

Table of Contents

Preface / 15

Keynote Speeches / 17

H. Onno Ruding

The European Union, the Internal Market, Euro-area Crisis and Harmonisation of Corporate Taxes / 19

1. The euro area and the EU: internal market and corporate taxation / 19
2. National differences in corporate tax rates / 21
3. Harmonisation of the tax rate vs. the tax base / 22
4. France and Germany / 25
5. Harmonisation of the tax base (CCCTB) / 26

Frans Vanistendael

Should Poland Access Euroland? / 28

1. Why a contribution on the euro crisis in a book on R&D? / 28
2. Two very different objectives of the EU / 29
 - 2.1. The objective of the internal market / 29
 - 2.2. The objective of the Economic and Monetary Union / 30
 - 2.3. The difference between the two objectives / 30
3. Principles governing the Economic and Monetary Union / 30
 - 3.1. Three government functions in public finance / 30
 - 3.2. The stabilisation function / 31
 - 3.3. The level of government responsible for the stabilisation function in the eurozone / 31
4. The legal framework of taxation in the European EMU / 32
 - 4.1. Taxing power in indirect taxation / 32

- 4.2. Taxing power in direct taxation / 33
- 4.3. Impact of the fundamental freedoms on taxing power / 33
- 5. The framework for economic governance in the European EMU / 34
 - 5.1. The existing treaty framework for economic governance / 35
 - 5.2. New procedures for economic governance / 36
 - 5.3. Role of the European Central Bank / 37
- 6. The institutional framework of the European EMU / 39
- 7. The budgetary framework in the European EMU / 40
- 8. Preliminary conclusion / 41
- 9. Solution: federalisation of the stabilisation function / 42
 - 9.1. Transfer of the stabilisation function to the European level / 42
 - 9.2. Indirect budgetary monitoring / 43
 - 9.3. Euro power to table a motion of no confidence in a national parliament / 44
 - 9.4. Emergency powers in the case of financial crisis / 44
- 10. Procedural way to reform / 46
 - 10.1. Reforms within the general framework of the European treaties / 46
 - 10.2. Specific rules in accordance with Chapter 4 TFEU / 47
 - 10.3. Establishment of a specific euro budget authority / 48
- 11. What about Poland? / 49
 - 11.1. The figures / 49
 - 11.2. The rules / 51
 - 11.3. The conclusion / 52

Part One

General Report / 53

Adam Zalasiński

General Report – Tax Aspects of Research and Development within the European Union / 55

- 1. General remarks / 55
- 2. The structure of the R&D tax system in EU Member States / 56
 - 2.1. Research and development activities / 56
 - 2.2. (Tax) Legislative background / 57
 - 2.2.1. Domestic law / 57

- 2.2.2. EU law / 58
- 2.2.3. International law – double taxation conventions / 59
- 2.3. The approach of tax legislation towards R&D activities / 59
 - 2.3.1. R&D-neutral tax legislation / 59
 - 2.3.2. R&D incentives / 60
 - 2.3.3. (Cross-border) R&D disincentives / 61
 - 2.3.4. Rules affecting the scope of R&D tax incentives and R&D tax disincentives – “rules of the second degree” / 61
- 3. The dynamic of the R&D tax system in EU Member States / 62
 - 3.1. The actors and their roles / 62
 - 3.2. The continuous development and interaction of the elements of the system / 63
- 4. Main conclusions of the thematic reports / 64
 - 4.1. EU Control of State Aid and R&D Tax Incentives / 64
 - 4.2. R&D Mobility and EU Law – Application of the Fundamental Freedoms / 67
 - 4.3. EU Secondary Tax Legislation and R&D Mobility in the EU – Application of the Interest and Royalties Directive / 71
 - 4.4. Transfer Pricing Aspects of Transfers of Intellectual Property / 74

Part Two

EU Control of State Aid and R&D Tax Incentives / 77

Anna Nykiel-Mateo

State Aid Limitations on Fiscal Support to R&D&I / 79

- 1. General remarks / 79
- 2. Qualification of fiscal measures as state aid / 79
 - 2.1. Advantage / 80
 - 2.2. Granted by the state or through state resources / 80
 - 2.3. Selectivity / 81
 - 2.4. Distortion of competition and effect on trade / 83
- 3. The GBER / 83
- 4. The R&D&I Framework – the balancing test / 84

Raymond H.C. Luja

R&D, Innovation and Tax Incentives: Do They Have a Joint Future under State Aid Rules? / 89

