



Remarks by Commissioner Gentiloni on the SME Relief initiatives and BEFIT

Strasbourg, 12 September 2023

Good afternoon.

As Thierry mentioned, the SME relief package is about making it easier for SMEs – the backbone of the European economy – to really reap the full benefits of our single market. And taxation is one important piece of the puzzle.

SMEs operating cross-border pay corporate income taxes in all Member States where they have permanent establishments, according to different national rules. This results in high tax compliance costs, which disproportionately affect smaller firms: SMEs spend some 2.5% of their turnover just to comply with their tax obligations. That's around 3.5 times higher than larger firms.

Yearly compliance costs for corporate income tax amount to almost EUR 55 billion in the EU, of which 90% is incurred by very small businesses, with less than ten employees. These costs can discourage smaller firms from investing in other Member States.

That is why today we are proposing that SMEs with permanent establishments in other Member States will be able to interact with just one tax administration – that of their Head Office.

For those SMEs that choose to opt into this "Head Office Taxation" system, their taxes will be determined based only on the rules of the Member State where their Head Office is based.

They would need to file just one tax return with the tax administration of their Head Office, which would then share it with the Member States where the SME has permanent establishments.

The lower tax compliance costs will be reduced by around a third, freeing up resources for investment and job creation. And this will encourage smaller firms to expand into other Member States.

So for SMEs, this proposal means one single tax return, one single set of rules, one tax administration. It will make the single market real for them – now also in the field of taxation.

Of course, it is not just SMEs that have to deal with 27 different national tax systems. Large multinationals face the same issues. This takes me to the second legislative proposal we adopted today: the Business in Europe Framework for Income Taxation.

'BEFIT' is a new single set of rules to determine the tax base of large groups. The new rules will be mandatory for the approximately 4,000 multinational enterprises that have an annual revenue of at least EUR 750 million operating in the EU. This is also the threshold of the global agreement on minimum taxation, the so-called Pillar 2.

So, how will BEFIT work?

Companies that are members of the same group will calculate their tax base according to a common set of rules.

The tax bases of all members of the group will be aggregated into one single tax base.

Each member of the multinational group will have a share of the aggregated tax base based on the average of the taxable results in the previous three fiscal years.

Let me underline that tax rates will remain nationally determined, in line with the principles of subsidiarity and proportionality.

For the companies falling within its scope, BEFIT will cut tax compliance costs but is also designed to ensure tax certainty and there have been previous attempts in the past, but I am optimistic that this proposal has much greater chances of success. Why?

Because in the meantime we have reached the historic OECD/G20 international agreement on a

global minimum level of taxation and adopted the related Pillar Two EU Directive last year. We have a global pull factor towards this harmonisation of rules in defining the tax base. Let me recall that the EU has been among the first jurisdictions in the world to implement this international agreement.

The approach we have taken with BEFIT – supported by the European Parliament – mirrors in many respects that of the international agreement. In fact, BEFIT will make it easier for Member States' tax administrations to ensure a more uniform and effective implementation of the Pillar Two Directive, something that all Member States have unanimously agreed to.

Finally, the third proposal we have adopted today is about harmonising transfer pricing rules in the EU. These are rules that govern the setting of prices of property or services between associated enterprises. Because transfer pricing affects the tax base both in the country of the buyer and that of the seller, this has long been a tool used – and frequently abused – by multinationals to reduce their tax liability.

This is why the OECD has set out rules specifying that cross-border transactions between related entities must be priced on the same basis as transactions between third parties. This is what is known as the "Arm's Length Principle".

All Member States have implemented the relevant OECD principles into their domestic legislation. However, there are still significant differences in how they are applied – for example, when it comes to the notion of "control", which is normally the pre-condition to apply transfer pricing. In some Member States this is applied where there is a substantial shareholder above 25%; in some others, there needs to be a substantial holder with over 50%.

This and other inconsistencies between national rules cause a number of problems, such as profit shifting and tax avoidance and litigation.

For instance, in 2021 there were some 2,300 ongoing procedures between Member States to settle disputes on questions of transfer pricing. On average, it takes almost three years to settle these procedures, with costs that can reach up to EUR 1 million per procedure. This is clearly an unnecessary drain on the resources not just of companies but also of national tax administrations.

To sum up, today we are putting forward three separate proposals, but their goals are the same:

to make it easier and more cost-effective for businesses to operate in the EU, which will support investment and job creation;

and to make it easier for tax authorities to more effectively ensure that companies pay what is rightly due – which is good news for tax fairness, public finances and social justice.

Thank you.

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