THE UNIFICATION OF THE INCOME TAX FRAMEWORK IN THE EUROPEAN UNION AND THE SIGNIFICANT BENEFITS THAT WILL ARISE FOR MEMBER STATES AND THE COMPETITIVENESS OF BUSINESSES

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Abstract

The establishment of a single corporate taxation system has been discussed many times, not only at the European Union (EU) level, but also worldwide, in order to address the erosion of the tax base, tax avoidance through transfer pricing, but also the high cost of tax compliance for businesses and obstacles to their competitiveness. In this direction, Mintz (2004) considers the reduction of compliance and administrative burdens as the ultimate goal of harmonizing and unifying the corporate tax base. Although the costs involved in compliance are not disclosed in annual business reports or other publicly available sources of information (Eichfelder & Hechtner, 2017), various studies have found that this is particularly important, especially in jurisdictions characterized by the complexity of tax provisions (Lazos et al., 2025).

The purpose of this study is to investigate the results that will arise from the implementation of a single corporate taxation framework at the EU level.

The recent proposal for a directive of the Council of the EU on "Business in Europe: Framework for Income Taxation" (BEFIT) (European Commission, 2023) is essentially a proposal for a new EU legal framework for corporate income taxation, aiming to simplify tax rules and enhance tax fairness in the internal market. The application of different national tax systems in the 27 EU countries makes the tax landscape complex and costly for cross-border businesses. Moreover, tax heterogeneity has a negative impact on tax integration within the EU (Wasserfallen, 2014). BEFIT aims to unify income tax rules, reducing compliance costs and enhancing the competitiveness of European businesses. Compliance costs refer to the costs incurred by taxpayers in order to comply with tax legislation (Lazos et al., 2022). The proposal builds on international developments, such as the OECD/G20 two-pillar approach and the minimum effective taxation directive (Pillar 2).

BEFIT will be mandatory for business groups with an annual total turnover of at least €750 million in the EU. For business groups established in third countries, members of the EU subgroup must have an annual turnover of at least €50 million in at least two of the previous four financial years or at least 5% of the total turnover of the group. Smaller groups can opt to participate, provided they prepare consolidated financial statements. Each BEFIT group entity calculates its tax result on the basis of its financial statements, with minimal adjustments. The results of all members are aggregated into a single tax base, with the possibility of mutual loss relief between member states. The allocation of this base to members will be based on the average of the tax results of the three previous years. BEFIT introduces a new structured cooperation between the tax authorities of the member states, through BEFIT groups. These groups will coordinate audit procedures, provide preliminary certainty and facilitate dispute resolution through common tools. The audit process remains at the national level, with the possibility of joint audits and coordinated corrections. BEFIT members who obtain income taxed in third countries or other member states are entitled to a tax credit, in accordance with bilateral double taxation agreements or national legislation. The credit is calculated per country and type of income, without exceeding the amount resulting from the application of the national tax rate.

Although there are concerns about the complexity and the incentive to maintain certain provisions that are likely to generate little revenue (Devereux, 2023), BEFIT is an important step towards unifying and simplifying income taxation in the EU. Of course, the impact of BEFIT implementation is likely to vary across member states. According to

Barrios et al. (2020), member states with the lowest compliance costs before the reform and those with a large stock of foreign investment inflows will benefit more than other member states.

BEFIT is expected to enter into force on July 1, 2028, while the proposals for uniform transfer pricing rules will apply from January 1, 2026. The future adoption of this proposal means that member states no longer want to rely on the relative freedom of taxpayers to allocate profits, but are trying to take full responsibility for this allocation (Peters, 2023). Its implementation is expected to reduce compliance costs by up to 65%, enhance tax fairness and improve the competitiveness of European businesses in the global market.

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