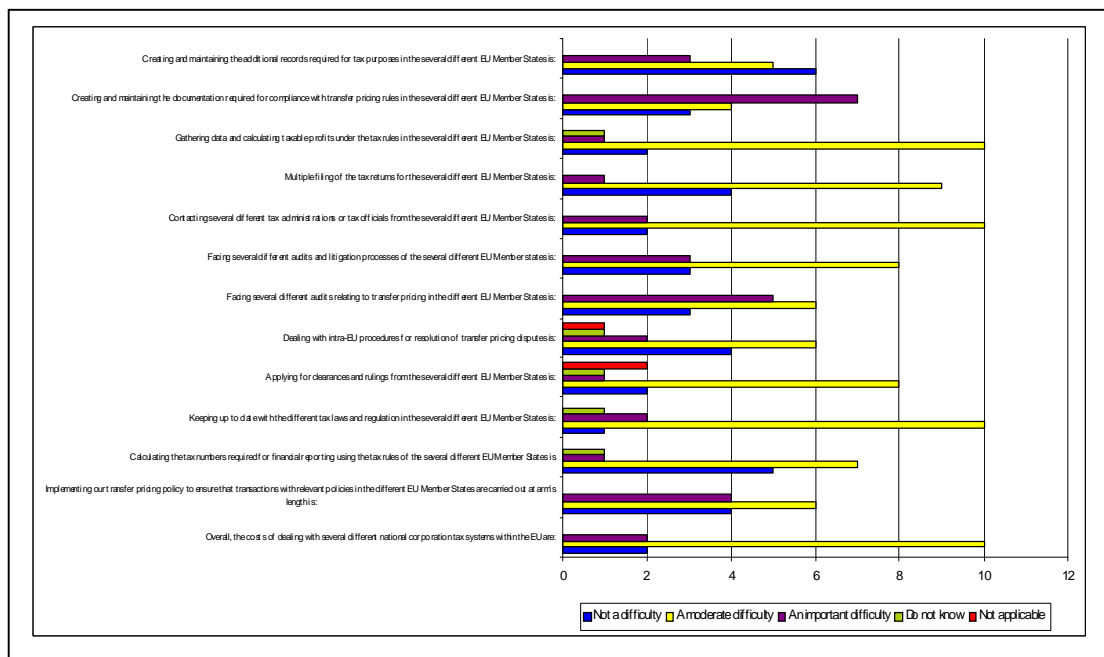
Figure 9 Scenario 1 (Base case) - spend on external providers for corporate income tax compliance services across the EU by participants



4.7 In addition to providing quantitative data, MNCs were also asked a series of questions to establish their views for the base case and the alternative scenarios (qualitative data). In relation to the base case MNCs were asked to state whether aspects of the current national tax systems were:

- an important difficulty for them,
 - a moderate difficulty, or
 - not a difficulty
- Options for “Don’t know” or “not applicable” were also provided.

Figure 10 - Participants views on the base case- national tax systems



4.8 The key findings from the response to these qualitative questions were that the majority of companies find the current regimes difficult. The areas which the greatest number of participants found difficult were transfer pricing (creating and maintaining transfer pricing documentation and facing several different audits on transfer pricing in member states), gathering data and calculating taxable profits under the tax rules in the different member states, contacting several different tax administrations and facing several different audits and litigation processes, and keeping up to date with the different tax laws and regulations.

4.9 As part of these qualitative questions to establish their views on the base case of current national tax systems, participants were asked additional questions as follows:

- Has an EU tax administration examined your group’s cross-border intra group transactions (transfer pricing) in the past five years?

8 out of the 14 participants providing qualitative data answered yes to this question.

- If yes, how many EU countries have examined your transfer pricing in this period?

The total number of countries given by the 8 participants was 46.

- Has your group been involved in any competent authority or EU arbitration procedures in relation to a transfer pricing adjustment by an EU tax administration in the past five years?

2 out of the 14 participants answered yes to this question.

- If yes, how many procedures have the group been involved in during the period?

The total number of procedures given by the two participants was 9.

5 Scenario 2- Common Consolidated Corporate Tax Base

- 5.1 In scenario 2, a CCCTB, the taxable profits of the MNC in the EU would be calculated on a consolidated basis using a single set of tax rules. This common consolidated tax base for the EU wide activities would then be apportioned across the EU countries of operation according to a predetermined mechanism. In addition, the administrative framework would be changed to a “one stop shop” approach. The principal taxpayer (PTP) for the MNC would file a single consolidated tax return to the principal tax authority (PTA).
- 5.2 Under this alternative scenario participants were asked to estimate how they thought the time spent on corporate income tax compliance activities already estimated in the base case will change under a CCCTB. They were asked to make the estimation by reference to a specified list of changes to compliance activities as set out in the matrix in appendix III. Participants were also asked to give a broad estimate, if possible, on how the spend on external providers for corporate income tax compliance will change under a CCCTB.
- 5.3 In order to make the relevant estimations expected under a CCCTB it was important to establish the location of the PTA and the PTP. This was established on the following basis:
- If the ultimate parent company of the MNC is in the EU, this will determine the location of the PTA.
 - If the ultimate parent company of the MNC is outside the EU, the location of the PTA is determined by the location of the top EU holding company.
 - If there is more than one top EU holding company the MNC was asked to make a choice.

In the study, 3 of the 9 participants providing quantitative data for scenario 2 indicated that they would have their PTP in the UK, 2 in the Netherlands and 1 in each of Germany, Italy, France and Luxembourg.

- 5.4 Figure 11 shows the results for the estimated change in time spent on compliance activities by the MNCs in the study. The degree of change is shown as a percentage of the total time spent on corporate income tax compliance in the base case. The results are shown as an average for participants and several different methods of calculating the average are included. In interpreting the impact of the alternative scenarios, this report generally picks out the trimmed mean average.

Overall average: this uses the data for all participants together as a group. The overall average is calculated as a single sum for all participants.

Mean: this is calculated by adding all the individual MNC results and dividing by the number of those participants. This measure gives equal weight to all MNCs in the sample.

