



Movement of Persons and Tax Mobility
in the EU: **Changing Winds**

Editor: **Ana Paula Dourado**

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Movement of Persons and Tax Mobility in the EU: Changing Winds

Why this book?

The winds of change are blowing in the European Union (EU). While the development of the internal market has been a progressive but unfinished work, the financial crisis in 2008 and the subsequent euro crisis in the European and Monetary Union have brought new challenges to the EU and to the role it plays in the world.

This book is the result of the 6th GREIT Conference and discusses the mobility of persons in the EU and the existing obstacles to this mobility, including tax obstacles, and recent progress. Further, it discusses the existing contradictions in the process of EU integration: the EU agenda since 2010, which focuses on overcoming the euro and the fiscal debt crises; the EU reaction to the so-called Base Erosion and Profit Shifting (BEPS) action plan; and how the discussion has now moved to address double non-taxation rather than double taxation. It challenges the reader to think about the EU project in various interrelated angles and as a whole.

The book is divided into six parts. The first and last parts contain legal and tax policy critical analyses. Part I discusses the current trends and challenges for tax mobility in the EU, and Part VI focuses on the taxation of groups and the policy options for the world and the EU. Parts II-V analyse the current regimes regarding mobility of companies and individuals. Mobility in the EU is discussed from the viewpoint of company law, international private law, insolvency law, EU law, public finance and tax law. Comparative law is considered in the two chapters dealing with formulary apportionment and transfer pricing.

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Table of contents

Acronyms and Abbreviations	vii
Foreword	ix
Introduction	xi

Part One Tax Policy for the European Union

Chapter 1: Tax Mobility in the European Union: Present and Future Trends	3
<i>Ana Paula Dourado</i>	
1.1. Tax mobility and tax good governance on the global policy agenda and in the European Union	3
1.2. The meaning of tax mobility in the EU/EEA and in international tax law	5
1.2.1. National revenue interests and the protection of EU/EEA taxpayers	5
1.2.2. The meaning of tax mobility and why EU law is not (yet) to be taken seriously in respect of tax mobility	7
1.3. Tax mobility in the EU: Source and residence revisited	8
1.4. The ECJ self-restraint on the scope of tax mobility	12
1.5. Tax mobility and inconsistencies	14
1.5.1. The principle of territoriality and the allocation of taxing rights as one and the same single argument	14
1.6. Comparison between a source state and a residence state: The case of withholding taxes on interest	16
1.7. Universal tax law standards and the importance of protecting loss of tax revenue	16
1.8. Imperfect tax mobility, BEPS and tax competition within the EU/EEA	17
1.9. BEPS, the EU and the OECD	18
1.10. International reaction to BEPS: Out-of-the-box versus step-by-step solutions	19
1.11. Fair distribution of tax burdens, allocation of taxing rights and harmful tax competition	21
1.12. Global tax governance and EU tax governance	22
1.13. Consequences for the EU of a global reaction to BEPS	22

1.14.	The deficit of EU tax governance and the increasing tax competition	23
1.15.	The need for a European Constitution	25
1.16.	The current EU tax policy agenda and the good old tax debate: Tax justice and tax efficiency	25
Chapter 2: EU at the Crossroads in 2011: EMU and/or Internal Market?		27
	<i>Frans Vanistendael</i>	
2.1.	Introduction	27
2.2.	The distinction in fiscal sovereignty	28
2.3.	The fiscal and budgetary structure in the EU	29
	2.3.1. Taxing powers in the EU	29
	2.3.2. Taxing and spending power of the EU and the Member States	30
2.4.	Mechanisms of economic coordination	34
	2.4.1. Broad guidelines of economic coordination	34
	2.4.2. Instruments of the coordination policy	34
2.5.	The unresolved problems of coordination in the EMU	36
	2.5.1. Total absence of an adequate legal framework	36
	2.5.2. Stringent restrictions on financial interventions	36
	2.5.3. Absence of any legal framework	36
	2.5.4. Disparity in fiscal competence between EU and Member States	37
2.6.	Institutional solutions to the euro crisis	37
	2.6.1. Full-fledged federalism	38
	2.6.2. Full tax harmonization	39
	2.6.3. Limited incipient and temporary federal decision-making	39
2.7.	The tax problems remaining for the internal market	43
	2.7.1. The nature of the problem	43
	2.7.2. Limitations in the case law of the ECJ	43
	2.7.3. The limits of EU tax legislation	45
2.8.	Solution: EU charter of missing tax links for the internal market	46
	2.8.1. Combination of legislative and judicial action	46
	2.8.2. Legislative action for an EU Charter of Missing Tax Links	47
	2.8.3. Judicial action for an EU Charter of Missing Tax Links	48
2.9.	Conclusion	53

