

# **Foreword**

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## Foreword by the Guest Editors

In October 2001, the EU Commission released a major new report "Company Taxation in the Internal Market" that received wide attention among tax experts and the interested public. The report documents a widely held view that, in the field of corporate taxation, insufficient progress has been made towards European integration. One of the main objectives of the report was to suggest possible measures that would make European corporate tax systems less fragmented and more capable of dealing simply with cross-border operations.

On the occasion of this new impetus to the discussion of European company taxation, CESifo and The Catholic University of Mons (ARPEGE), Belgium organized a conference on "Corporate and Capital Income Taxation in the European Union: The EU Commission Report on Companies' Taxation and Beyond", that was held on December 7-8, 2001 in Mons. The present issue of the *ifo Studien* contains a selection of papers that were presented at this occasion.

Several of the papers on the conference as well as a round table discussion published separately (see CESifo Forum, 1/2002, also available online at [www.cesifo.de](http://www.cesifo.de)) directly related to the alternative proposals made in the EU report. In this vein, *Joann Weiner's* paper in this volume provides a careful discussion of the potential problems that would arise if there were a move from separate accounting towards a formula apportionment.

Another set of contributions considered the general features of desirable corporate tax systems within the EU. Both the papers by *Marcel Gerard* and the one by *Seppo Kari* and *Jouko Ylä-Liedenphja* document the problems of designing a tax system that is fully neutral with respect to financing, investment and ownership decisions.

A new development of the 1990s was the move towards a dual income tax system, in particular in smaller countries. *Tobias Lindhe*, *Jan Södersten* and *Ann Öberg* discuss the Achilles heel of such systems, the separation of capital from labour income. Different rules for that separation may have very different effects on the cost of capital to firms. *Clemens Fuest* and *Alfons Weichenrieder* look at a related problem. If tax rates on capital income differ between the personal and the corporate sectors, tax payers may have incentives to shift assets into a more lightly-taxed organizational form. Empirically, there seems to be some evidence that this occurs.

As was done in previous major reports on corporate taxation, the EU Commission report carefully documents remaining deficiencies in levelling the playing field. Towards this end it calculates effective tax rates for cross-border in-

vestment and compares these rates with those prevailing for domestic investment. In their paper, *Silvia Giannini* and *Carola Maggilli* introduce the main concepts used in the report and discuss in an accessible way what the figures can and cannot tell us.

The EU report is largely silent about the empirical significance of differences in the cost of capital. Here some guidance comes from a paper by *Jean-Bernard Chatelain* and *Andre Tiomo* who estimate the influence of the cost of capital on firm investment, and find that in most specifications it does indeed turn out to be significant.

The guest editors hope that the present volume, while certainly not fully comprehensive, gives a good account of current issues in the discussion of European company taxation. We wish to thank all the authors for their effort and also the discussants of the conference for their stimulus. We hope that some part of the productive atmosphere of the conference in Mons is captured in this volume.

*Jeremy Edwards, Marcel Gérard, and Alfons J. Weichenrieder*