Trimmed mean: the trimmed mean is calculated in the same way as the mean, but 15% of the data points from both the top and bottom of each data set are excluded. It is a robust estimate of the location of a sample, excluding outlying data points. With 9 MNCs providing quantitative data for scenario 2 and 3, this means that either zero or 1 point has been trimmed from each end of each data set depending on the number of observations.

Median: the median is the middle value of the individual MNC results ordered from lowest to highest i.e. the middle observation.

Minimum: the minimum is the result in the individual MNC observations with the lowest value.

Maximum: the maximum is the result in the individual MNC observations with the highest value.

5.5 Figure 11 shows that participants predicted a reduction (-8%) in the time spent overall (trimmed mean). The main areas of change were reductions in the time spent on the preparation of the tax computations and on transfer pricing (when compared with formulary apportionment requirements) documentation, and an increase in time spent in dealing with the tax authorities.

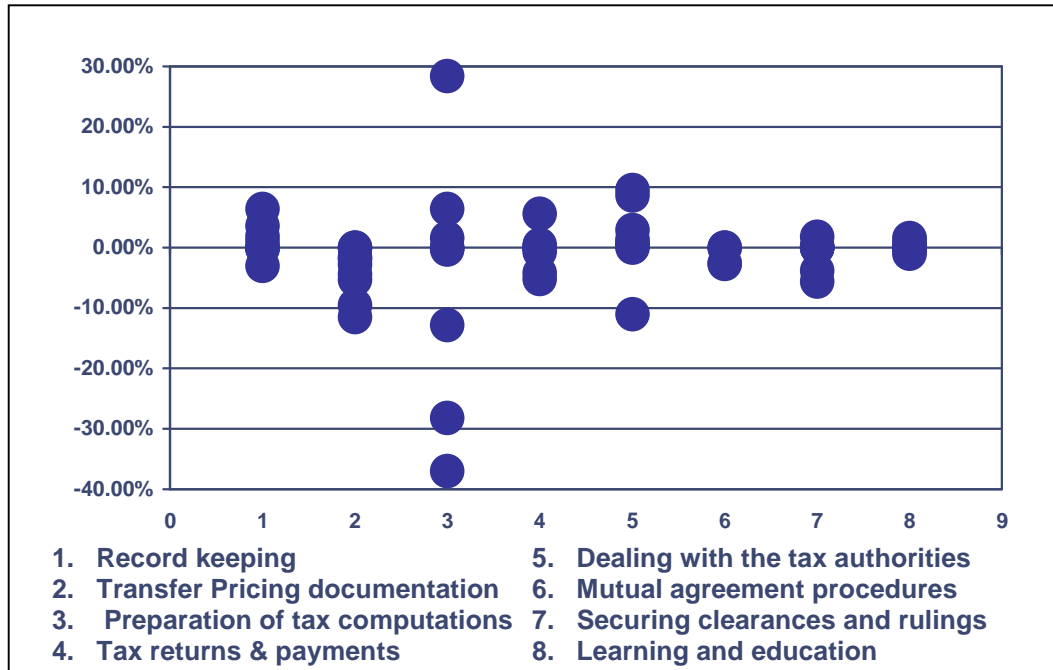
Figure 11 Scenario 2 (CCCTB) - Percentage change to time spent on corporate income tax compliance activities

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	1%	1%	0%	-3%	6%	1%
Transfer Pricing documentation	-4%	-4%	-3%	-12%	0%	-4%
Preparation of tax computations	5%	-5%	0%	-37%	28%	-5%
Tax returns & payments	0%	0%	0%	-5%	6%	-1%
Dealing with the tax authorities	4%	1%	1%	-11%	10%	2%
Mutual agreement procedures	0%	-1%	-1%	-3%	0%	-1%
Securing clearances and rulings	0%	-1%	0%	-6%	2%	-1%
Learning and education	0%	0%	0%	-1%	2%	0%
Total	6%	-8%	-3%	-50%	35%	-8%

Note: Movements are expressed as a percentage change to the total time spent in the base case.

5.6 It is important to note the range of views regarding the impact on some aspects of compliance from participants. Figure 12 shows a scatter chart of the individual MNC observations. It will be seen that there is a disparity of views on the impact of a CCCTB on the time spent on the preparation of tax computations. As above, the trimmed mean excludes outlying data points.

Figure 12 Scenario 2 (CCCTB) - Percentage change to time spent on corporate income tax compliance activities (scatter chart of results)



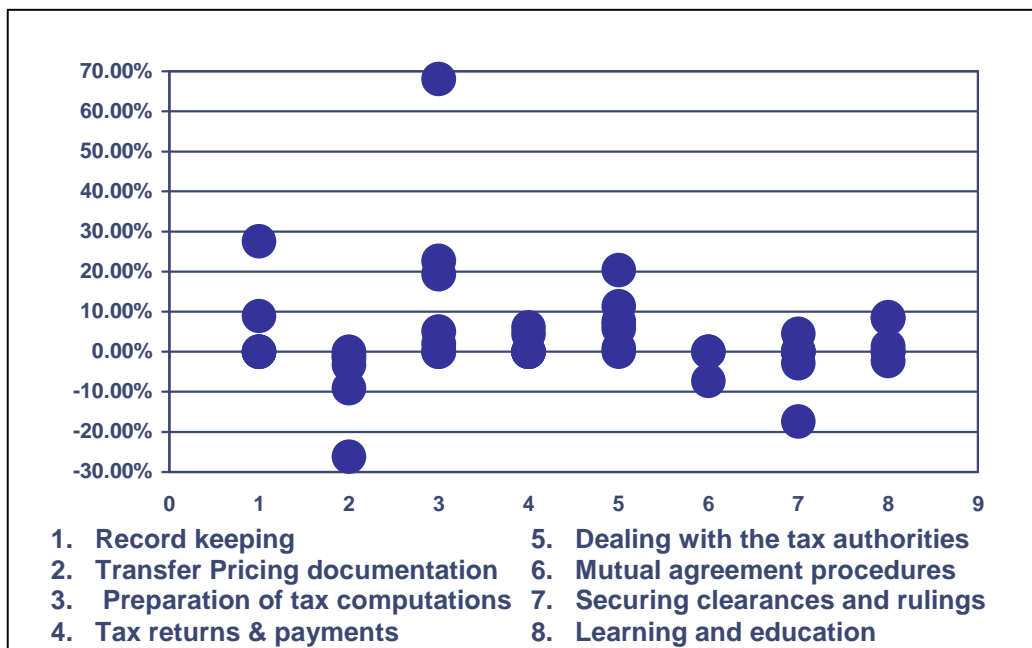
5.7 The results for scenario 2 show an important difference between the predicted impact of time spent in the country where the PTP and PTA are located and in other countries. Figure 13 and 15 show that on average it is anticipated that the time in the PTP will increase by 15% and time spent in other countries will reduce by 23%.