Part Two
Transfer of Corporate Residence
and Insolvency Proceedings

Chapter 3: Cross-Border Transfer of Seat and Companies’ Freedom of Establishment in the EU – Where Are We Now?		57
<i>António Frada de Sousa</i>		
3.1.	Introduction	57
3.2.	From <i>Daily Mail</i> to <i>Cartesio</i>	63
3.3.	<i>Cartesio</i> – “Back to <i>Daily Mail</i> ...” but with a significant refinement	70
3.3.1.	<i>Daily Mail</i> is “alive and kicking”	71
3.3.2.	<i>Daily Mail</i> refined – Opening the door to a company’s cross-border conversion as modality of exercise of the right of establishment	74
3.4.	Outbound and inbound restrictions to a company’s cross-border conversion	77
3.5.	Conclusion – The (uncertain) future of the 14th Company Law Directive	79
 Chapter 4: Insolvency Mobility Within the EU		 85
<i>Andreas Piekenbrock</i>		
4.1.	Introduction	85
4.2.	EU legal framework	85
4.2.1.	Mutual recognition of companies	86
4.2.1.1.	Inbound cases	87
4.2.1.2.	Outbound cases	88
4.2.2.	Mutual recognition and enforcement of judgments	89
4.3.	The notion of insolvency forum shopping	90
4.3.1.	Classic meaning of forum shopping	90
4.3.2.	Wider meaning of forum shopping	90
4.3.3.	Insolvency forum shopping and the freedom of establishment	91
4.4.	Reasons for forum shopping	93
4.4.1.	Funeral cases	93
4.4.2.	Health-care cases	96
4.5.	Time limit for forum shopping	99
4.6.	Ways to forum shop	101
4.6.1.	Mere transfer of COMI	101

4.6.2.	Transfer of registered office and COMI	103
4.6.2.1.	Transfer of registered office without conversion	103
4.6.2.1.1.	European companies	103
4.6.2.1.2.	National companies	103
4.6.2.2.	Transfer of registered office with conversion	104
4.6.2.2.1.	Cross-border conversion	105
4.6.2.2.2.	Cross-border merger	105
4.7.	Conclusions	106

Chapter 5: The Localization of Companies from the Perspective of Insolvency Law: The Concept of COMI 109
Michael Veder

5.1.	Introduction	109
5.2.	A brief overview of the European Insolvency Regulation	110
5.2.1.	Background	110
5.2.2.	Objective and scope of the European Insolvency Regulation	111
5.2.3.	Main and secondary proceedings	112
5.2.4.	Applicable law	114
5.2.5.	Recognition	115
5.2.6.	Cooperation and communication	116
5.3.	The cornerstone of the European Insolvency Regulation: The debtor's centre of main interests (COMI)	117
5.3.1.	Concept and relevance	117
5.3.2.	Rebuttal of the presumption of the registered office (in case of group companies)	120
5.3.2.1.	Eurofood IFSC Ltd	120
5.3.2.2.	<i>Lennox Holdings PLC</i>	123
5.3.2.3.	Hellas Telecommunications	123
5.3.2.4.	<i>Stanford International Bank Ltd</i>	124
5.3.3.	<i>Interdil</i>	126
5.4.	Concluding observations	130

Part Three
Transfer of Corporate Residence,
Shareholders' Residence & Exit Taxes

Chapter 6: Mobility of Companies in the European Union: A Jigsaw of Company Law and Tax Law, Case Law and Secondary Law Falls into Place?		135
<i>Pasquale Pistone, Daniel Gergely Szabó and Karsten Engsig Sørensen</i>		
6.1.	Introduction	135
6.2.	Company law and mobility	139
6.2.1.	Harmonization in EU company law and a brief overview of the case law on the right of establishment from <i>Daily Mail</i> to <i>Cartesio</i>	139
6.2.2.	The <i>VALE</i> judgment	142
6.2.2.1.	The main findings	143
6.2.2.2.	The main implications of the judgment	146
6.2.2.2.1.	What type of corporate transactions are covered by <i>VALE</i> ?	146
6.2.2.2.2.	Procedural issues raised by <i>VALE</i>	149
6.2.2.2.3.	The connecting factors of the company	152
6.2.3.	Perspectives after <i>VALE</i>	153
6.3.	Tax law and mobility of companies	155
6.3.1.	Company law – Real seat vs incorporation: What consequences for tax law?	155
6.3.2.	The tax context and tax case law on the mobility of individuals	156
6.3.3.	Exit taxes on companies	158
6.3.4.	Potential tax law implications of the <i>VALE</i> judgment	164
6.4.	Conclusions and perspectives	167
 Chapter 7: Exit Taxes on Companies		 171
<i>Otto Marres</i>		
7.1.	Introduction	171
7.2.	Scope of the freedom of establishment	173
7.2.1.	Personal scope	173
7.2.2.	Material scope	176

