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PRESS RELEASE

Recent trends in corporate income tax

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This article describes the changes in the international context regarding the tax burden on corporate profits and the way in which the Belgian government is trying to respond. First it summarises the recent international developments in the area of corporate income tax. Next, it analyses corporate income tax in Belgium, paying particular attention to the reforms of this system. Finally, it examines European coordination in the field of corporate taxation.

The changing international environment is exerting pressure on corporate income tax in Belgium and in the other European countries. The advent of the global economy and the associated increased capital mobility could lead to competition on rates of corporate taxation between countries, in order to attract direct investment and highly mobile profit flows. That could cause erosion of the tax base in other countries, which are in turn forced to cut their rates. There are therefore fears that this could eventually lead to a "race to the bottom" for tax rates.

In Europe there is an unmistakable trend towards declining nominal rates of corporate income tax, as the average nominal rate in the EU 15 has fallen steadily from 49 p.c. in 1985 to just under 30 p.c. in 2006. The accession of the ten new EU Member States in 2004, which often charge significantly lower rates compared to the EU 15, further heightened tax competition. On the basis of the reforms announced in a number of countries, the decline in nominal rates in the EU will persist in the near future.

At present, these nominal rate cuts seem to have been accompanied by an at least equivalent expansion of the tax base, so that government revenues generated by corporate income tax have actually increased overall.

Belgium is following the international trend towards lower nominal rates and a wider tax base. Thus, the corporate income tax reform which took effect on 1 January 2003 aimed to eliminate the difference between the Belgian nominal rate and the EU 15 average. Despite the substantial cut in the Belgian rate in 2003, the differential in relation to the EU average has since widened again to around 4 or 5 percentage points. A further reform of Belgian corporate income tax therefore followed fairly swiftly, with the introduction of the venture capital allowance from the 2007 tax year. This innovative measure reduces the discrimination between the tax treatment of equity capital and borrowings, and is a good incentive for increasing corporate solvency. Moreover, it is an acceptable European alternative to the system of coordination centres. The difference between the Belgian nominal standard rate and the average for the EU still persists, however, and – in the absence of new measures – will probably continue to increase in the immediate future.

The existence of twenty-seven different corporate income tax systems in the EU entails substantial costs for multinationals. At the same time, there is the fear that tax competition may erode the tax proceeds, which could have a number of undesirable consequences. Both the European Commission and a number of committees of experts have therefore published reports in recent decades, proposing a high degree of corporate income tax harmonisation. So far, these initiatives have not succeeded, mainly because of the unanimity required for decisions on direct taxes. The European Commission has given up its efforts to introduce minimum rates and is now concentrating on achieving a common consolidated tax base for multinationals. More specific initiatives, such as the directives aiming to eliminate tax distortion in the case of cross-border activities, and measures to combat harmful competition, have been more successful.

It is currently still an open question whether a genuine "race to the bottom" will ensue in the future at the level of corporate income tax - not only with rates continuing to fall, but public revenues also declining - or if the decline in nominal rates will be halted – spontaneously or otherwise.