Figure 13 Scenario 2 (CCCTB) - Percentage change to time spent on corporate income tax compliance activities in PTP/PTA location

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	3%	5%	0%	0%	28%	1%
Transfer Pricing documentation	-3%	-5%	-2%	-26%	0%	-2%
Preparation of tax computations	16%	13%	2%	0%	68%	7%
Tax returns & payments	1%	1%	0%	0%	6%	1%
Dealing with the tax authorities	7%	6%	6%	0%	20%	5%
Mutual agreement procedures	0%	-2%	0%	-7%	0%	-2%
Securing clearances and rulings	0%	-2%	0%	-17%	5%	0%
Learning and education	1%	2%	0%	-2%	9%	1%
Total	25%	19%	3%	-22%	84%	15%

5.8 The time spent in the PTP/PTA location is expected to increase on average across all areas of activity except for transfer pricing (formulary apportionment) documentation and mutual agreement procedures (both -2% trimmed mean average reduction). Figure 14 shows that there was general agreement among participants as to whether the time on each area of activity was likely to go up or down, although the degree of predicted change varied.

Figure 14 Scenario 2 CCCTB - Percentage change to time spent on corporate income tax compliance activities in PTP/PTA location (scatter chart of results)



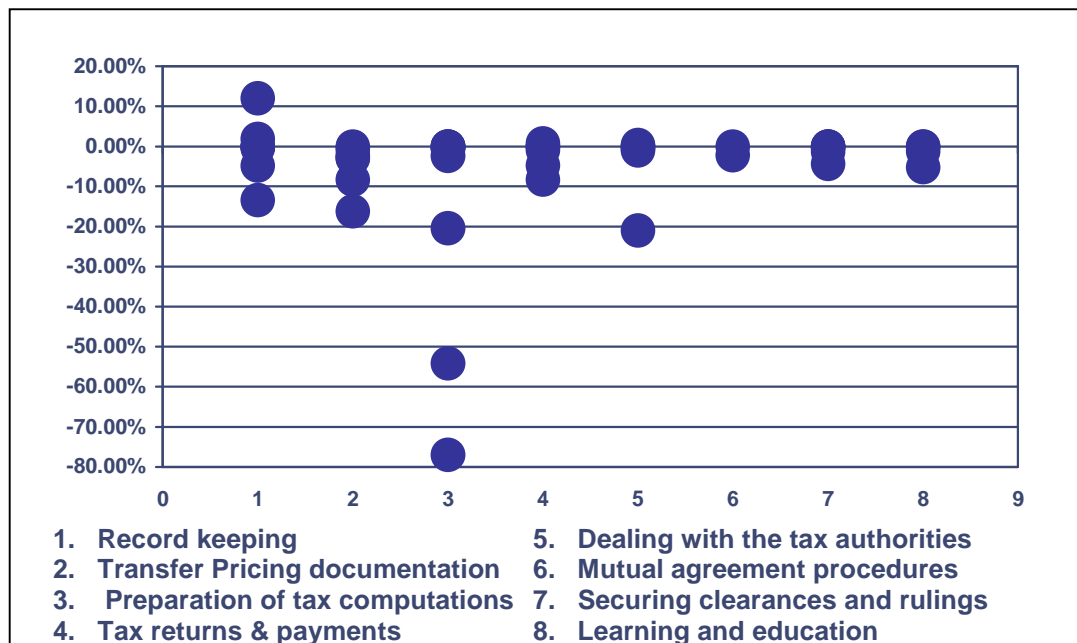
5.9 Figure 15 shows that the time spent in the other locations is expected to reduce on average across all areas of activity except for keeping records for tax purposes, which is predicted to remain unchanged. Overall the time is reduced by nearly a quarter (trimmed mean average 23%).

Figure 15 Scenario 2 (CCCTB) - Percentage change to time spent on corporate income tax compliance activities in countries other than the PTP/PTA location

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	-1%	-1%	0%	-13%	12%	0%
Transfer Pricing documentation	-4%	-5%	-3%	-16%	0%	-2%
Preparation of tax computations	-17%	-19%	-1%	-77%	0%	-11%
Tax returns & payments	-1%	-2%	0%	-8%	1%	-2%
Dealing with the tax authorities	-1%	-4%	0%	-21%	0%	-4%
Mutual agreement procedures	0%	-1%	-1%	-2%	0%	-1%
Securing clearances and rulings	0%	-1%	0%	-4%	0%	-1%
Learning and education	0%	-2%	-1%	-5%	0%	-2%
Total	-25%	-30%	-10%	-93%	12%	-23%

5.10 Figure 16 shows that again there was general agreement on the direction of the impact of a CCCTB on time spent on compliance activities. The exception is time spent on keeping records for tax purposes, where some participants predicted an increase and some a decrease.