7.3.	Discrimination and restrictions	179
7.4.	Justification	181
7.5.	Proportionality	183
7.6.	Conclusion	187

**Chapter 8: Taxation of Unrealized Profits on the Occasion of
a Transfer of Company Seat or Assets** 189
Richard Lyal

8.1.	Introduction	189
8.2.	Gains and realization	190
8.3.	Exit taxes and the freedom of establishment	190
8.4.	Proportionality	191
8.5.	The Commission Communication on exit taxation	193
8.6.	Rules for exit taxation of companies	193
8.6.1.	The right to free movement for companies	194
8.6.2.	The appropriate comparator	196
8.6.3.	Applicability of the case law on exit taxes on natural persons to companies	196
8.6.4.	The complexity of the asset position of companies	197
8.7.	Step-up and fluctuation in the value of the currency	199
8.8.	Conclusion	200

Part Four
The Merger Directives

**Chapter 9: Cross-Border Mergers and Corporate Mobility in
the European Union: A Difficult Balance** 203
Federico M. Mucciarelli

9.1.	Reincorporations in the European Union	203
9.2.	Cross-border mergers and reincorporations in the EU	203
9.3.	Partial liberalization of cross-border mergers and reincorporations	205
9.4.	Cross-border mergers and creditors' protection	209

**Chapter 10: National Measures to Counter Tax Avoidance
under the Merger Directive** 213
Joachim Englisch

10.1.	Introduction	213
10.2.	Legitimate tax arbitrage and purposive construction as possible alternatives	218

10.2.1.	On the relevance of statutory purpose	218
10.2.2.	On the precedence and inherent limits of “pure” purposive construction	222
10.3.	On the distinction between tax avoidance and tax mitigation	232
10.4.	The position of article 15(1)(a) of the MD within the EU tax avoidance matrix	237
10.5.	The concept of tax avoidance under article 15(1)(a) of the MD	246
10.5.1.	The approach of the ECJ	247
10.5.2.	An alternative approach	251
	10.5.2.1. The objective test of tax avoidance	251
	10.5.2.2. The subjective test of tax avoidance	255
10.5.3.	Lack of valid commercial reasons/“artificiality” of the operation	260
10.6.	Limits to the scope of article 15(1)(a) of the MD	265
10.7.	Transposition into national law	268
10.7.1.	No direct effect	268
10.7.2.	Duty or option?	271
10.7.3.	Burden of proof and admissibility of legal presumptions	273
	10.6.3.1. Irrebuttable presumptions of tax avoidance	273
	10.7.3.2. Burden of proof and rebuttable presumptions	279
10.8.	Conclusion	283
Chapter 11: “Packaging” in the Light of the Netherlands Supreme Court’s Case Law, the Merger Directive and the Proposed CCCTB Directive		287
<i>Jan van de Streek</i>		
11.1.	Introduction	287
11.2.	The Dutch viewpoint: Tax deferral = tax avoidance	288
11.3.	Netherlands Supreme Court 10 October 2008 (Exchange of shares followed by a sale of shares)	290
11.3.1.	The facts	290
11.3.2.	The decision	291
11.3.3.	Remaining questions	292
11.3.4.	Can tax deferral constitute tax avoidance within the meaning of the Merger Directive?	294
11.4.	Netherlands Supreme Court 2 June 2006 (<i>AGA NL v. State Secretary for Finance</i>)	295
11.4.1.	The facts	295

11.4.2. The decision	298
11.5. The “packaging” problem in the CCCTB Directive and its relation to the Merger Directive	299
11.5.1. Article 75 CCCTB Directive	299
11.5.2. The relation to the anti-abuse clause of the Merger Directive	301
11.6. Conclusion	304

Part Five
Workers’ Mobility

Chapter 12: The Reach of EU Citizenship Rights for “Static” EU Citizens: Time to Move On?	307
<i>Iris Goldner Lang</i>	

12.1. Introduction	307
12.2. Facts – Similar but not the same	309
12.3. <i>Ruiz Zambrano</i> – The wind of change	312
12.4. Open issues in <i>Ruiz Zambrano</i>	314
12.5. <i>McCarthy</i> – A critique	317
12.6. A proposal	323
12.7. Conclusion – “Incy Wincy Spider”	325

Chapter 13: Social Security Issues and Taxation of Frontier Workers – The Case of Pensions	329
<i>Cécile Brokelind</i>	

13.1. Generalities and delimitations	329
13.2. A pension’s taxonomy	332
13.2.1. Pillar 1 pensions	332
13.2.2. Pillar 2 pensions	334
13.2.3. Pillar 3 pensions	336
13.2.4. Summary	337
13.3. Social security and taxes	337
13.3.1. Principles and exceptions	337
13.3.2. Tax or fee?	342
13.4. The Öresund region and commuters’ situation	345
13.4.1. Two different countries	345
13.4.2. Pensions	346
13.4.3. Cross-border workers’ tax and social security exposure	348
13.5. Conclusion	350

