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Doctoral Course in Multidisciplinary Social Sciences

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Problems and Recent Trends in EU

Corporate Taxation

Principal Claims made in the PhD Thesis

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I. A Justification of the Choice of Topic; Preliminary Considerations

My recent research activity started almost ten years ago with an examination of the *harmonisation of EU tax law*. Tracing the processes involved turned my attention toward the area of *tax competition*. Competition between governments is at its keenest in the area of capital incomes, and governments seek primarily to attract investments. This gave me a good reason for focusing on *corporate taxation* without, at the same time, losing sight of the fact that corporate taxation is one among several elements in a complex system. Publicised recently after a rather lengthy period of stalemate, the draft of a Common Consolidated Corporate Tax (CCCTB, for short) promises to be a major advance which may affect tax competition. This is the problem area which has been in the focus of my recent research, a hot topic in common European taxation which holds the promise of new research results. I have not yet found any major publications in Hungarian on the subject.

II. Main Objectives of the Research Project

The main objectives of the research project were the following:

- a) To provide – via offering a summary of requirements on taxation and taxation systems – points of reference for further research which constitute, at the same time, a guiding idea for the present thesis.
- b) To offer a systematised summary of the theoretical background to tax competition, to be used as the groundwork for a discussion of practical implications.
- c) To map the practical role played by tax competition, its problems, and possible ways of solving them.
- d) To present the results, difficulties and perspectives of EU tax harmonisation.
- e) To survey the problems involved in traditional corporate income tax – with special regard to cross-border activities – with a view to gaining a basis of comparison against which to evaluate the two new taxation schemes discussed (CCCTB and CFT).
- f) To offer a detailed discussion of the envisaged CCCTB system on the basis of working papers so far available. To summarise possible advantages and disadvantages. To prepare a SWOT analysis.

g) By analysing viable options open to a cash flow-based tax I seek to answer the question whether the problems of traditional corporate taxation can be eliminated via CFT, and whether a tax of the cash flow type independent of national accounting systems might be capable of unifying the corporate tax base.

III. Methods

To provide the *theoretical groundwork* for my research I have surveyed the theoretical literature on the topic published in Hungary as well as abroad. With an eye to mapping the welter of practical problems experienced in the area, I have scrutinised several EU legal sources, community working papers as well as national legal instruments, international agreements and OECD guidelines. In addition to, and beyond, summarising and re-arranging the claims made in a number of independent papers, I have tried to advance to the level of a *meta-analysis* by formulating conclusions about the processes discussed in the papers I studied. I approach the practical issues of my field of research *at several levels of examination*: in terms of the EU, particular countries and decisions made by particular companies. The importance of these levels has proved to vary according to the nature of the particular problem at hand. My examination of these issues is conducted in two kinds of *terms*: legal (norms of national and international law, international agreements etc.) and economic (involving a temporally and spatially differentiated analysis of macro and micro-economic effects). The *temporal framework* of the analyses is made dependent on the nature of the particular issues discussed, resulting in a set of static analyses (of states and situations) and dynamic analyses (tracings of tendencies, and trends). In my critical analysis of traditional corporate taxation I was able to rely on my previous *first-hand experience* as a tax consultant and auditor. The various elements of my research are united by *two main lines of investigation*, one being the relationship between taxation and accountancy, the other being the extent to which principles of taxation and requirements on the tax system are realised in practice.

IV. Hypotheses

1. Although the rapid improvement and increasing observance of international standards of accountancy offer us obvious links with accountancy-based corporate taxation, these facts do not result in effective solutions in either areas. The goals of taxation are better served by a

corporate tax which is independent of accounting. A common basis independent of accounting also offers better chances for the harmonisation of tax systems.

2. The process of elaborating the common European consolidated corporate tax base is characterised by a tendency of “watering down”, leading to a series of concessions in the course of discussions, which take off much of the definite edge of the original idea.

3. The projected CCTB is better able to serve the goals of efficiency, simplicity and cost-effectiveness than does the system presently in force.

4. The present draft of CCTB is not capable of eliminating the distortions caused by taxes in resource allocation at the international level, and runs the risk of producing new distortions.