Figure 16 Scenario 2 (CCCTB)- Percentage change to time spent on corporate income tax compliance activities in countries other than the PTP/PTA location (scatter chart of results)



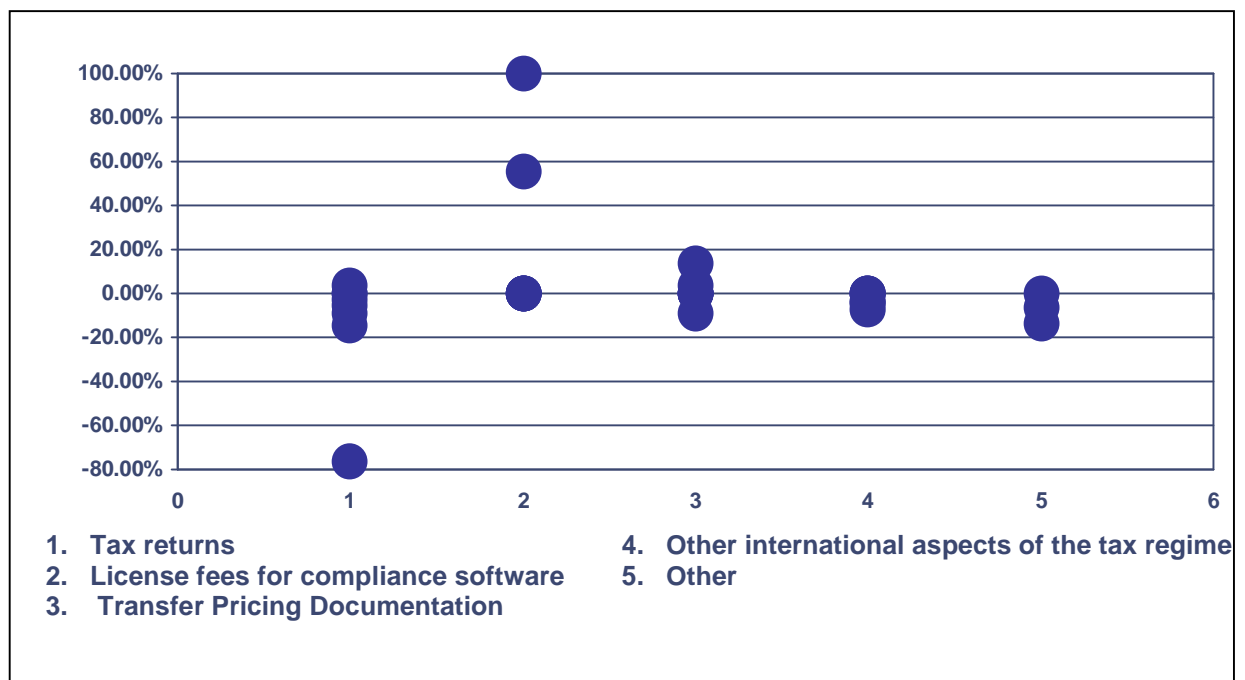
5.11 Participants predicted a 6% reduction on average in fees paid to external providers for tax compliance services. The main reductions were expected to arise on tax return services and on international aspects of the tax regime (other than transfer pricing documentation). Participants also predicted an increase in licence fees for compliance software.

Figure 17 Scenario 2 (CCCTB) - Percentage change to spend on external providers for corporate income tax compliance services

	Overall average	Mean	Median	Min	Max	Trimmed mean
Tax returns	-10%	-13%	-4%	-76%	3%	-5%
License fees for compliance software	6%	22%	0%	0%	100%	8%
Transfer Pricing documentation	1%	1%	0%	-9%	14%	-1%
Other international aspects of the tax regime	-2%	-3%	-2%	-8%	0%	-3%
Other (not specified)	-3%	-7%	-6%	-13%	0%	-7%
Total	-9%	3%	-3%	-32%	100%	-6%

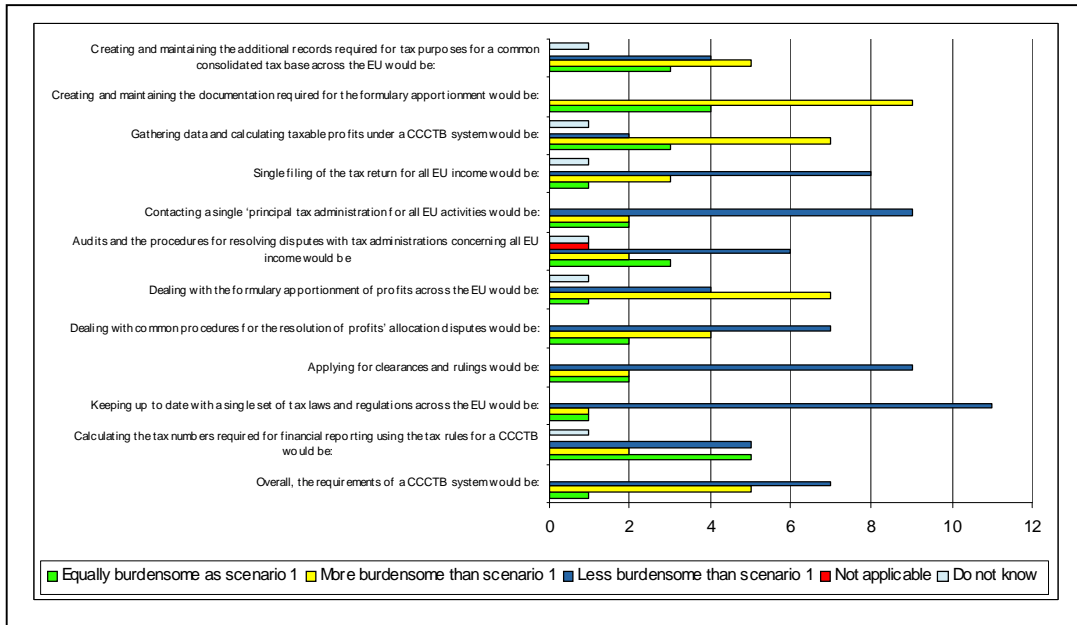
5.12 Figure 18 shows that again there was general agreement on the direction of the impact of a CCCTB on fees to external providers, apart from the spend in relation to transfer pricing documentation, where some participants predicted an increase and others a reduction.

