Corporate taxes: less could be more – study says

Corporate taxes could the the most harmful form of taxation to economic growth. Contrary to public perception, there has been no reduction in corporate tax revenues in relation to GDP in the last 40 years. Countries that have reduced their corporate tax rates in recent years have seen increases in investment in the following years. There is no race to the bottom, rather to a middle range of some 20% corporate tax rate and revenues are stable or even increasing. These are some of the conclusions of a recent study commissioned by the European Economic and Social Committee (EESC) at the request of the Employers' Group.

The study was presented on 5 July at the seminar entitled "The impact of corporate taxes on the European economy". According to the researchers, a high corporate tax rate can hamper business activity by making some investment projects unprofitable. This reduces the tax base and, consequently, revenue collection from corporate taxes. Senior representatives from the EU Commission and the OECD participated in the seminar, including **Valère Moutarlier**, Director of Direct taxation, Tax coordination, Economic analysis and Evaluation at DG TAXUD; or **David Bradbury**, Head of the Tax Policy and Statistics Division of the Centre for Tax Policy and Administration of the OECD.

A lower corporate tax rate would on the other hand increase investments undertaken by both domestic and foreign investors (FDI). When investments increase, employment increase and more taxes will also be collected on incomes and consumption.

The report presents estimates of concrete tax changes undertaken during the years 1981-2014. In the case of six countries, reductions in corporate tax rates led to an increase in revenues. Lower corporate taxes means more growth – cutting the tax rate by 10 percentage points can raise annual growth by 1-2 percentage points.

The study aims to present facts and figures and to serve as a useful and reliable tool in the discussion on taxation. This is especially important in the current situation in the European Union, where public perception of the taxation of companies (especially large multinationals) is distorted and exploited in media by populists, stated **Krister Andersson**, Vice-President of the Employers' Group. The study provides data and concrete examples to counter-act this narrative.

It is often claimed that if only companies paid their fair share of taxes, spending on education, infrastructure and social programs could be ensured. However, the OECD and the EU Commission has concluded that improper base erosion and profit shifting by multinationals amounted to some 0.3% of GDP before any counter measures were taken. That is a very small fraction of the overall public spending in the Member States.

That is why it is crucial that the tax system promotes growth and trade. Only then can public programs be properly financed. The EU Member States have passed extensive legislation in the last years to create a level playing field and to ensure that the tax systems protect the collection of revenues. The European economy needs to strengthen its competitiveness.

The study is available for download on the EESC's website under the following link: https://europa.eu/!NB43bP.