5. In comparison to traditional corporate income tax, a cash flow type tax

a) would considerably reduce the compliance load on taxation in terms of administration;

b) would significantly reduce the distorting effects of tax on investments as well as on decisions on investments and financing, and would result in enhanced efficiency.

c) In terms of practicability and taxation risks, it would enhance opportunities for tax evasion, endanger coverage and result in a greater overall risk for governments.

6. Harnessing a cash flow tax of the *ASE* type for the purpose of unifying taxation systems would produce several advantages, but it would also create a number of difficult problems. Under CFT, compliance costs may be more favourable than even under CCCTB, tax arbitrage between individuals and companies may be avoided, and other distortions may also be reduced (while new ones may arise). On the other hand, unifying taxation in the EU raises a series of questions which are yet to be examined.

V. Principal Statements Made in the Thesis

1. Accounting independent Taxation is More Efficient

My arguments for accounting independent taxation are drawn from my survey of the professional literature, my knowledge of accountancy and finance as well as my first-hand experience in auditing and tax consulting. An accounting independent tax would result in more realistic financial reports and more efficient taxation than is presently the case under the practice of accounting-based taxation. The Act on Taxation and the Act on Accounting regulate similar economic conditions, but with different purposes in mind. Accounting and tax reports are expected to follow different priorities, requirements and ruling principles. The

main objective underlying the *rules of accounting* is that the report should present the owners and market actors with a reliable, realistic picture of the state of, and changes in, the assets, financial transactions and incomes of the enterprise. The attainment of this goal is supposed to be guaranteed by the observance of the principles of accounting, and the *rules of accounting* leave a relatively broad discretionary room for the entrepreneur. By contrast, the *rules of taxation* are primarily designed to determine the amount of tax to be paid to the central budget. In addition to being a means of securing government revenues, they are, at the macroeconomic level, an instrument for the redistribution of incomes, and a suitable means for the pursuit of certain economic policies as well as other aims which are best described as simply political, while, at the microeconomic level, they exert influence on the decisions of businesses. Focusing on investments, accounting assigns central importance to the assets of businesses. Designed to protect the tax base via a set of more specific regulations and constraints, *rules of taxation* focus on profits to be taxed, leaving smaller elbow room for businesses. These differences lead to further differences in the complexity, differentiation and volatility of the two kinds of rule system. Set in a context of a complicated and many-faceted business environment, accounting is out to give a reliable and true picture, which inevitably results in a sophisticated system of regulations. To further these aims, accounting is designed to provide appropriate opportunities for *differentiation* (IFRS, IFRS for small and medium size enterprises, national GAAPs), which requires continuous improvement, a series of *modifications*. In contrast to rules of taxation, accounting has to live up to the further requirement of *simplicity*, and thereby of practicability, both of which have a decisive influence on the compliance costs of taxation. A neutral tax environment requires a unified set of regulations (with a few exceptions); a further important criterion to be met by taxation rules is that of relative *stability*, and, on the mid-term, predictability. The two areas are covered by international regulations to a different extent. While there are international standards in force in accounting (IAS and IFRSs), that are exerting increasing influence, there are no standards on corporate taxation. There are only a few guidelines at the EU level, and the process of tax harmonisation proceeds with difficulty.

Having summarised, in the thesis, the main risks involved in accounts-based taxation and the arguments for an accounting independent tax, I will not discuss these issues in the present brief statement. Rather understandably, accounting independent taxation brings with it a set of new problems of its own. One factor that would have to be reckoned with is that independent tax accounting will necessitate a separate “tax accounting”, additional to the records of accounting, which results in an additional administration load.