Part Six
Taxation of Groups and CCCTB

Chapter 14: Taxation of Groups and CCCTB	355
<i>Guillermo Maisto</i>	
14.1. Introduction	355
14.2. The CCCTB	355
14.3. Mutual recognition	357
14.4. Worldwide tax consolidation	358
14.5. ECJ case law	359
 Chapter 15: Possible Effects of a Common Consolidated Corporate Tax Base on EU Tax Budget	 363
<i>Reinald Koch, Andreas Oestreicher, Dorothea Vorndamme and Stefan Hohls</i>	
15.1. Introduction	363
15.2. Revenue consequences resulting in theory from a shift to CCCTB	365
15.2.1. Overview	365
15.2.2. Determination of taxable income	365
15.2.2.1. Harmonization of tax accounting provisions	365
15.2.2.2. Inter-period loss offset	367
15.2.3. Consolidation	369
15.2.3.1. Intra-group loss offset	369
15.2.3.2. Profits from intra-group sales and services	371
15.2.3.3. Intra-group dividends	372
15.2.4. Formula apportionment	373
15.2.5. Optionality	374
15.2.6. Behavioural responses	375
15.2.7. Interim conclusions	377
15.3. Revenue consequences resulting in model calculations from a shift to CCCTB	378
15.3.1. Results of backward-looking simulation models	378
15.3.2. Results from the application of a forward-looking simulation model	379
15.3.2.1. Approach and underlying data	379
15.3.2.2. Simulation results	383
15.4. Conclusions	384

Chapter 16: Formulary Taxation and Transfer Pricing: The Good, the Bad and the Misguided	387
<i>Yariv Brauner</i>	
16.1. Introduction	387
16.2. The current debate over the desirability of a formula-based international tax reform	390
16.2.1. Formulaic reform proposals	392
16.2.2. The main arguments in the debate	394
16.2.2.1. Economic-based vs arbitrary taxation	394
16.2.2.2. The three factor formulae	396
16.2.2.3. Unilateral vs multilateral solutions	398
16.2.2.4. Costliness – Simplicity, compliance and enforcement	399
16.2.3. Distinguishing the debate over formulaic international tax reform from transfer pricing reform	401
16.3. The design of a formula-based transfer pricing regime	404
16.3.1. Unilateral adoption of formulaic transfer pricing	405
16.3.2. A bilateral approach	409
16.3.3. A multilateral solution	410
 Chapter 17: Formulary Apportionment in the EU and the US: A Comparative Perspective on the Sharing Mechanism of the Proposed CCCTB	 413
<i>Walter Hellerstein</i>	
17.1. Introduction	413
17.2. The CCCTB's apportionment mechanism: Overview	415
17.2.1. Apportioning income to states versus apportioning income to taxpayers	416
17.2.2. Formulary apportionment and tax planning	419
17.3. The sales factor	421
17.3.1. The scope of proceeds or receipts in the sales factor	422
17.3.1.1. Exempt or eliminated revenues	423
17.3.1.2. Interest, dividends, royalties and proceeds from fixed asset sales	424
17.3.2. Allocating proceeds to the sales factor	426
17.3.3. Tax planning and avoidance under the sales factor	430
17.3.3.1. Sales of goods	431
17.3.3.2. Supplies of services	433
17.3.3.3. Exempt, intangible and extraordinary revenues	434

17.4. The labour factor	439
17.4.1. The CCCTB labour factor and the US state payroll factor: Overview	439
17.4.2. Tax planning and avoidance under the labour factor	442
17.4.2.1. Assigning labour to the appropriate group member	443
17.4.2.2. Independent contractors	444
17.5. The asset factor	447
17.5.1. The CCCTB asset factor and the US state property factor: Overview	448
17.5.2. Tax planning and avoidance under the asset factor	450
17.6. The anti-abuse, safeguard and rulemaking provisions	454
17.6.1. The general anti-abuse rule	454
17.6.2. The safeguard clause	456
17.6.3. Commission rulemaking authority to calculate factors	457
17.7. Conclusion	459
List of Authors	461

Current times present challenges to the European Union (EU) project. While the setting up of the internal market has been a progressive but unfinished work, in which the European Court of Justice (ECJ) has played a crucial role in the mobility of persons, the financial crisis in 2008 and the subsequent euro crisis in the European and Monetary Union (EMU) have brought new challenges to the European Union and to the role the latter plays in the world.