1. Introduction / 89
2. Does the CCCTB allow for R&D incentives? / 90
 - 2.1. Can R&D benefits be general? / 90
 - 2.2. Are national R&D incentives blocked? / 90
3. The GBER / 92
4. Should R&D incentives be granted regardless of legal form? / 94
5. R&D incentives between state aid and fundamental freedoms / 95
6. Conclusion / 97

Part Three

R&D Mobility and EU Law – Application of the Fundamental Freedoms / 99

Adam Zalasiński

General Prohibition of Restrictions on Cross-border R&D Activities and IP Mobility – Application of the TFEU Freedoms / 101

1. General remarks / 101
2. Basic concepts of the internal market / 102
 - 2.1. The concept of discrimination / 102
 - 2.2. The concept of restriction on free movement / 103
3. Prohibition of tax discrimination/restriction on cross-border IP development and migration – examples of the ECJ's case law / 110
 - 3.1. Case C-254/97 Société Baxter – (covert) discrimination infringing the right of establishment / 110
 - 3.2. Case C-39/04 Laboratoires Fournier SA – restriction on the free movement of services / 111
 - 3.3. Case C-10/10 Commission v. Austria – restriction on the free movement of capital / 112
4. Conclusion / 115

Frans Vanistendael

R&D Mobility in the EU and the Fundamental Freedoms / 116

1. Introduction: scope and structure of the topic / 116
2. Transfer of intangibles in international taxation / 117

3. EU Merger Directive: transfer of entities and transfer of seat / **118**
4. Transfer of residence and exit tax / **121**
 - 4.1. Daily Mail case / **121**
 - 4.2. Lasteyrie du Saillant and N. cases / **124**
 - 4.3. National Grid Indus (NGI) case / **126**
 - 4.4. Conclusion on transfer of residence and exit tax / **129**
5. Some critical remarks: comparing EU and international tax principles / **130**
6. Conclusion: how should the taxing power be allocated? / **133**

Philip Baker

CFC Aspects of Intellectual Property / 135

1. Controlled foreign company rules on passive income from royalties / **135**
2. The impact of CFC rules / **135**
3. Problems for research and development stemming from CFC rules / **138**
4. European Court case law on CFC rules / **140**
5. Problems for research and development from CFC rules in the European Union / **142**

Part Four

**EU Secondary Tax Legislation and R&D Mobility in the EU
– Application of the Interest and Royalties Directive / 145**

Mauritz von Einem

The EU Interest and Royalties Directive: Current Issues / 147

1. Introduction / **147**
2. Overview of the current Interest and Royalties Directive / **149**
 - 2.1. Personal scope / **149**
 - 2.2. Substantive scope / **151**
 - 2.3. Legal consequences / **153**
 - 2.4. Status of implementation / **153**
3. ECJ case law / **155**
 - 3.1. Scheuten Solar Technology case / **155**
 - 3.2. Other judgments / **157**
 - 3.3. Conclusion / **158**

- 4. Deficiencies of the current Directive / **158**
 - 4.1. Subject-to-tax requirement / **158**
 - 4.2. Other aspects / **161**
 - 4.2.1. Associated companies / **161**
 - 4.2.2. Internal payments / **161**
- 5. Commission Proposal / **162**
- 6. Suggestions and outlook / **164**

Part Five

Transfer Pricing Aspects of Transfers of Intellectual Property / 169

Giammarco Cottani

Transfer Pricing Aspects of Business Restructurings – an International Perspective / 171

- 1. Introduction / **171**
 - 1.1. Importance / **171**
- 2. Types of business restructurings / **173**
 - 2.1. Common tax consequences arising from business restructurings / **178**
 - 2.1.1. Transfer of functions and risks arising from business restructurings / **183**
 - 2.1.2. Transfer of intangibles arising from business restructurings / **183**
 - 2.1.3. Transfer of going concern / **184**
 - 2.1.4. Termination or substantial renegotiation of existing arrangements / **186**
- 3. Operational considerations / **187**
- 4. Conclusion / **188**

Aneta Błażejewska-Gaczyńska

Business Restructuring – Practical Application of Transfer Pricing Rules: a Case Study / 189

- 1. Introduction / **189**
- 2. Business restructuring – definitions and practice / **191**
 - 2.1. Business restructuring – definition / **191**
 - 2.2. Business restructuring – examples / **191**
 - 2.3. Business restructurings – key points / **194**
 - 2.3.1. Special considerations for risks allocation / **195**