2. The Gradual “Watering Down” of the Original Idea of CCCTB in the Course of Elaboration

A perusal of relevant community documents suggests that the original idea of CCCTB has been “watered down” along the way.

a) *Base*: While the common corporate tax base was initially built completely on the international standards of accounting, later proposals departed from the standards and the idea of a self-contained corporate tax regulation independent of accounting has become dominant.

b) *Personal Scope*. Originally intended to apply to “all businesses”, CCCTB later came to be proposed to apply only to businesses “active in several member states”.

c) *Optionality*. Initial proposals spoke of CCCTB being “initially obligatory”. The idea of obligatoriness was proposed later, only to be rejected quickly and replaced by the idea of optionality, which has since been retained.

d) *Material Scope*: Proposed in the early phase of planning, the idea of a common tax rate has since come increasingly to be regarded as of lesser importance and is now completely rejected.

e) *Aims*. In addition to the primary objectives of removing tax obstacles and of reducing compliance costs, the goal of barring tax evasion has received increasing emphasis.

f) *Target group*: Initially referring mainly to cross border activities pursued by multinational enterprises, the same kinds of activities of small and medium sized enterprises have gradually come to the centre of attention.

g) *Measure of Support*: Enjoying almost unanimous support while still only an idea, CCCTB came to be more critically regarded as it was being translated into more specific terms and problems, and the present situation can be described as one of fragmentation into interest groups formed by various member states.

h) *Introduction*: There has been a gradual drift from the pipe dream of unanimous agreement among member states to the idea of a qualified majority vote and finally, in response to actual reality, to enhanced co-operation.

3. The Table of the SWOT Analysis of CCCTB

Strengths	Weaknesses
<p>Removal of obstacles involved in corporate tax, transparency</p> <p>Fewer distorting effects on taxes, more efficient allocation of resources</p> <p>Simplification, decreasing compliance costs</p> <p>Actual tax loads more easily comparable</p> <p>Tax competition more fair</p> <p>Business decisions made easier on the single market</p> <p>Tax fraud and tax evasion reduced</p> <p>No need to change existing national tax regulation</p> <p>Broad opportunities for tax consolidation</p>	<p>Lack of political unity, compromises</p> <p>Possible impingement on tax sovereignty</p> <p>Manipulation of position of FA-factors, New distortions</p> <p>Significant re-shuffling of tax base proportions between member states</p> <p>Danger of disproportionate restraints on cross-border activities</p> <p>Possibility of rising tax rates</p> <p>Risks for the business sphere</p> <p>Difficulties in application (small and medium sized firms, third countries)</p>
Possibilities	Dangers
<p>Increasing EU competitiveness</p> <p>Community interests become more prominent Continuing tax harmonisation</p> <p>Introduction of qualified majority decision</p> <p>Strengthening tax co-ordination for member states not applying CCCTB</p> <p>Convergence of tax rates accelerates</p> <p>Positive features of new tax agreements</p> <p>Co-ordination between member states in other administrative branches (corporation law, banking information)</p> <p>Improving co-operation between national tax authorities</p> <p>Introduction of new working methods at community level, electronic information network between member states developed, co-ordinated improvement of systems of tax risk management</p>	<p>No rapprochement between political views of member states</p> <p>Political considerations outweigh professional ones</p> <p>Tax bases of member states land in third countries</p> <p>Proposal for co-ordinated corporate tax rate is put on the agenda</p> <p>Negative effects of new tax agreements</p> <p>Cohesion process decelerates</p> <p>No recognition by USA and other countries outside the EU</p>

4. The Reality of a Cash Flow Tax

The most vital difference between conventional corporate tax and cash flow tax is that CIT taxes the full return of the company's own capital, while CFT taxes only economic profits. *Taxing economic profit* may be advantageous in that it does not distort decisions on marginal investments and production, as a result of the fact that costs due on the activity have already been charged (their capital alternative cost may be deducted from the tax base). The economic annuity is, at bottom, the return of the constant (invested) production factors. Since such a factor may also be offered by the government, a corporate cash flow tax may also be regarded as the legal price of these services (*benefit-based taxation*). Being origin-based, cash flow tax is not capable of eliminating the problems involved in transfer pricing; destination-based CFT may be regarded as more efficient in this respect. Opportunities for arbitrage are also influenced, among others, by the manner in which income earned abroad is taxed in the mother country. If foreign taxes are fully offset in the mother country, the company will not be able to benefit from differences between tax rates, which may make the application of transfer prices superfluous. R-based taxation has no influence on the financing policy of businesses, nor does it influence the scale of investments and, if destination-based, does not affect the position of capital or profit, either. An S-based tax practically exempts interest incomes from taxation, as a result of which it may secure the tax-neutrality of inter-temporal choices.