Figure 18 Scenario 2 (CCCTB) - Percentage change to spend on external providers for corporate income tax compliance services (scatter chart of results)



5.13 MNCs were asked a series of questions to establish their views on the impact of a CCCTB as set out in Scenario 2. Participants were asked to state whether aspects of Scenario 2 would in their view be more or less burdensome than the base case.

Figure 19 – Participants views on scenario 2 - CCCTB



5.14 The qualitative results on the CCCTB show a mixed response from the participants. Seven see a CCCTB as less burdensome overall, five as more burdensome and one as equally burdensome. The areas which the greatest number of participants thought would be more burdensome are keeping records for and dealing with the formulary apportionment and gathering data and calculating taxable profits. The majority felt that keeping up to date with the rules and regulations, single filing of the tax return and dealing with a single tax authority, and applying for clearances and rulings would be less burdensome.

5.15 In addition to providing the data requested in the questionnaire, some participants provided commentary on their views. In relation to the impact of a CCCTB on compliance costs, the comments included the following.

Complexity – the current proposal for the calculation of the tax base under the CCCTB does not reduce complexity in the tax system with issues around capital allowances/ provisions/ stock remaining in place.

There will be complexity around acquisitions and disposals depending on whether or not companies have opted in.

Consolidation – there will continue to be a need for local country data to be maintained and for there then to be a consolidation at the European level – which will require extra resource.

Management structure – some MNCs are very decentralised and local operating companies are responsible for tax compliance. The change over to a CCCTB was

seen as being smoother for MNCs which have a centralised structure than for those who are decentralised.

Transfer Pricing - the benefits are perhaps more limited than might be expected in view of EU/non EU requirements and processes which are embedded in commercial arrangements (which will continue) anyway.

Dealing with Tax Authorities – there will be increased complexity as PTP and PTA will operate merely a conduit. There are fears of errors, misunderstandings and language issues arising.

There will be additional layers of engagement between Tax Authorities of member states when looking at formulary apportionment and this will be passed onto taxpayers requiring additional resource.

Tax accounting and disclosure – accounting rules can differ at a national level so each local entity could have different adjustments to make with regards to a CCCTB. There are significant requirements to be considered.

6 Scenario 3 - Common Corporate Tax Base (CCTB)

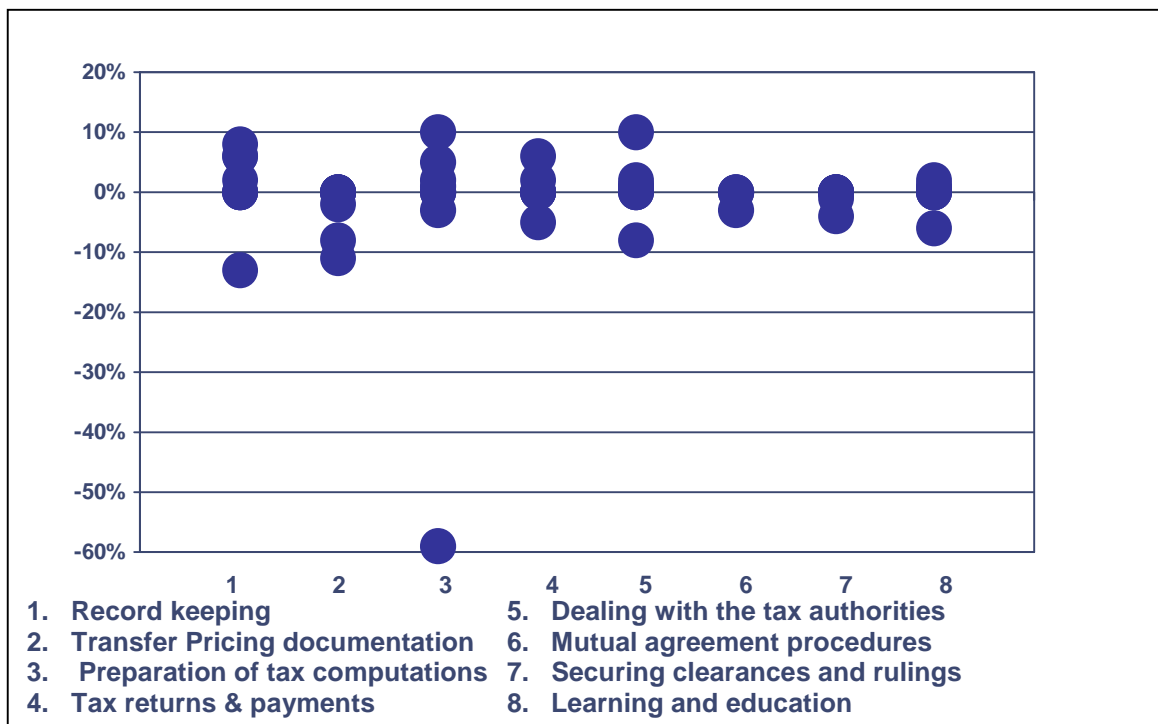
- 6.1 In scenario 3, a CCTB, the taxable profits of the MNC would be calculated using a single set of tax rules but applied in each member state. There would be no requirement for consolidation of the tax base with a subsequent attribution of taxable base to each member state. The administrative framework would continue to require tax returns to be filed and tax to be paid in each country, although a central EU ruling body will give decisions on application of the single set of rules for calculating taxable profits.
- 6.2 Under this alternative scenario participants were asked to estimate how they thought the time spent on corporate income tax compliance activities already estimated in the base case will change under a CCTB. They were again asked to make an estimation by reference to a specified list of changes to compliance activities as set out in the matrix in appendix III. Participants were also asked to give a broad estimate, if possible, on how the spend on external providers for corporate income tax compliance will change under a CCTB.
- 6.3 Figure 20 shows the results for the estimated change in time spent on compliance activities by MNCs in the study. Participants predicted an increase (4%) in time spent overall (trimmed mean average). The biggest area of change was a 2% increase relating to the time spent on keeping records for tax purposes.