Since 2010, the EU agenda has focused on overcoming the euro and the fiscal debt crisis, where the absence of a federal budget has finally revealed the weakness of the EMU legal (constitutional) structure. The crisis has led to the creation of a stability mechanism and to a more interventionist role of the European Central Bank, neither of which had been foreseen in the Lisbon Treaty (they were even prohibited under articles 123 and 125 of the Treaty on the Functioning of the European Union (TFEU)).¹ The ECJ case law on the prohibition of national discriminatory measures with respect to the fundamental freedoms suddenly became unpopular, because of perceived insensitivity to the need of national tax revenues and to national budgetary deficit problems, or at least of being incapable of dealing with the big picture that involves the public revenue and expenses sides. Reactions to the crises by national governments and European citizens have been passionate and nationalist, and cast a shadow on further construction of the internal market and to the required mobility of persons.

Also as a result of the 2008 financial crisis, the G20, the OECD and the global forum agendas intensified the work on tax transparency and declared it to be an international standard, and, recently, mainstream media have published news on global aggressive tax planning behaviours by multinationals. Following a G20 mandate, the OECD is addressing what is known as so-called BEPS (base erosion and profit shifting by multinationals)² and the European Union is looking for an adequate response to the phenomenon.³

1. See F. Vanistendael, *EU at the Crossroads in 2011: EMU and/or Internal Market?* ch. 2, sec. 2.4.2., pp. in this volume.

2. OECD, *Addressing Base Erosion and Profit Shifting – Report: 2013* (OECD 2013), International Organizations' Documentation IBFD, p. 13.

3. A.P. Dourado, *Tax Mobility in the European Union: Present and Future Trends* ch. 1, secs. 1.12.-1.16., pp. in this volume.

The discussion now focuses on how to address double non-taxation and not on how to address double taxation. BEPS, and the reactions to it, may further contribute to postponing the internal market and mobility.⁴

As discussed in this book, mobility in the European Union is a constitutional (Treaty) right, entitling European citizens to move freely without obstacles, which is indispensable for the internal market and for the economic and political position of the European Union on the global scenario. Many of the existing tax and non-tax national obstacles to movement of companies (discussed in this book), the inadequate group taxation rules and the absence of tax harmonization encourage BEPS in Europe. Addressing BEPS in Europe will only be efficient if further integration occurs.⁵

This book aims to foster debate in a multidisciplinary and interdisciplinary perspective on the mobility of persons in the European Union. It is divided into six parts. The first and last (parts I and VI) contain legal (hermeneutical) and tax policy critical analysis; part I discusses the current trends and challenges for tax mobility in the European Union and part VI focuses on the taxation of groups and the policy options for the world and the European Union. A comparative legal analysis of formulary apportionment (between the United States and the European Union) and an economic analysis of the effects of consolidated taxation in the European Union are put side-by-side in part VI and the current problems resulting from transfer pricing are discussed.

Parts II-IV analyse the current regimes regarding mobility of companies and individuals. Except for part I, all other parts are an interaction between tax lawyers and academics from fields with which tax law interacts. Mobility in the European Union is discussed from the viewpoint of company law, international private law, insolvency law, EU law, public finance and tax law. Comparative law is also present in the two chapters that discuss formulary apportionment and transfer pricing in the eyes of US academics.

In more detail: Part I discusses the tax policy for the European Union. The anti-BEPS agenda and the current challenges to EU tax mobility in the global scenario are discussed by this writer in chapter 1. Frans Vanistendael reflects on the euro crisis and the paradoxes of the system of spending and taxing in the European Union. He recalls that an Economic and Monetary Union presupposes a common financial and fiscal policy, and proposes a

4. Id., at secs. 1.2.1.-1.2.2., 1.8. and 1.14., pp. in this volume.

5. Id., at secs. 1.14., 1.16 et seq., pp. in this volume.

deeper level of integration for the EMU, but discards as unrealistic the solution of full-fledged federalism. He instead proposes a temporary emergency federalism, aimed at supporting the common currency and only involving Member States of the euro zone.⁶ Vanistendael also discusses how the EMU interacts with the internal market, the existing tax obstacles to mobility and the self-limits introduced by the ECJ in its assessment of direct tax discriminatory measures. He identifies the obstacles and what measures should be taken to overcome tax obstacles not recognized as such by the ECJ (the “missing links”).⁷