If the decision-neutral features of cash flow tax and the constancy of tax revenues are to be preserved, a delayed S-based tax (*ASE*) may be desirable. This transposes the taxation of corporate income to the shareholder level, which may prevent one of the main causes of tax distortions, namely the simultaneous existence of two tax bases. In theory, an ASE tax may even be harnessed for the unification of the presently existing variety of taxation systems but, in practice, it raises a series of problems waiting to be resolved, despite its several advantages. Since this type of tax imposes no taxes at the corporate level, it would also render superfluous a unified book-keeping of CCCTB at the group level, which could mean a further decrease in compliance costs. Supposing natural persons' choices of residence not to respond flexibly (or with little flexibility) to differences in tax rates, and supposing ASE to prevail in the EU, the lasting quantitative differences between taxes within the EU would not vitally affect decisions on domicile. However, a communal unification of taxation at the level of individuals raises a number of new questions which cannot be answered before further research is undertaken.

5. Positive and Negative Effects of Tax Competition Considered in their Relation to the Principles of Taxation

In the course of my research I also undertook to identify and classify the positive and negative effects of tax competition with special regard to the extent to which the principles of taxation are observed. This chapter offers a summary of that part of my research. I wish to point out in advance that the consequences to be mentioned in this section are not due solely to matters of taxation; taxes are just one among several factors which play a role in shaping these consequences, and they may play a greater or smaller role depending on the nature of the specific case.

Terms of Reference for Assessing Tax Competition

Tax rates do not in themselves measure actual tax loads, these being influenced by a number of other factors (such as different tax bases, tax allowances, exemptions, varying degree of severity in tax collection). Questions about competitiveness get answered in the real sphere. The most decisive consideration in decisions about places of investment taken by multinationals is the general state of the economy of the target country. The role of incentives increases only when indicators of economic conditions come out as identical. The motivating force of tax competition depends on economic cycles. Its significance and the specific kind of effect it leads to may also depend on the level of development and on the state of the particular social-economic system. The exact way in which tax incentives work may differ according to company size, branch of production, nature of economic activity, system of financing, and location. The efficiency of incentives applied in tax competition may also be influenced by the specific form of tax advantages and the system of taxation in force in the country concerned. Being in the position to minimise their tax load with the help of various tax-management techniques, great international firms are less tax-sensitive. Differentiated tax policies are a major instrument in the process of catching up with more developed economies, and come out harmonised in the long run.

Possible Negative Effects of Tax Competition

Impinges on the Principle of Coverage

- As a result of reduced revenues from taxes, tax competition may endanger the fulfilment of government functions, the provision of public goods and may even lead to indebtedness.

Undermines neutrality and efficiency of taxation

- Tax competition may distort the geographic allocation of resources and investments. The availability of tax arbitrage may affect the horizontal and vertical organisation of firms, influence the direction, pace and proportions of international capital flows (the extent to which this depends on taxation is contentious).
- Companies badly affected by these processes may realise a lower accumulation rate (capital investments dropping, capital exports and their consequences).
- As a direct result of companies de-localising themselves, jobs are eliminated and employment opportunities get reduced (these are consequences at the individual and government level).

Economic incidence decreases fairness of taxation

- Public dues on less mobile production factors (labour, consumption) are raised in an attempt to counterbalance the budgetary gap, which may result in a shift in the tax load on production factors and distort tax structure.

May adversely affect the role of taxation in influencing the production factors

- The rising price of labour may reduce its competitiveness and the motivation of its performance.
- R and D spending by European firms may be reduced as a result of competition with enterprises run at smaller costs.

May work against the principle of equivalence and profit, while the export of tax loads goes against justice.

- If governments compete with each other by levying decreasing taxes, they give up part of the reproduction costs of their factors used by global capital, which may become an obstacle to their own development in the long run.
- Investors contribute to the financing of local public services used by them to an extent which is disproportionate to the benefit they derive from them, while the costs of public goods are paid by local tax-payers (to an extent which is greater than reasonable).

Reduces simplicity, economic efficiency and goes against consistency and stability.