Figure 20 Scenario 3 (CCTB) - Percentage change to time spent on corporate income tax compliance activities

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	2%	1%	0%	-13%	8%	2%
Transfer Pricing documentation	-1%	-2%	0%	-11%	0%	-1%
Preparation of tax computations	0%	-5%	0%	-59%	10%	1%
Tax returns & payments	1%	0%	0%	-5%	6%	0%
Dealing with the tax authorities	1%	1%	1%	-8%	10%	1%
Mutual agreement procedures	0%	-1%	0%	-3%	0%	-1%
Securing clearances and rulings	0%	-1%	0%	-4%	0%	0%
Learning and education	0%	0%	0%	-6%	2%	0%
Total	4%	4%	0%	-15%	27%	4%

6.4 Figure 21 shows the range of results from participants. For some of the categories of activity there is an agreed view on the direction of the impact of a CCTB on the time spent on compliance activities even though the degree of change predicted varies. On other areas there is not an agreed view. These are time spent on keeping tax records for tax purposes, preparation of the tax computations, on tax returns and payments and on dealing with tax authorities. For these areas, some participants predict an increase in time and others a reduction.

Figure 21 Scenario 3 (CCTB)- Percentage change to time spent on corporate income tax compliance activities (scatter chart of results)



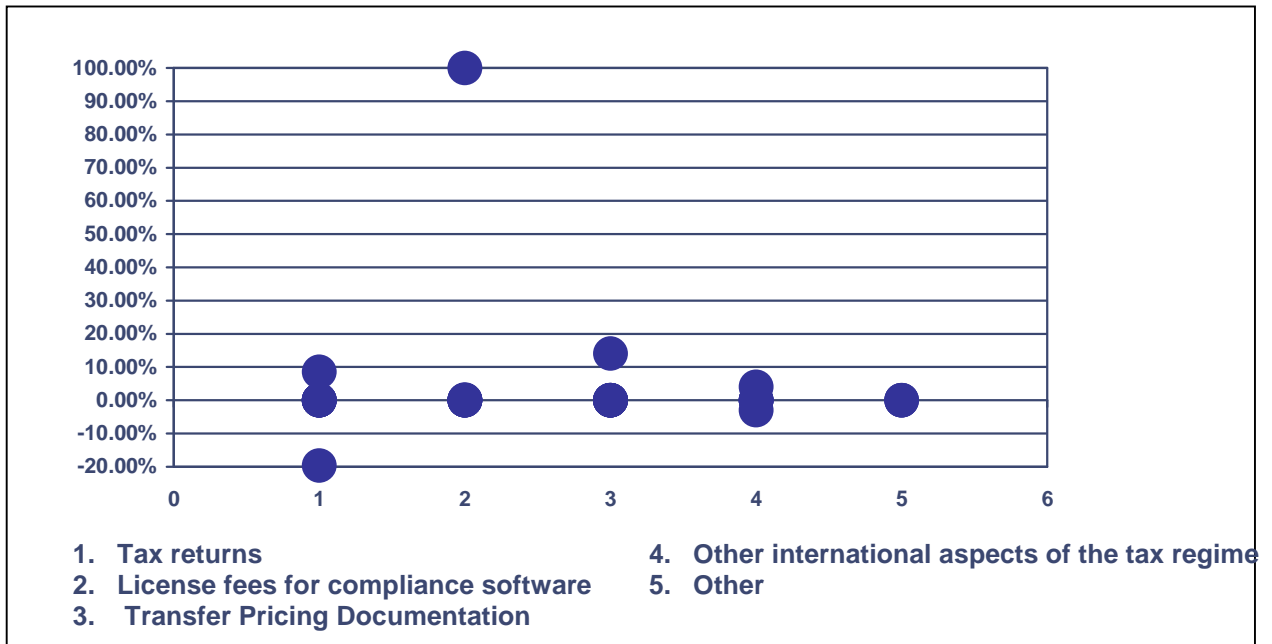
6.5 Participants expected little a 3% increase on average in the fees paid to external providers for tax compliance services. As can be seen from Figure 22 the movements in each area of activity was small (rounded to 0%).

Figure 22 Scenario 3 (CCTB) - Percentage change to spend on external providers for corporate income tax compliance services

	Overall average	Mean	Median	Min	Max	Trimmed mean
Tax returns	-1%	-1%	0%	-20%	9%	0%
License fees for compliance software	1%	14%	0%	0%	100%	0%
Transfer Pricing documentation	1%	2%	0%	0%	14%	0%
Other international aspects of the tax regime	0%	0%	0%	-3%	4%	0%
Other	0%	0%	0%	0%	0%	0%
Total	2%	12%	0%	-20%	100%	3%

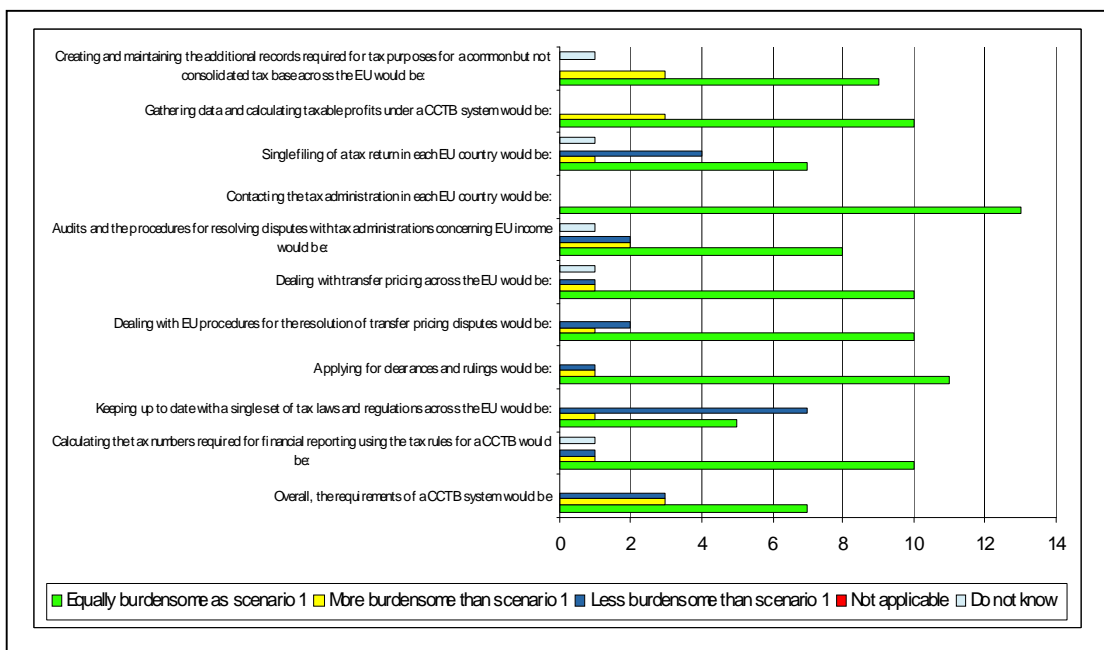
6.6 Figure 23 shows the individual results from participants in relation to the impact on fees paid.

