ERT

Mr Pierre Moscovici
Commissioner for Economic and Financial Affairs,
Taxation and Customs
European Commission
Rue de la Loi 200
1049 Brussels

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Dear Commissioner,

Having recently launched its strategic position paper on Strengthening Europe's place in the World, setting out a number of pledges and priorities, Members of the European Round Table of Industrialists (ERT) have committed to taking responsibility for harnessing the opportunities, and addressing the challenges of the 21st century.

A forum bringing together over 55 Chief Executives and Chairmen of major multinational companies of European parentage covering a wide range of industrial and technological sectors, ERT is looking forward to working with the European Commission in the next legislative term on sustainable policy solutions regarding taxation. The global fiscal framework is going through fundamental change due to the rapid advance of digital business models. Key foundations of our tax system are open for discussion, such as the arm's length principle which has been the international norm for decades. While the OECD aims for internationally agreed solutions, numerous countries take unilateral action to secure tax revenues and broaden their tax scope. This increases the risk of double taxation and it increases compliance burdens for European companies operating across various markets.

We wish to encourage the Commission to improve the competitiveness of the EU fiscal system and work towards the following policy targets:

- **Efficient and predictable tax systems**

  Business needs simple, efficient, predictable and stable tax regimes that incentivise long-term investment. Laws must be applied consistently, creating a level playing field for all. ERT supports the Base Erosion and Profit Shifting (BEPS) principle that tax is paid where value is created. Tax should be paid once, avoiding double taxation on the same activity by different jurisdictions as well as additional paperwork.

- **Easing the administrative burden to front tax changes**

  The EU should avoid imposing undue administrative burdens on its companies in comparison to other jurisdictions. If the EU considers that new tax measures are needed to keep up with changes in the economy, then these measures must go in sync with drastic changes to existing rules, such as the anti-abuse rules, dispute resolution, and other measures to protect and improve the fiscal climate in the EU.

Therefore, ERT calls for political leadership in supporting international coordination towards the modernisation of tax rules, especially considering the need to maintain a competitive EU investment and innovation climate at a time when major economies outside the EU are improving their own fiscal policies.

To ensure the competitiveness of the EU fiscal system, a new set of rules on R&D tax incentives should be designed for a large scope of innovations (e.g. digital technology, artificial intelligence, etc.). Such an approach could even be achieved within a Common Consolidated Corporate Tax Base (CCCTB) framework as in its current planning state major improvements are needed to make the CCCTB a realistic framework for companies wishing to invest in Europe.

Only continuing investment in future technology and supporting innovations will preserve the EU as a location of highly value-adding activities of multinational companies:

- Innovations are the raw material of an industrial and knowledge society. The strength of Europe as a location of major industries and corresponding innovation lies, among others, in a good mix of industrial know-how, legal certainty and outstanding researchers. This mix provides a promising starting point for the future success of Europe-based companies in the ongoing digital transformation.

- Innovations increase productivity and competitiveness. Increased profitability secures added value and social wealth. Attractive framework conditions for promoting R&D are therefore the key to success. Against this background, numerous industrialised countries have significantly increased investment incentives. They are attracting the global innovation potential of companies to capture the associated macroeconomic effects.

Europe´s competitors on the world markets, above all China and the US, have recognised the benefits of innovation and have introduced tax incentives for even stronger economic development:

- China grants various tax incentives, such as tax rebates for high and new technology enterprises (HNTE), R&D exemptions and tax exemptions for technology transfer.

- In the US, the recent introduction of the Foreign-Derived Intangible Income (FDII) and the Global Intangible Low-Taxed Income (GILTI) schemes encourage innovation and development of US investments.

However, not only large economic players like China and the US rely on tax incentives for R&D. Many smaller countries also fund R&D expenses with national IP regimes or a “research premium".

It is not only these recent tax reforms that are putting pressure on Europe to face up to international competition for the pioneering role of digital transformation and innovation. Unfortunately, the tax environment in Europe often turns out to offer little support to such investment in R&D (e.g. the recent proposal in Germany which limits support to any given company to € 500.000 p.a.). A comprehensive tax credit system (e.g. embedded in the CCCTB framework) for more research and development in Europe would thus be a first important step towards becoming a leading and competitive innovation location.

Such a comprehensive European approach to R&D incentives, which takes into account that EU Member States have different economic structures, would encourage innovation, promote European start-ups and, as a result, foster growth in Europe overall.

ERT encourages the Commission to come up with policy initiatives towards providing R&D incentives including a tax credit and is very much looking forward to working with the Commission services on any such proposals.

Yours sincerely,

Dr Nicolas Peter
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CFO, Member of the Board of Management of BMW Group