Economic Policy Positions of the CCI-Organisation

TAXATION: Reducing Burdens, Simplifying Tax Law

The economic policy positions of the CCI-Organisation (WiPos) show politicians concrete fields of action for good economic policy. The WiPos reflect the coordinated opinion of the CCIs and their members. The DIHK Executive Board adopted this position on November 27, 2018.

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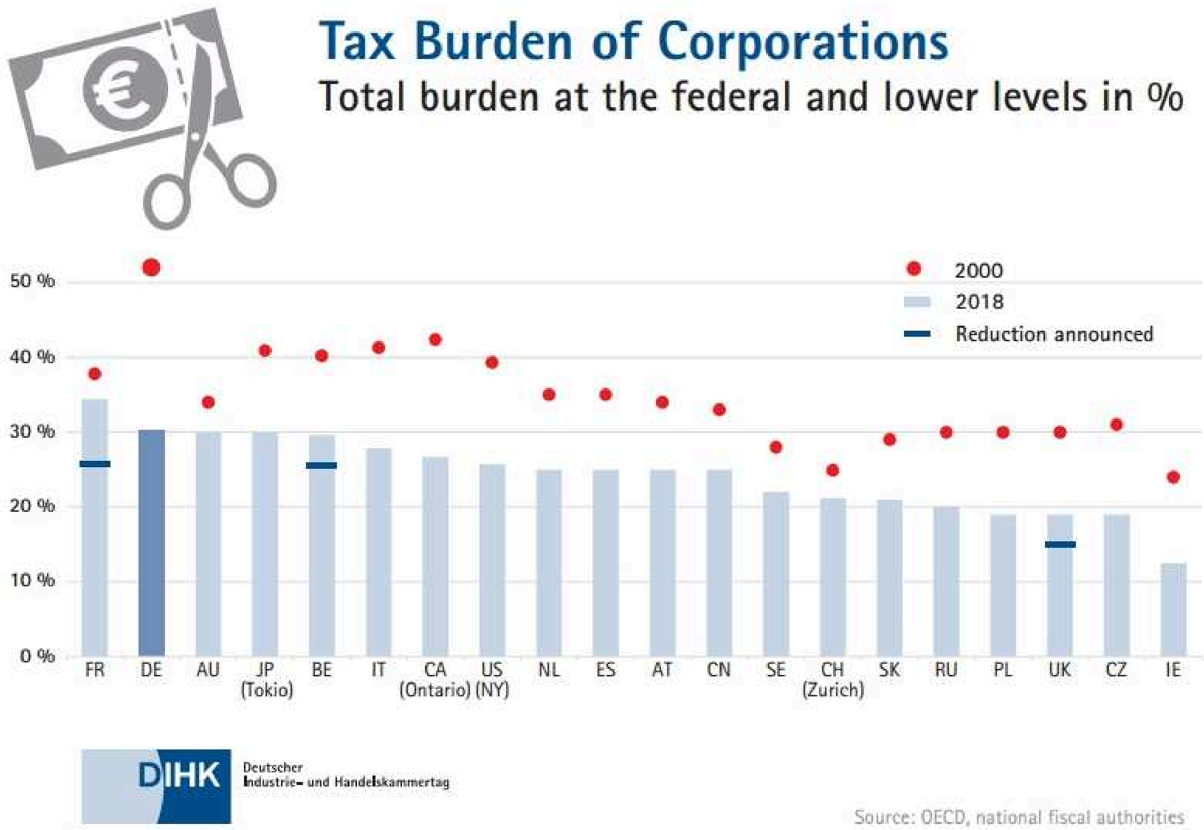
TAXATION: Reducing Burdens, Simplifying Tax Law

The structure of tax law and the amount of taxes are important location factors for the economy. The guiding principle of tax policy should be a simple, low-bureaucratic and investment-friendly tax law with targeted tax bases and competitive tax rates.



The following guidelines should determine economic policy action:

- Strengthening the investment power and equity of companiess
- Creating an internationally competitive tax burden
- Modernization of tax procedures
- Making taxes manageable
- Designing international tax rules consistently

Strengthening the investment power and equity of companies

Tax law hindering investment: The taxation of cost elements such as trade tax additions continues to weigh on the equity of German companies. The same applies to the incomplete recognition of losses and pension obligations. The latter often considerably reduces the incentive and willingness of employees to make provision for their retirement. Due to the lower equity capital, companies can invest less than international competitors, e.g. in research and development or new fixed assets. Cost taxation also worsens the resistance of businesses to crises. It drains companies of their substance, lowers their equity ratios and therefore makes it more difficult for them to access debt financing.