Figure 23 Scenario 3 (CCTB) - Percentage change to spend on external providers for corporate income tax compliance services (scatter chart of results)



6.7 MNCs were asked a series of questions to establish their views on the impact of a CCTB as set out in Scenario 3. Participants were asked to state whether aspects of scenario 3 would in their view be more or less burdensome than the base case.

Figure 24 – Participants views on scenario 3 – CCTB



- 6.8 The qualitative results on the CCTB show belief that the introduction of a CCTB will have little or no impact. Three MNCs believe that keeping records for tax purposes and calculating taxable profits would be more burdensome, seven see benefits arising from keeping up to date with a single set of tax laws and regulations and four also see the filing of a single tax return in each EU country as beneficial. But a majority of participants see the CCTB as equally burdensome across all of the areas of compliance activities.
- 6.9 In addition to providing the data requested in the questionnaire, some participants provided commentary on their views. In relation to the impact of a CCTB on compliance costs the comments included the following. There were however fewer comments than for a CCCTB with many participants viewing a CCTB as involving less significant change.

Single set of rules - will be an advantage but needs to be a clear and stable regime.

Record keeping - the benefits of a single system for calculating taxable profits will be counter balanced by differences between national accounting rules and language and other interpretation difficulties. Record keeping could be more time consuming.

7. Cost of tax compliance

- 7.1 So far in this report the impact on compliance costs under the alternative scenarios has been analysed in terms of time spent by participant MNCs on or these activities and the spend on external service providers. To facilitate the comparison of how costs overall will change between the three scenarios, taking into account changes in the location of tax resource, the grades of staff undertaking the activities, and to compare internal and external costs together, it is necessary to monetise the data gathered on time spent.
- 7.2 The data provided by participants on time spent has been monetised using a standard cost approach. This standard cost is therefore not the real cost incurred by the MNCs which have participated.
- 7.3 The standard cost of time has been calculated by applying a standard salary cost by grade of staff, and by country. This standard salary has been extracted as follows. Salary data for Chief Financial Officers (CFO) for each EU country was sourced from Monks (a specialist unit within PwC which deals with employee rewards) to establish an external benchmark. However, CFO salary levels exceed those of the tax staff to be monetised so, using publicly available UK tax salary survey data to establish appropriate levels of differential, the CFO data obtained for the UK was adjusted to generate an estimate of Director, Manager and Junior tax salaries in this country. The same differential was then applied to the CFO benchmark data for each country to generate tax staff salaries. For two EU countries (Latvia and Malta) Monks were unable to provide salary data, so the starting point was publically available salary survey data.
- 7.4 The standard cost methodology used is considered prudent, as it does not include benefits or bonuses and does not include any overhead allocation for the staff involved. It is considered to underestimate the costs involved, rather than to overestimate.
- 7.5 In analysing the results, as for the previous sections, the focus is on the movement in cost for each corporate income tax compliance activity as compared with the base case cost, rather than on the amount of the standard cost.
- 7.6 Figure 25 shows the standard cost in Scenario 2 (CCCTB) is expected to reduce by 1% on average using the trimmed mean average. There are reductions in the standard cost in respect of transfer pricing documentation (-1%), preparation of tax computations (-2%) and mutual agreement procedures (-1%). The standard cost of dealing with tax authorities increased by (2%) compared to the base case.

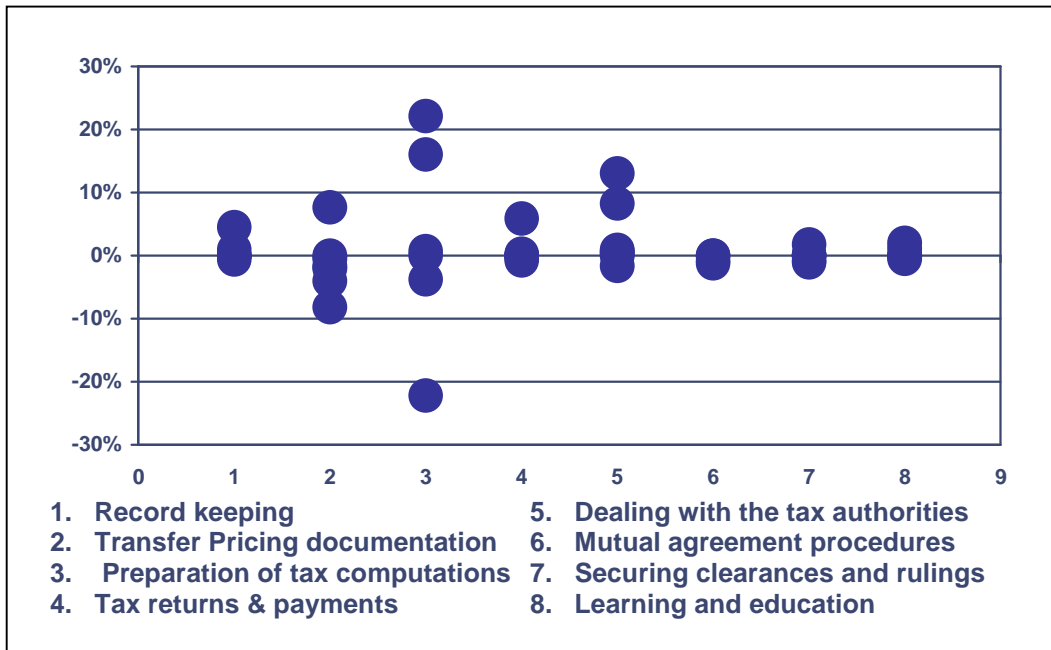
Figure 25 Scenario 2 (CCCTB) - Percentage change to standard cost of tax compliance