Subsequent parts II, III and IV explore the debate on the transfer of corporate residence, how can creditors be protected in the case of forum shopping by the companies for the most attractive insolvency proceedings regime (transfer of corporate residence “in bad times”); the tax obstacles to the transfer of corporate residence, namely exit taxes, and the effect that merger directives have on mobility of companies (transfer of corporate residence “in good times”). In part II (Transfer of Corporate Residence & Insolvency Procedures), António Frada de Sousa elaborates on the cross-border obstacles to the transfer of company seat, which result from the fact that private international law rules on companies diverge strongly among Member States (Member States can adopt the real seat theory, the incorporation theories or varieties of these two theories) and are incompatible with each other.⁸ Frada de Sousa regrets that the EU legislator has been unable to solve the existing conflicts of laws and that the ECJ (as it demonstrated in *Cartesio* (Case C-210/06)) is unwilling to protect companies’ mobility through the interpretation of the TFEU.⁹ Companies in the European Union move not only in “good times”, for example, to improve their competitive position, but also in “bad times”. Andreas Piekenbrok and Michael Veder discuss mobility of companies in “bad times”, i.e. when companies look for the most attractive solution either to find solvent schemes without a shift of the “centre of main interests” (COMI) and avoid insolvency; or to find insolvency restructuring regimes to rescue their financially troubled business, in particular within the framework of formal insolvency proceedings. Piekenbrok highlights that insolvency forum shopping is fully legal within the internal market, protected by primary legislation, and very appealing to companies, and therefore the mere possibility of insolvency mobility puts the national legislator

6. Vanistendael, *supra* n. 1, at sec. 2.6.3., pp.

7. *Id.*, at secs. 2.7. and 2.8., pp.

8. A. Frada de Sousa, *Cross-Border Transfer of Seat and Companies’ Freedom of Establishment in the EU – Where Are We Now?* ch. 3, sec. 3.1., pp. in this volume.

9. *Id.*, at sec. 3.1., p.

under pressure to provide the most effective remedies.¹⁰ Forum shopping of companies in “bad times” for the most attractive national regime is possible as long as no creditor has requested the opening of insolvency proceedings. In insolvency proceedings, or what he calls “funeral cases”, the nomination of foreign liquidators can be sufficient to transfer the COMI.¹¹

In turn, Michael Veder addresses the question where a company is located for the purposes of opening insolvency proceedings in respect of that company under the European Insolvency Regulation.¹² He analyses the conflicting decisions of the ECJ in interpreting the Regulation, namely the meaning of article 3(1), according to which the company’s centre of main interests is located in the place of its registered office, and concludes that it can only be rebutted by factors that are objective and ascertainable by third parties, in particular creditors.¹³

Part III discusses the tax obstacles to the transfer of corporate and shareholders residence.

Pasquale Pistone, Daniel G. Szabó and Karsten E. Sorensen build the bridge between company law and tax law with the purpose of elaborating the framework for tax mobility.¹⁴ They focus on the interpretation of company law issues, and especially on the ECJ case law up to *VALE* (Case C-378/10). They contend that corporate reorganizations have contributed to tax mobility of companies and that the recent case law of the ECJ acknowledges that tax mobility may be a separate issue from national company law.¹⁵ Both Otto Marres and Richard Lyal provide their viewpoints on exit taxes and on how the allocation of taxing rights can be guaranteed without, at the same time, creating obstacles to the movement of a company. Their views on the topic are rather coincident: Marres analyses exit taxes following the methodology normally adopted by the ECJ (personal and material scope of the freedom of establishment; the existence of discrimination or a restriction; justifications; proportionality).¹⁶ He concludes that exit taxes constitute restrictions

10. A. Piekenbrock, *Cross-border Transfer of Seat and Companies’ Freedom of Establishment in the EU – Where Are We Now?* ch. 4, sec. 4.3., pp. in this volume.

11. *Id.*, at sec. 4.6.1., p.

12. M. Veder, *The Localization of Companies from the Perspective of Insolvency Law: The Concept of COMI* ch. 5, sec. 5.1., pp. in this volume.

13. *Id.*, at sec. 5.3., p.

14. P. Pistone, D.G. Szabó & K. E. Sorensen, *Mobility of Companies in the European Union: A Jigsaw of Company Law and Tax Law, Case Law and Secondary Law Falls into Place?* ch. 6, pp. in this volume.

15. *Id.*, at secs. 6.2. and 6.3., pp.

16. O. Marres, *Exit Taxes on Companies* ch. 7, pp. in this volume.

to the freedom of establishment and immediate taxation of capital gains is a disproportionate restriction, even if justified by the balanced allocation of taxing rights. He contends that a proportionate measure would be a deferral of taxation until realization and that post-emigration reductions in value need not be taken into account.¹⁷ Lyal justifies exit taxes on “latent gains” on the need for tax authorities in one Member State to “protect the public purse from possible loss of revenue”.¹⁸ He discusses the meaning of gains and realization, the problems that an exit tax can create for a company – an exit tax can not only cause cash-flow disadvantages but may also constitute a serious liquidity problem for the company.¹⁹ He then analyses exit taxes in the light of freedom of establishment and contends that as it is indisputable that exit taxes constitute restrictions to the freedom of establishment, it must be ascertained whether an exit tax is proportionate: exit taxes are an expression of the principle of territoriality and the allocation of taxing rights is a valid justification for them. Proportionality will imply that there is no need for immediate payment of the tax if the right to tax can be assured by a less restrictive measure: this has to be assessed on a case-by-case basis.²⁰