What needs to be done: The taxation of costs, specifically the trade tax additions and the taxation of financing costs, e.g. through the interest barrier, should be significantly reduced. In addition, companies should be better able to offset losses from past years against current profits. The corresponding limitation of the loss offset for the acquisition of equity interests (shell purchase regulation) should be limited to cases of abuse. Companies should be able to take full account of the obligations arising from pension commitments for tax purposes. Additional impetus for investments would be provided by modern depreciation rules, which are geared to the faster consumption of value caused by technology. In addition, correction of the income tax rate is necessary - specifically to relieve the many sole proprietorships and partnerships for which income tax is the actual company tax. In this context, the tariff trend should be adjusted to inflation and the so-called "middle class underbelly", the strong increase in tariffs in the lower income bracket, should be levelled, ideally be eliminated. The overly complicated retention subsidy should also be simplified in order to increase the incentive to re-invest profits in the company. These measures would free up funds for investment, especially in smaller companies. The solidarity surcharge on income and corporation tax should be abolished as a matter of urgency. Germany as a location for innovation should be upgraded by attractive tax incentives for research and development in order to avoid falling behind in international competition for good investment conditions.

Creating an internationally competitive tax burden

High taxes putting companies at a competitive disadvantage: Tax competition is increasing internationally. Companies which operate worldwide are increasingly finding better tax conditions in other parts of the world than in Germany. The tax burden on competitors is already less than 25 percent in many countries. In some countries this level has already been reached, others will reach it when their announced reforms are implemented. In Germany, on the other hand, the burden for both partnerships and corporations (including the burden from trade tax and the solidarity surcharge) is generally around 30 percent, in regions with above-average trade tax rates well above 30 percent. In addition, the increases in the assessment rates for trade tax, property tax and land transfer tax are increasingly burdening local companies and worsening their regional location conditions. Ultimately, entire regions will fall behind in the location competition. Companies are unsettled by the recurring discussions about reviving wealth tax and abolishing the final withholding tax.

What needs to be done: The situation of public budgets offers the necessary room for manoeuvre for tax relief for companies. The German government should therefore take measures to achieve an internationally competitive level of tax burdens for all companies of no more than 25 percent. On the other hand, tax increases for companies, which are repeatedly demanded, would be at the expense of substance and liquidity and would have a negative impact on investments. This would make it more difficult for companies to create and maintain jobs and training places. In addition, higher tax burdens reduce the resistance to crises, especially of small and medium-sized enterprises in the regions. An important step towards achieving a competitive tax burden would also be to introduce the full crediting of trade tax to income tax, even for trade tax assessment rates of over 400 percent. The reform of property tax should be used to make it less bureaucratic and less burdensome for companies.

The final withholding tax has proved its worth in practice after the credit institutions implemented it at great expense. This should be maintained in its existing form.

Modernizing tax procedures

Tax procedural law not up to date: Digitization is increasingly also changing the taxation procedure. However, the innovations to date have mainly focused on efficiency gains for tax authorities. Necessary simplifications for enterprises are largely lacking, e.g. the shortening of partly overlong procedures with tax offices and finance courts. In the taxation procedure, too high an interest rate of 6% is also applied against the background of the long low-interest phase, during which sometimes interest rates even become negative.

What needs to be done: Digitization and automation of the taxation process can facilitate work for both tax authorities and companies. Tax administration should therefore make consistent use of the opportunities offered by modern information technologies and pass on benefits to those affected. Tax authorities are requested to make the necessary tax software available at the beginning of each year. In particular, companies should benefit from their investments in the e-balance sheet by achieving tax audits in a timely manner and retention periods reduced from ten to five years.

Modernisation of the procedural law should in particular include relief for the collection of wage and value added tax, because the companies here assume state administrative tasks to a considerable extent. Before introducing digital innovations, companies should be able to sufficiently test their technical feasibility in practice. In addition, the interest rates are to be adjusted to a realistic level.

