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News Flash

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**Business Taxation for the 21st century:
A new agenda for business taxation in the European Union**

Business Taxation for the 21st century: A new agenda for business taxation in the European Union

On 18 May 2021, the European Commission adopted a Communication on Business Taxation for the 21st century (COM(2021) 251 final). It sets out short-term and long-term agenda for business taxation in the European Union. Below we would like to draw your attention to the planned actions based on the Communication, which we consider the most significant.

BEFIT

The European Commission will present, by 2023, a new framework for income taxation. The "**Business in Europe: Framework for Income Taxation**" (or **BEFIT**) will provide a **single corporate tax rulebook for the European Union**. The BEFIT will consolidate the profits of the EU members of a multinational group into a single tax base, which will then be allocated to Member States using a formula, to be taxed at national corporate income tax rates. It will replace the pending proposal for a Common Consolidated Corporate Tax Base, which will be withdrawn.

Greater public transparency on the taxes paid by large economic actors

The European Commission will issue a new proposal requiring certain **large companies** operating in the European Union **to publish their effective tax rates** based on the methodology under discussion in Pillar 2 of the OECD negotiations by 2022. The effective corporate tax rate provides information regarding the proportion of corporate tax paid by companies relative to the amount of profits they generate rather than relative to their 'taxable profits', which can be reduced through various means such as tax allowances.

Fight against the abusive use of shell companies

The European Commission will tackle the abusive use of **shell companies** through the proposal of new anti-tax avoidance measures (**ATAD 3**) by the fourth quarter of 2021. The initiative aims to ensure that EU legal entities with no or minimal substantial presence and real economic activity will not benefit from tax advantages. The Commission also intends to take further steps to prevent royalty and interest payments leaving the EU from escaping taxation (so-called 'double non-taxation').

DEBRA

The European Commission will support innovation by addressing the debt-equity bias in the current corporate taxation (which treats debt financing of companies more favourably than equity financing) via an allowance system (**Debt Equity Bias Reduction Allowance (or DEBRA)**) for equity financing by the first quarter of 2022.

Recommendation to Member States on treatment of losses

Additionally, the European Commission has **recommended Member States allowing businesses to carry back losses** as a support measure for their recovery from the COVID-19 pandemic. The loss carry-back would enable companies that were making a profit and paying taxes in the years prior to 2020 to offset their 2020 and 2021 losses against these taxes. The recommendation was issued on 18 May 2021 (C(2021)3484 final). In order to limit the impact on national budgets, Member States should limit the amount of losses to be carried back. EUR 3 million per loss making fiscal year should be the maximum amount for the loss carry back.

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