EU BEFIT:

THE FUTURE OF EU TAXATION OR A FLAWED PROPOSAL?

AFTER SEVERAL ATTEMPTS, "BEFIT" IS THE EU COMMISSION'S LATEST PROPOSAL AIMING TO UNIFY EUROPE'S TAX SYSTEM

WHAT IS EU BEFIT?

- Since 2011, the EU Commission has been working on **a single tax base**, initially with the overly ambitious **Common Consolidated Corporate Tax Base (CCCTB) proposal**, which was not passed
- In 2016, the concept was reintroduced with the **Common Corporate Tax Base (CCTB) proposal**, but it also proved unsuccessful
- In 2023, the commission proposed the **"Business in Europe: Framework for Income Taxation" (BEFIT),** designed to streamline the taxation of multinational enterprises (MNEs) operating in the European Union (EU)
- Rather than subjecting a company's income to taxation in each Member State based on national rules, BEFIT employs a formula to **allocate the consolidated tax base of a company across the EU**
- This allows MNEs to consolidate profits and losses across the EU, **offsetting losses** in one country with profits in another
- If the proposal is accepted, it would target MNEs with an annual combined revenue of **over EUR 750 million**, **effective July 2028**

STEPS OF ALLOCATING THE BEFIT TAX BASE

1 All members of the 'BEFIT group' **calculate their tax base** using a common set of rules applied to their existing financial accounting statements

2 The tax bases of all group members are **combined into a single tax base,** with losses automatically offset against cross-border profits

3 **A team** consisting of representatives from each Member State **reviews and agrees on the content** of the BEFIT Information Return

4 Each Member State is **allocated a portion of the aggregated tax base**, based on the average of the taxable results from the previous 3 fiscal years

5 Each Member State can then **adjust their allocated tax base** according to their own national rules, calculate the profits, and apply their national corporate tax rate

Source: European Commission, European Parliament, EY "European Commission proposes BEFIT and Transfer Pricing Directives" (2023), Press Search

EU BEFIT WAS PROPOSED TO ADDRESS HIGH COMPLIANCE COSTS, CROSS-BORDER BARRIERS, AND THE RISK OF DOUBLE TAXATION

WHY WAS EU BEFIT PROPOSED?

- BEFIT aims to **streamline tax regulations** within the EU, promote **economic growth and investment**, and guarantee **fair and sustainable revenue generation**
- In fact, the current **systems of corporate income taxation** in the EU are **complex** and create an **uneven playing field for businesses**
- The Commission believes that dealing with up to 27 different national tax systems **raises uncertainty, increases compliance costs, and limits barriers to cross-border operations**
- **Moreover, global efforts against tax fraud** and **responses to economic challenges** like the pandemic and the Russia-Ukraine conflict have also increased tax complexity

ISSUES THE COMMISSION AIMS TO SOLVES WITH BEFIT

DIFFERENT NATIONAL TAX SYSTEMS IN THE 27 MEMBER STATES LEADING TO:	OBJECTIVES BEFIT AIMS TO REACH
High compliance costs	Lower tax compliance costs
Constraints to cross-border expansion for businesses	Promote cross-border business expansion
Market distortions impacting business decisions	Enhance tax certainty for businesses
Increased tax uncertainty leading to more disputes	Eliminate market distortions to ensure a level playing field
	Mitigate the risks of double and over-taxation

Source: European Union Law, Press Search

RATHER THAN SIMPLIFYING THE TAX SYSTEM IN EUROPE, BEFIT WILL INTRODUCE AN ADDITIONAL LAYER OF COMPLEXITY, ESPECIALLY WHEN IMPLEMENTED ALONGSIDE PILLAR ONE AND TWO

Although BEFIT promises significant benefits, such as enhanced compliance and a streamlined tax system, achieving these goals, especially within the proposed timeframe, is challenging. Its implementation will also introduce several difficulties:

BEFIT OBJECTIVES

REDUCED ADMINISTRATIVE BURDEN

Applying common tax rules across all EU countries can simplify operations for MNEs, enabling them to benefit from the internal market **without managing multiple tax systems**

SIMPLER TAX SYSTEM

Using accounting standards as the basis for a harmonized tax system would **eliminate navigating through various tax systems**, creating a **simpler tax environment across the EU**

LOWER COMPLIANCE COSTS

BEFIT is expected **to lower compliance costs** for large businesses operating in multiple member states by approximately **65%**

INCREASED INVESTMENT WITHIN THE EU

Combining tax results across EU countries will help MNEs by **eliminating extra tax burdens for operating in multiple countries**, thus **promoting cross-border investment**

EXPECTED IMPACT

FILING BOTH BEFIT AND LOCAL RETURN TAX

MNEs will need **to file local tax returns in addition to the BEFIT return**, which increases administrative burdens and contradicts the Directive's objective

COMPLEX PARALLEL TAX SYSTEMS

Implementing BEFIT with Pillar One[1] and Pillar Two[2] adds another layer of compliance complexity and **introduces a fourth accounting system** for companies, further increasing the compliance burden

RISING COMPLIANCE COSTS

Maintaining four sets of accounts and **meeting the 4-month BEFIT filing deadline** will inevitably increase compliance costs