- Tax competition results in frequent changes in legal sources and in tax rules differing from one country to the other, even in tax rules that are at variance with each other.
- Provides an opportunity for minimising taxes and for tax evasion. Weakens the morality of tax-paying, while supervision imposes an additional load on tax authorities.

- Tactical changes in taxation may become more frequent, inconsistencies in, and volatility of, rules make the economic environment difficult to predict.

Political responsibility for tax-paying becomes more indirect.

- The spill-over effect of tax competition limits government autonomy while fiscal externalities make consequences of local tax policies more difficult to gauge.

Possible Positive Effects of Tax Competition

The Possibility of More Efficient Taxation Conducive to Neutrality in Competition

- By reducing obstacles to commerce and investment, a competition between systems of taxation may result in a better allocation of resources and the growth of wealth.

Increased exploitation of the role of taxation..

- By attracting foreign investments, a favourable tax policy may be an instrument for less advanced countries in their efforts to catch up with economically more advanced ones.

Spontaneous improvement in consistency.

- A decrease in the general tax load and a rapprochement between the tax levels of different member states may contribute to increased competitiveness of the EU as a global business actor.

- Tax competition results in a closer link and interaction between the tax policies of specific countries. The differences between tax rules which impede integration may spontaneously level themselves out as a result of market forces.

The Validity of the Leviathan Hypothesis (moderate version)

- Leading to more moderate government revenues, competition may bring with it a need for more efficient central administration, curb the government's inclination to expand, and indirectly stimulate modernisation in administrative systems of budget management.

The (meagre) validity of an idea of innovative competition

- Competition may stimulate governments to seek to renew the instruments of taxation and to look for new solutions, which may contribute to a more efficient functioning of systems of taxation and the reduction of losses to welfare incurred as a result of taxation.

At present more in harmony with political reality in the EU.

- There is no political consensus to support the structural concentration of taxes, no coherent community tax policy co-ordinated with a community budgetary policy, and univocal voting continues to be the voting procedure in matters of taxation.

VI. Conclusions; New and Novel Insights Gained in the Thesis

1. As far as economic efficiency and neutrality are concerned, the optional CCCTB draft may bring improvement primarily in the area of tax consolidation, especially by reducing problems involved in transfer pricing. Outside this area it may give rise to a number of new problems including that of CCCTB possibly giving rise to new distortions in the areas of investments, production and choice of settlement.

Removing some of the obstacles to corporate tax which impede the functioning of the single market may lead to a more efficient allocation of resources. The introduction of CCCTB would make it possible to remove the double taxation of cross-border activities, to make arrangements for the adjustment of losses, and to introduce unity into the treatment of investments in taxation which, at present, differs from one country to the other. The consolidation of tax bases alone could improve the efficiency of taxation, making it superfluous within the consolidation group to perform “on paper” profit transfers aimed at making profit disappear, remove the need to resort to complicated *transfer pricing* methods and their complex administration. According to the drafts available in the present state of planning, obligations to document transfer pricing would continue with respect to transactions involving partners outside the consolidation group.

In terms purely of the method of tax consolidation, it could help bring about a neutral tax environment. However, the combined common tax base has to be broken down to individual member states. This is supposed to be done in accordance with FA (*formula apportionment*). If FA divides profit to be taxed according to company-specific features – a procedure the outcome of which may be influenced by the companies themselves –, business decisions taken by the company may be distorted. In countries with low tax rates, multinational firms can afford to increase the weight of such factors of their activity as have a vital influence on the allocation of the tax base, and to decrease them in countries with a high tax rate. If, for instance, capital is the basis for the division of income to be taxed, FA may motivate a company in a country with a high tax rate to merge with a company in a country with a low tax rate, while marketing considerations may motivate companies to resort to cross border transactions. If the tax base depends on the domicile of the parent company, CCCTB will not be neutral. All apportionment mechanisms relying on company-specific features lack this kind of independence.