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	0%	1%	0%	-1%	5%	0%
Transfer Pricing documentation	-2%	-1%	0%	-8%	8%	-1%
Preparation of tax computations	-1%	-3%	-2%	-31%	22%	-2%
Tax returns & payments	0%	1%	0%	-1%	6%	0%
Dealing with the tax authorities	3%	3%	1%	-2%	13%	2%
Mutual agreement procedures	0%	-1%	0%	-1%	0%	-1%
Securing clearances and rulings	0%	0%	0%	-1%	2%	0%
Learning and education	0%	0%	0%	-1%	2%	0%
Total	0%	0%	0%	-33%	40%	-1%

7.7 The reduction in standard cost can be compared with the overall reduction in time in the table in Figure 11 of -8%. Reduced time therefore has not translated to a reduced cost of compliance. The main explanations for this are the increased focus of internal resource in the PTP which with our current sample locates more resource in comparatively expensive countries such as the UK and The Netherlands; also with more time anticipated to deal with tax authorities with reductions in other areas such as preparation of tax computations, the seniority of personnel and consequently the cost increases.

7.8 As for Figure 12, there is a range of results in Figure 26 for the impact of a CCCTB on the standard cost of preparation of the tax computations, with some participants predicting a significant increase and others a similar decrease.

Figure 26 Scenario 2 (CCCTB) - Percentage change to standard cost of tax compliance (scatter chart of results)



7.9 Figure 27 below shows the results for the impact on standard cost of a CCTB. For the trimmed mean average, the results indicate a small increase in costs for record keeping (1%), and preparation of tax computations (1%). Overall the movement in cost is an increase of 3%. This can be compared with the overall increase in time in Figure 20 of 4%. The increase in time therefore has not translated entirely to an increase in standard cost and this is explained as personnel accounting for the extra time are more junior with a lower cost.

Figure 27 Scenario 3 (CCTB) - Percentage change to standard cost of tax compliance

	Overall average	Mean	Median	Min	Max	Trimmed mean
Record keeping	1%	1%	0%	0%	5%	1%
Transfer Pricing documentation	0%	1%	0%	-2%	8%	0%
Preparation of tax computations	0%	2%	1%	-8%	14%	1%
Tax returns & payments	1%	1%	0%	0%	7%	0%
Dealing with the tax authorities	1%	2%	0%	0%	13%	0%
Mutual agreement procedures	0%	0%	0%	-1%	0%	0%
Securing clearances and rulings	0%	0%	0%	-1%	0%	0%
Learning and education	0%	0%	0%	0%	2%	0%
Total	3%	6%	2%	-7%	38%	3%

- 7.13 The results show that in the base case the mean average standard cost of tax compliance is 0.48% of the cash tax charge for these participants. This reduces to 0.34% in the CCCTB scenario and to 0.40% in the CCTB scenario. These movements reflect the changes in the cost of tax compliance, as set out in this report and also significant increases in the cash tax charge for these participants in both alternative scenarios, as set out in the report on the impact on taxable profits and effective tax rates.

One off costs

- 8.1 Participants in the study were given a list of the possible types of one off costs that might arise on a changeover from the base case to either a CCCTB or a CCTB. They were asked to indicate whether they expected any of these types of costs to arise and if possible (perhaps based on previous experience of major change) to provide an estimate of the cost. 14 MNCs provided data for this part of the study.
- 8.2 Figure 30 shows the types of one off costs that participants expect to arise. The consistent message is that participants would expect one off costs.

Figure 30 – One off cost expected to arise on a changeover from the base case

Type of cost	Yes*
Training staff	14
Calculations to decide on whether to opt into CCCTB/CCTB	13
Calculations to set up asset pool for tax depreciation under CCCTB/CCTB	12
Development of new processes and systems	12
Consulting/advisory fees	12
Software license fees	9
Other HR costs/relocation of staff	4
Outsourcing compliance cost obligations	4

*Number of MNCs indicating they expect this type of cost to arise

- 8.3 All participants expect to incur costs in training staff in the new rules. However, only a minority expect other human resource or relocation costs. This perhaps implies that some MNCs do not expect to reduce or relocate personnel levels, but would focus on retraining and reallocation of resource within their operations. Commentary from a participant supports this by indicating the majority of one off costs are expected to be in training and systems.
- 8.4 The majority of participants expect to incur one of costs on development of new systems and processes. Only a minority seem to anticipate outsourcing their compliance obligations to an external service provider under the new rules. Commentary received suggests that under a CCCTB there may be a change in focus of resource towards internal personnel located in the PTP country, and away from outsourced compliance activities in a number of other countries. However, the majority of participants do expect to incur consulting or advisory fees.
- 8.5 5 MNCs provided an estimate of one off costs on the changeover to a CCCTB. The total sum estimated was Euros 1.9m, an average per MNC of around Euros 385 thousand. The range of estimates was Euros 46,000 to Euros 1.1m. Two of the 5 provided an estimate of one off costs on the change to a CCTB. One took the view that the cost would be the same as for the changeover to a CCCTB. The other estimated the cost as approximately half of the estimated cost on changeover to a CCCTB. A sixth MNC estimated that the one of costs to either alternative scenario would be the same again as their annual cost of compliance.

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