Get rid of Corporate Income Tax

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Much changed in the world of taxation the last couple of years. The OECD started and finished the BEPS (Base Erosion and Profit shifting) project. The objective of BEPS was to develop rules that would prohibit multinational enterprises to implement tax avoiding structures or tax evasive set-ups. The EU investigated the tax structures of Apple, Starbucks, Amazon, Google and Ikea. The new president of the US Donald Trump is a big fan of protectionism. He also announced that he would do something about the taxation of US multinational companies. The US has the highest corporate income tax rate in the world. This will likely go down during President Trumps reign.

All this should be ample reason for EU legislators to work on a European tax reform. Instead of embarking on a political dead end street, namely harmonizing direct taxes in the EU, I recommend the abolishment of Corporate Income Tax (CIT) in the EU altogether. This would constitute a solid European answer to President Trump's protectionism. In this blog I will discuss why the abolishment of Corporate Income Tax in Europe is a good strategy leading to more jobs and tax revenues.

First of all, percentage-wise CIT does not yield that much income for the EU States as one might expect. Two examples: In 2015 the Dutch government received in total €156 billion in taxes. The larges chunk was due to wages- and income tax (€51 billion). Second in place is VAT which yielded €44 billion. Corporate Income Tax contributed a mere €16 billion to the Dutch treasury, meaning 6,25% of the total revenue. In Germany a similar picture. The German government received in total €640 billion in taxes in 2016. Wages tax and income tax was the number one contributor, being €238,6 billion. Corporate Income Tax yielded €27 billion, a mere 4,2% of the total revenue.

Many multinational companies implemented and still implement complex tax structures, from hybrid financing to tolling structures. Many tax authorities deploy many resources trying to stop these structures via audits and/or court rulings. The abolishment of CIT would free up many of tax resources in the EU.

The BEPS measures will not be implemented worldwide and that's no speculation but a fact. The US – even before President Trump – weren't enthusiastic about BEPS. Will President Trump embrace such a European plan? No chance whatsoever. The UK recently announced they won't implement BEPS action number 7 (artificial avoidance of permanent establishment status) and others will most likely follow. If Europe persists in the current, what I would call, a witch-hunt after large multinationals and implement the BEPS recommendations in Europe only, the fragile European economy will be heavily impacted in a negative way. American and Asian multinationals likely will not invest in Europe, why would they? A great example of this is the Dutch measure to cap bonuses to 20% of the base salary of professionals in the banking and insurance industry. This Dutch bonus legislation is the toughest rule in Europe. Rules like these are only effective if ever Member State would implement them. The Netherlands is currently therefore the least attractive country in the EU for UK financial institutions contemplating moving offices from the UK to the EU. Despite the fact that mr. Dijsselbloem, the current Dutch Minister of Finance, states that these rules don't apply to UK financial institutions. Water under the bridge.

If Europe would decide to abolish Corporate Income Tax this would lead to a true level playing field. There's no need for companies to implement complex tax structures. They can set up activities in countries purely on business reasons, not driven by tax. This will lead to more investments in Europe and therefore to more employment. Because of the increase in business activities, VAT revenues will rise as well. Food for thought.