The *optionality* of CCCTB also works strongly against its efficiency. Although, from a purely economic point of view the *most efficient* solution would be a communal shared system compulsory for all those concerned, the chances of such a system winning acceptance are very meagre. On the other hand, it is not certain that optional solutions serve the goals appropriately, while their management is more complicated and costly. Optionality involves the parallel existence of two different systems, which leaves greater room of manoeuvring for tax evaders and manipulators. It might happen that two firms from the same country enjoying similar prospects in a given market (e.g. one employing CCCTB and another paying taxes according to national rules) may identify their tax base using different methods. Since CCCTB offers unification for a certain category of companies, it may shift the proportions between firms choosing the common tax base and other forms of enterprises. The possibility of transferring income by an affiliate company active in the EU to an affiliate active in a third country is another possible source of further problems. Since CCCTB addresses itself only to problems of corporate taxation without any link to personal income tax, there is a danger greater than that involved in systems presently in operation, that opportunities of arbitrage between the two kinds of tax may also distort market decisions.

2. While in terms of simplicity, feasibility and cost-effectiveness the CCCTB draft may represent an advance on existing systems, the advantages may become palpable only in a relatively narrow circle of tax-payers, narrow set of activities taxed, and on the longer term than envisaged in the objectives as presently defined.

According to the objectives set forth in the CCCTB draft, companies active in several states would only have to be familiar and comply with a single system of corporate tax rules (the common system), which would reduce the compliance costs of corporate taxation. Thanks to consolidation, compliance costs linked to documenting transfer prices could also be reduced. In my opinion CCCTB, if introduced, would make it easier and less costly to pay corporate tax, but this expectation will also come true in the case of companies which choose the common tax base. Companies choosing CCCTB cannot avoid the most sophisticated administration involved in the documentation of *transfer pricing* since, as soon as they do business with partners outside their consolidation group, they will have to reckon with this obligation. *Optionality* requires the parallel maintenance of two different systems (the national systems and the common one), which may give a lot of difficulty and additional costs to tax payers and tax authorities. CCCTB requires familiarity with a new system of rules,

which is not very cost-effective for companies active only in a few member states. Multinational companies have less difficulty in familiarising themselves with national tax systems and can better afford the additional costs involved. These problems weigh heavier on minor enterprises, but they might not find joining CCCTB a cost-effective decision.

Rather than relying on the information available from accounting, CCCTB is designed to operate an independent system for tax assessment. This involves additional costs for the companies of those countries where the corporate tax base has so far been calculated via a simple correction to balance sheet profits and losses (i.e. in most states). The introduction of consolidation may also necessitate additional data collection, record keeping and documentation which, never having so far been part of the usual order of business, also add to the administration load. The transition from local systems of tax-accounting (27 different ones, in principle) to CCCTB could be done by bridging rules, which may be expected to be costly. CCCTB aims at minimising compliance costs within the EU, while imposing additional loads on business partners outside the EU, which may make investors think twice before investing there. Large companies doing business all over the world may find it easier to apply the same “arm’s length principle” in all their business relations.

3. Following the introduction of CCCTB the room of manoeuvring of tax competition would depend on how the common tax base and the method of its apportionment are defined, as well as on the difference that would exist between them in terms of interaction and flexibility.

The transition from separate tax accounting to FA may be expected to result in a transformation of policies to motivate tax-paying, and to lead to a radical transformation of the nature of tax competition. Under taxes of the FA type fiscal externalities may exert influence along two channels: changes in taxation in one country may have an effect on the common tax base in another country, or on the part of tax revenues, which falls to individual countries. Tax competition results in too low (or too high) tax rates if the consolidated tax base reacts much less (or much more) flexibly to changes in investments than the apportionment factor, The role of relatively aggressive forms of tax competition is likely to decrease, but opportunities of arbitrage will not be removed, by exploiting which multinational corporations direct their investments and taxable profits to states with low tax rates. In my opinion no comprehensive solution to this general problem can be found as long as member states are free to define their own corporate tax rates.

Following unification, the hidden differences in accounting tax bases will reappear in tax rates, which may raise differences between nominal tax rates. The common tax base is most likely to be narrower in comparison to the broad tax base of member states applying a low tax rate, which may force them to raise taxes. Under CCCTB, member states may have greater control over the distribution of incomes, which again makes it likely that it will be easier to raise corporate tax rates.