In part IV, the Merger Directives are analysed. Federico Mucciarelli focuses on cross-border mergers and reincorporations from the perspective of company law in the European Union.²¹ After referring to the role of the ECJ, he analyses the 2005 directive on cross-border mergers and compares its regime to the US regime. The EU directive does not harmonize the corporate choice-of-law criteria of Member States; the procedure of a cross-border merger is burdensome and time-consuming; and the fact that many Member States protect creditors of the merging companies by allowing them a right to oppose the transaction judicially makes the whole procedure more time-consuming and expensive.²² Mucciarelli further contends that Member States’ freedom to design creditor-protection mechanisms bears the risk of over-regulation and proposes the test formulated in *Gebhard* (Case C-55/94) in order to determine whether there is need for those mechanisms.²³ Joachim Englisch and Jan van der Streek selected some topics under the Merger Tax Directive: Englisch discusses national

17. Id., at secs. 7.5.-7.6., pp.

18. R. Lyal, *Taxation of Unrealized Profits on the Occasion of a Transfer of Company Seat or Assets*, ch. 8, sec. 8.1., pp. in this volume.

19. Id., at secs. 8.2. and 8.3., pp.

20. Id., at secs. 8.4. and 8.5., pp.

21. F.M. Mucciarelli, *Cross-Border Mergers and Corporate Mobility in the European Union: A Difficult Balance* ch. 9, pp. in this volume.

22. Id., at secs. 9.3. and 9.4., pp.

23. Id., at sec. 9.4., pp.

anti-abuse measures in light of the Merger Tax Directive.²⁴ He examines the relationship between purposive construction and anti-avoidance rules within the meaning of article 15(1) of the Merger Tax Directive²⁵; he discusses the EU principles that should have an impact in the interpretation of the article 15(1),²⁶ and then analyses article 15(1) and the transposition of that article into national laws.²⁷ He concludes by recommending some amendments to article 15(1); for example, the abolition of the subjective test of taxpayers' intentions and that presumption of tax avoidance should go beyond scenarios of a lack of "valid commercial reasons".²⁸

Jan van der Streek discusses the Dutch viewpoint that tax deferral may be a form of tax evasion.²⁹ He starts by discussing two landmark Dutch cases, then analyses article 75 of the CCCTB Directive; and finally the question of how to deal with a case involving both article 75 of the CCCTB Directive and article 15(1)(a) of the Merger Tax Directive. He contends that article 75 of the CCCTB Directive is *lex specialis* over article 15(1)(a) of the Merger Tax Directive.³⁰

Part V is dedicated to workers' mobility and to the obstacles that still exist in this area. Iris Goldner Lang discusses the topic from the perspective of European citizenship rights, while Cécile Brokelind focuses on frontier workers and their situation both under social security and under tax rules. Lang's analysis offers new insights into obstacles to "internal situations" by discussing the application of EU citizenship rules to what she calls "static" EU citizens – EU citizens within the EU territory as a whole, independently of there being a movement from one Member State to another, or not – their family reunification rights and their third-country national relatives.³¹ She discusses recent case law and the unresolved situations, and criticizes the fact that residence-related issues in the European Union still encounter many national barriers contrary to the EU internal market rules.³² She claims that cases such as *Zambrano* (Case C-34/09), *McCarthy* (Case

24. J. Englisch, *National Measures to Counter Tax Avoidance under the Merger Directive* ch. 10, pp. in this volume.

25. Id., at sec. 10.2., pp.

26. Id., at secs. 10.2., 10.4. and 10.5., pp.

27. Id., at sec. 10.6., pp.

28. Id., at sec. 10.7., pp.

29. J. Van der Streek, "Packaging" in the Light of the Netherlands Supreme Court's Case Law, *the Merger Directive and the Proposed CCCTB Directive* ch. 11, pp. in this volume.

30. Id., at sec. 11.5., pp.

31. I.G. Lang, *The Reach of EU Citizenship Rights for "Static" EU Citizens: Time to Move On?* ch. 12, sec. 12.1., pp. in this volume.

32. Id., at secs. 12.2.-12.5., pp.

C-434/09) and *Dereci* (Case C-256/11) should have been considered within the scope of EU law, even though restrictions could be justified on the basis of “unreasonable burden” on the public finances of the host Member State.³³

In her contribution, Cécile Brokelind aims to identify some of the rules in social security and taxation that either prevent or stimulate the cross-border mobility of workers,³⁴ focusing on cross-border pensions and contributions. She takes the example of commuters between Denmark and Sweden to illustrate the lack of coordination of social security and tax rules and the restrictions deriving therefrom.³⁵ She proposes, for instance, unifying tax and social security choice-of-law rules as a starting point. In contrast, in her view, it is not feasible to achieve the same level playing field in respect of benefits available in EU Member States. The solutions under bilateral tax treaties on outgoing pensions and deductions for foreign pension schemes should be monitored and better coordinated; she also recommends encouraging supplementary pension funding through occupational pensions in each EU Member State, provided funds are easily transferable from one Member State to another in the case of cross-border retirement.³⁶