CHALLENGES WITH OFFSETTING LOSSES

Offsetting losses across EU states will **be countered by Pillar Two,** as it can reduce a group's Effective Tax Rate (ETR) below 15% and **possibly lead to a top-up tax**

1 OECD Pillar One aims to reallocate taxing rights over certain profits from multinational enterprises (MNEs) to the countries where their customers or users are located
2 OECD Pillar Two, also known as the “Global Anti-Base Erosion” (GloBE) Rules, focuses on ensuring a minimum level of taxation for MNEs worldwide
Source: PWC “BEFIT proposal: a new company tax system in the EU?” (2024), Business Europe “Business in Europe: Framework for Income Taxation “ (2024), ETAF feedback on the BEFIT proposal (2023) ,Press Search

WITH SEVERAL EU COUNTRIES AND ORGANIZATIONS EXPRESSING CONCERNS ABOUT BEFIT AND CALLING FOR CHANGES, THE PROPOSAL IS UNLIKELY TO BE EFFECTIVE IN 2028

Implementing BEFIT poses **challenges** due to the EU's **requirement for unanimous approval** from all 27 member states. Currently, several member states are criticizing the proposal, concerned about the tight implementation timeframe, impacts on national revenues, and fairness in adopting a common tax base:

COUNTRIES SUPPORTING BEFIT BUT REQUIRING CHANGES

The Netherlands wants to first gain experience with Pillar Two before adopting BEFIT, concerned about **managing four tax systems and the unpredictable base allocation**

Sweden is concerned about **the accuracy of BEFIT's objectives** and **prefers global transfer pricing** solutions to avoid new challenges with third countries

Slovenia is apprehensive about the **complexity and administrative burden** of implementing the new BEFIT, **especially for smaller economies like theirs**

COUNTRIES MOST LIKELY NOT ACCEPTING BEFIT

Finland is uncertain about the **proposal's ability to reduce administrative burden** for companies and emphasizes **the importance of maintaining national taxation authority**

Ireland fears BEFIT could **shift tax revenues to larger EU states** and **increase administrative burden**, especially alongside Pillar Two

Malta criticized the Commission for **insufficiently assessing the impacts of BEFIT**, calling the benefits overly declarative and lacking substantiation

Source: PWC "BEFIT proposal: a new company tax system in the EU?" (2024), Finland Government, Deloitte "We and others say "Non, merci" to EU's latest Corporation tax proposal" (2024), Slovenian National Assembly, Press Search

WHILE THE FUTURE OF BEFIT IS UNCERTAIN, MNES SHOULD TAKE A PROACTIVE APPROACH BY ENHANCING THEIR OPERATIONAL EFFICIENCY AND STAYING UPDATED ON BEFIT DEVELOPMENTS

The unanimity rule aims to achieve broad consensus and fair national representation, but it **often leads to lengthy negotiations**. With reservations from several member states, the proposal is **likely to undergo multiple amendments** before adoption. In this uncertain environment, it is **wise to prepare for potential changes**:

REVIEW GLOBAL SUPPLY CHAINS

Conduct a thorough review of both internal and external global supply chains against current international and domestic tax requirements in all operating countries to ensure compliance

ENHANCE TAX MANAGEMENT

Develop strategies and proactively engage with tax authorities to stay informed about tax changes and stay competitive in a volatile global economy

INVEST IN COMPLIANCE SYSTEMS

Invest in robust compliance systems, such as automation and advanced software, to assist in monitoring and managing tax obligations

MONITOR REGULATORY DEVELOPMENTS

Stay updated on regulatory changes, such as BEPS Pillars One and Two, DAC6, and DAC7, and **leverage expert advice** to adjust compliance strategies effectively

Source: Press Search

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COMPANY/ENTITY
Financials, strategy, organization supplier/ client identification etc.

MARKET
Market sizing, competitive landscaping, road to market/value chain mapping etc.

CONSUMER/EXPERT
Getting insights from social listening, organizing expert interviews

THREE TYPES OF SUPPORT

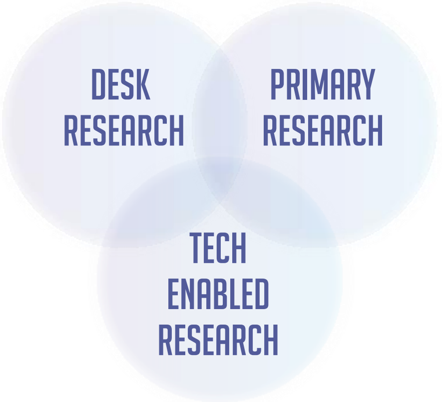
AD-HOC
Answering research requests to support project execution, proposal development or internal discussions

TRACKING
Preparing newsletters, regular benchmarking, tracking competitive moves etc.

CONTENT DEVELOPMENT
Database creation, thought leadership

COMBINATION OF APPROACHES

Open sources and paid sources such as Orbis, Capital IQ and Factiva



Cold calling and expert interviews

Social listening, web scraping

WHAT MAKES US DIFFERENT

HIGH-QUALITY IMPACTFUL INSIGHT

Consistently deliver high-quality insights, through a fully customizable process

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