CCCTB may introduce substantial changes in the proportions between the corporate tax bases of individual member states. This applies especially if the distribution of FA factors departs significantly from the distribution of presently taxable profit. If a member state possesses a disproportionately greater share of the factor used for distribution than the presently taxable part of its profit, it may derive an advantage from the FA system. There are countries which enjoy high revenues from taxes under the present system while their share is relatively low in terms of the measure of other factors of their economic activity (which figure in the apportionment formula). These countries may be expected to draw lower revenues from taxes under the new system and to endeavour to raise them (by raising tax rates for instance to encourage profit transfers to their country). Due to the higher wages and greater wealth in more advanced countries (as apportionment factors) the budgets of less advanced countries may come worse off in the first few rounds. If they were to compensate for their lost tax revenues by raising tax rates, they would be reducing the chances of regaining (possibly raising) their tax revenues later on by attracting the factors of advanced countries into countries with lower tax rates. Voluntary participation in CCCTB makes it possible for groups of companies to reject the new system (or to leave it) if a great proportion of their profits may be expected to be taxable in a country with a high tax rate.

The directives contained in the present plans do not say anything about tax collection or tax sanctions. These are to remain within the competence of member states involved in CCCTB and may become areas of tax competition.

4. In contrast to traditional corporate tax, a cash flow tax would significantly reduce compliance costs linked to the calculation of the tax base while it might raise the administration load required to deal with tax fraud and evasion.

In comparison to traditional corporate income tax, a cash flow tax may significantly reduce opportunities for tax evasion arising from difficulties inherent in assessing the tax base, while the danger of tax evasion exploiting the more liberal accounting of losses may grow.

The idea of the cash flow base is rather simple, being the difference between the income from the realisation of commodities and services and flow and stock expenses as measured in the period under consideration. One practical advantage of applying cash flow is that there is no need for operating a sophisticated accounting system to deal with the depreciation of value and consumer claims, for the optimal timing of profits and capital profits or for correcting inflation. The only operative factors are the cash flows of real transactions or – depending on how terms are defined – the cash flow of financial transactions. In the calculation of the tax base the involvement of incomes and expenses in economic and accounting terms may be dispensed with, which puts an end to a great number of problems involved in measuring, timing and recording as well as to opportunities for tax evasion, all of which are regularly encountered under several varieties of traditional corporate tax. Under a cash flow tax system, the administration problems familiar from the working of corporate tax will vanish and there will no longer be a need for the continuous recording of transactions. Needless to say, all capital disinvestment is to be treated as taxable income in the system. However, the instant deductibility of tangible assets may easily lead to tax fraud and give rise to blatant inequalities in taxes to be paid. Of course, under an R+F-based CFT (where the cash flows involved in financial transactions are included in the tax base) fluctuation may be moderate. Under a cash flow tax, opportunities for tax evasion arising from difficulties involved in assessing the tax base are much more moderate than under traditional corporate income tax (and would be smaller under S-CFT than under R-CFT). The greatest danger involved in applying any variant of cash flow tax would be the opportunities for tax evasion created by the opportunity for offsetting losses. Under an S-based tax there is no tax obligation at the company level, only transactions between the enterprise and its shareholders at the shareholder level. Since this system requires no detailed company accounts, it may further decrease the compliance costs of companies. It might even, at the EU level, make superfluous the accounting of CCCTB unified at the group level, and thereby further reduce compliance costs. The main characteristic of ASE is that the business income is exempt from taxation as long as it is not divided among the owners. Only dividends are taxable according to the rules of taxation valid in the shareholder's country of residence. In my opinion this is relatively easy to apply in the case of self-employed enterprises or small firms but is unrealistic in the case of pyramid-like complexes of companies in which the private person as ultimate owner is very far from the parent company.

VII. The Candidate's Publications on the Subject Discussed in the Thesis

Books, Chapters in Books, Articles

1. Galántainé Máté Zsuzsa - Madaras Attila - Varga József (2001) Pénzügyi ismeretek. Tri - Mester Tatabánya, 145-174. o.
2. Balogh L.-Galántainé M.Zs.-Huszty A.-Losoncz M.-Solt K. (2002) Bevezetés a pénzügyekbe. Makropénzügyek. Tri-Mester Tatabánya, 149-186.o. (ISBN963862249 0)
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