Making taxes manageable

Tax law too complex: It has become increasingly difficult for companies to cope with tax regulations on a day-to-day basis. Many special regulations and sometimes very short-term changes in tax law lead to legal uncertainty and avoidable costs in complying with the law. However, small and medium-sized enterprises in particular are dependent on planning security. The totality of tax-compliant companies is burdened with increased tax requirements for the documentation of business processes - often as a reaction to misuse by individual companies. The introduction of a European duty of disclosure for tax planning contains unclarified legal terms and leads to application uncertainties. Nevertheless, it is even planned to extend the regulations to purely national cases. For companies, a further extension of information obligations would result in a considerable additional bureaucratic burden, which would further worsen their competitive position.

VAT in its current form is hardly manageable for companies in the high-volume business - this applies to both national and EU cross-border situations. It is accompanied by high administrative costs, an increase in legal uncertainty and high financial and liability risks. The current proposals of the EU Commission for the definitive VAT system do not offer a solution.

What needs to be done: Legally secure and simpler tax rules would make it easier for small and medium-sized enterprises in particular to fulfil their tax obligations more effectively. This is particularly necessary against the background of stricter sanctions in tax law, e.g. higher fines and penalties for delay. In particular, the many exceptions to value added tax (VAT) raise questions, e.g. whether the supplier or the customer has to pay it, which tax rate has to be applied or - for exports to member states of the European Union - in which state it has to be paid and which national regulations have to be respected. VAT in particular causes high compliance costs for companies. The reform of VAT at the EU level should be used to make taxation simple, legally secure and digitally supportable. In order to provide companies with more legal certainty, a procedure similar to the income tax information service ("Lohnsteueranrufungsauskunft") and a turnover tax group application procedure ("Organschaftsantragsverfahren") should be introduced.

The rules on notification requirements for tax administrations adopted EU-wide should at best be implemented one-to-one so that the overwhelming majority and therefore honest companies are burdened as little as possible. Additional notification obligations relating to national processes alone should be waived. As far as payroll accounting is concerned, the differences between wage tax and social security legislation, such as public holiday bonuses, should be reduced for companies.

Designing international tax rules consistently

International tax law entails risks: The OECD/G20 countries have adopted measures to curb undesirable tax regimes - so-called anti-BEPS measures. The EU Commission has even extended these in its directives. These measures, together with their national implementation, will create competitive disadvantages for local companies operating across borders. This applies in particular to the planned obligation for multinational companies to publish their corporate tax data broken down by country of activity (public country-by-country reporting). In addition, the concept of a permanent establishment and the transfer pricing principles have been tightened. It is also problematic that the German legislator is already partly "overriding" international treaties (treaty override) and therefore intergovernmental agreements on taxes no longer apply, which can lead to the double taxation of profits. The short- and long-term measures proposed by the EU Commission for the taxation of digital business processes are associated with considerable risks for Germany as a business location.

What needs to be done: The implementation of anti-BEPS measures in national law is necessary. It should, however, be coordinated not only EU-wide, but also internationally in order to reduce or avoid distortions of competition between economic areas. Additional tax and bureaucratic burdens on companies should be minimised, as German corporate tax law already entails high compliance costs and contains measures to prevent tax evasion. Examples are the relocation tax and the already very restrictive Foreign Tax Act. For example, the profits of group subsidiaries located in low-tax countries with a tax rate of less than 25% are fully included in the higher German taxation under certain conditions.

The publication of country-by-country reports should be waived in order to avoid competitive disadvantages. Otherwise, companies run the risk of having to disclose business secrets, which competitors outside the European Union are not obliged to do. The legislator should also refrain from overriding international treaties, e.g. in the case of profits exempt from tax abroad, because this places an additional burden on companies when complying with the rules of international tax law.

Because of the considerable risks associated with the taxation of digital business processes, the following applies: an extension of the existing definition of permanent establishments to "digital presences" presupposes agreement at OECD level. A new EU digital tax - even if only introduced on a transitional basis – on internet-based business activities should be avoided - even if it only affects very large companies.

The CCI-Organisation contributes to this, among other ways, by means of:

- Information, facts, explanations and events on companies' tax issues
- Business talks with representatives of ministries and politics
- Passing on examples from operational practice