- 2.3.1.1. Contractual terms / 195
- 2.3.1.2. Significance of risks allocated
– examples / 196
- 2.3.1.3. Control over risks allocated / 198
- 2.3.2. Compensation for restructuring / 199
 - 2.3.2.1. Business reasons for the restructuring/
alternative options realistically available
to the parties / 202
- 2.3.3. Remuneration of post-restructuring
transactions / 204
- 2.3.4. Recognition of the actual transactions
undertaken / 206

Giammarco Cottani

Transfer Pricing Aspects of Transfers of Intellectual Property / 208

- 1. Overview / 208
 - 1.2. Business restructurings and domestic anti-abuse rules / 209
- 2. Tax effects of cross-border business restructurings:
overview / 210
 - 2.1. Transfer of risks and functions / 211
 - 2.2. Transfer of intangible assets / 212
 - 2.3. Transfer of going concern / 214
 - 2.4. Termination or substantial renegotiation of existing
arrangements / 216
 - 2.5. Recognition of the actual transactions undertaken / 217
 - 2.6. Permanent establishment issues / 217
- 3. Change of a full-fledged distributor into commissionaire
or low-risk distributor / 219
 - 3.1. Change of manufacturing activities / 222
 - 3.2. Centralisation of intangible property rights and research
and development activities in a specific IP company / 224
- 4. Relationship to EU law / 227
- 5. Summary and conclusions / 227

Anuschka Bakker

Intangibles: a Legal, Accounting and Tax Perspective / 231

- 1. Introduction / 231
- 2. Setting the scene / 233
- 3. Definition of intangibles / 235

- 3.1. Value drivers / **236**
- 3.2. Legal definition / **236**
- 3.3. Tax / **238**
 - 3.3.1. Article 12 OECD Model Convention / **238**
 - 3.3.2. Transfer pricing purposes / **239**
 - 3.3.3. Various definitions used by countries / **242**
- 3.4. Valuation / **244**
- 3.5. Accounting / **246**
- 4. Valuation / **247**
 - 4.1. TP methods / **247**
 - 4.2. Financial valuation methods / **253**
- 5. Conclusion / **255**

Monika Laskowska

Transfer of Profit Generators Aiming to Exploit Location Advantages in the Area of Research and Development / 256

- 1. Introduction / **256**
- 2. Location savings / **258**
- 3. Location specific advantages (LSAs) and location rent / **259**
- 4. Existence and quantification of LSAs / **263**
- 5. Bargaining position/Attribution of location rent / **265**
- 6. Computation / **266**
- 7. R&D in Poland / **268**
- 8. Conclusion / **269**

Part Six

Comparative Aspects of Taxation of Research and Development / 271

Dominik Mączyński, Ryszard Sowiński

R&D Incentives under Polish Tax Law / 273

- 1. Introduction / **273**
- 2. Terminology / **273**
- 3. Income tax incentives supporting R&D activity / **276**
 - 3.1. Preferential treatment with respect to income costs / **276**
 - 3.2. Depreciation based on preferential principles / **277**
 - 3.3. Deduction of R&D costs from the taxable base / **278**
 - 3.4. Exemption from tax of a part of income assigned for statutory activity / **280**

- 4. Other tax R&D incentives / **280**
 - 4.1. VAT / **280**
 - 4.2. Preferences within the scope of land tax / **283**
 - 4.3. Preferences within the scope of stamp duty / **283**
- 5. Summary / **283**

Ewa Bienkowska

R&D Incentives in Selected EU Member States / 287

- 1. Introduction / **287**
- 2. Selected R&D schemes in the European Union / **293**
 - 2.1. The Netherlands / **293**
 - 2.1.1. R&D tax incentives in the Netherlands / **293**
 - 2.1.2. Innovation box in the Netherlands / **294**
 - 2.1.3. Amendments to the Netherlands R&D tax system / **295**
 - 2.2. The United Kingdom / **295**
 - 2.2.1. R&D tax incentives in the United Kingdom / **295**
 - 2.2.2. UK patent box / **297**
 - 2.2.3. Amendments to the UK R&D tax system / **298**
 - 2.3. Spain / **299**
 - 2.3.1. R&D tax incentives in Spain / **299**
 - 2.3.2. Spanish patent box / **300**
- 3. R&D tax incentives and the way forward to enhance the EU innovativeness / **301**
 - 3.1. Current state of R&D taxation in the European Union / **301**
 - 3.2. Recommendations of R&D tax treatment in the European Union / **304**
- 4. Conclusion / **305**

List of Authors / **309**

Centre of Tax Documentation and Studies / **315**