And last but certainly not least, part VI focuses on the taxation of groups. Guglielmo Maisto introduces this part by recalling and analysing the various possible approaches to looking at tax mobility and groups within the European Union.³⁷ He begins with the CCCTB proposal (presenting the key features of group consolidation envisaged in the proposal) and considers it a far-reaching proposal, even though some Member States were not seduced by it; he then refers to the principle of mutual recognition and describes the Italian “European Attraction Regime”, which he claims to be very close to the principle of mutual recognition; a third approach to group taxation consists in the approval of common rules on worldwide tax consolidation; and the fourth approach results from the ECJ case law on cross-border losses – Maisto revisiting the ECJ case law on this topic.³⁸

From this, chapter 15 follows with an empirical study on the consequences in theory that would result from the implementation of a CCCTB on the overall volume and distribution of tax revenue (Koch, Oesterreicher,

33. Id., at sec. 12.6., pp.

34. C. Brokelind, *Social Security Issues and Taxation of Frontier Workers – The Case of Pensions* ch. 13, pp. in this volume.

35. Id., at sec. 13.4., pp.

36. Id., at secs. 13.4.2. and 13.4.3.-13.5., pp.

37. G. Maisto, *Taxation of Groups and the CCCTB* ch. 14, secs. 14.2.-14.5, pp.

38. Id.

Vorndamme and Hohls).³⁹ The authors present a forward-looking micro-simulation model intended to overcome the shortcomings of previous empirical studies that made use of backward-looking simulation approaches (these empirical studies did not take into account future firm development, changes to tax account regulations and behavioural responses – although behavioural responses still have to be included in the forward-looking model presented by the authors here).⁴⁰

Some first results of their model conclude that the proposed harmonization of tax accounting regulations may increase tax revenue, whereas consolidation and formula apportionment would reverse the overall revenue effect.⁴¹

Two US perspectives on formulary apportionment and transfer pricing are given by Yariv Brauner and Walter Hellerstein. Brauner focuses on the pros and cons of the choice between the current arm's length-based transfer pricing regime and a formula-based transfer pricing regime.⁴² He does not address the broader question of replacing the US source-based international tax regime for taxing business income with a formula-based regime. Brauner contends that reform of the current transfer pricing regime in the United States and the world is under pressure due to globalization and the necessity of fighting abusive tax planning.⁴³ He discusses the main arguments in the debate between proponents of formulary apportionment and transfer pricing proponents: economic-based versus arbitrary taxation; the three factor formula; simplicity, compliance and enforcement.⁴⁴ He also discusses the design of a formula-based transfer pricing regime and analyses the US states' formulary business taxation.⁴⁵

Hellerstein's paper examines the CCCTB's base-sharing mechanism in light of the analogous mechanism used in the United States.⁴⁶ He thoroughly presents and discusses the tax avoidance possibilities that the proposed CCCTB mechanism offers, namely under each of the factors foreseen in the cor-

39. R. Koch et al., *Possible Effects of a Common Consolidated Corporate Tax Base on EU Tax Budget* ch. 15, pp.

40. Id., at sec. 15.3.2., pp.

41. Id., at sec. 15.4., pp.

42. Y. Brauner, *Formulary Taxation and Transfer Pricing: The Good, the Bad, and the Misguided*, ch. 16, pp. in this volume.

43. Id., at sec. 18.1., pp.

44. Id., at sec. 16.2.2., pp.

45. Id., at sec. 16.3., pp.

46. W. Hellerstein, *Formulary Apportionment in the EU and the US: A Comparative Perspective on the Sharing Mechanism of the Proposed Common Consolidated Corporate Tax Base* ch. 17, pp. in this volume.

responding sharing mechanism (and normally characterized by tax-motivated factor shifting). The author then discusses the possible anti-abuse reactions (caused by the CCCTB anti-abuse, safeguard and rule-making provisions) to the previously described avoidance behaviour,⁴⁷ concluding that the apportionment mechanism in the CCCTB proposal is in general coherent in theory, practical in design and resistant to abuse (tax-motivated factor shifting). It remains to be seen how effective the anti-abuse rules will be in practice.⁴⁸

As the above remarks have shown, this book has a broadly multidisciplinary scope and offers in-depth thoughts on the current challenges to the European Union, the current obstacles to the internal market and the policy options that are open to the European decision-making instances and Member States. We hope it provides arguments for further steps in EU integration and that it is useful for further research on the topic.

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47. Id., at secs. 17.2.2. and 17.3.-17.6., pp.

48. Id., at sec. 17.7., pp.

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