

Debt equity bias reduction allowance - public consultation

Fields marked with * are mandatory.

Introduction

The objective of the initiative is to introduce an allowance system for equity financing in order to mitigate the debt-equity bias induced by taxation, thereby reducing overall debt-leverage of companies and supporting the economic recovery from the COVID-19 crisis. The Commission services will explore different ways in which such an allowance could be designed and implemented as well as possible alternative options to achieve the same objectives. It will also explore how anti-tax avoidance rules linked to such allowance can be designed to ensure tax fairness and prevent the use of the allowance for unintended purposes.

The questionnaire should take about 30 minutes to complete. The questionnaire is accessible in English in the first instance, but will be made available in all official EU languages within two weeks. You can submit your reply in any of the official EU languages.

In addition to the introduction, the consultation is structured as follows:

The second part presents some general background information on the initiative.

The third part of the questionnaire asks for some background information about you, the respondent.

The fourth part covers the causes and consequences related to the tax based debt-equity bias.

The fifth part covers possible solutions to address those shortcomings.

The final section allows you to upload a position paper or any kind of document that you think is relevant to better explain your views.

Context

In the Communication Business Taxation for the 21st Century[1], the Commission announced a proposal to address the debt-equity bias in corporate taxation. The initiative would support the action plan for the Capital Market Union, which acknowledges that the corporate sector will enter the post-COVID recovery period with higher need for equity investment.[2]

Most current tax systems across the EU accept interest payments on debt as a deductible expense, reducing the tax base for the purpose of corporate income taxation. At the same time, the costs related to

equity financing are mostly not tax deductible. This asymmetric tax treatment of the costs induces a bias in investment decisions towards debt financing. This debt bias of taxation is a long-standing issue.

The tax induced debt-equity bias can contribute to an excessive accumulation of debt for non-financial corporations. Excessive debt levels make companies vulnerable to unforeseen changes in the business environment and increase their risk of insolvency. Necessary business restructuring following insolvency procedures often comes with considerable social costs in the form of mass layoffs. A large number of related non-performing loans can negatively affect financial stability. Total indebtedness of non-financial corporations amounted to almost EUR 14 trillion in 2019 or 99.8% of GDP in the EU-27.

Within the single market, excessive insolvencies and financial instability have the potential to spill over to other Member States and affect the EU as a whole. Following the COVID-19 health crisis and in the framework of the transition to a greener and digitalised economy, substantial equity financing is of central importance for a fast and sound recovery. Companies with a solid capital structure are less vulnerable to shocks and more prone to make investments and to take risks. This can positively affect competitiveness, growth and ultimately employment.

Six Member States (Belgium, Cyprus, Italy, Malta, Poland and Portugal) already have legislative measures in place to tackle the tax induced debt-equity bias. The measures differ in policy design but all provide for a tax allowance on equity.

[1] COM(2021) 251 final

[2] COM(2020) 590 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:590:FIN>

About you

* Language of my contribution

- Bulgarian
- Croatian
- Czech
- Danish
- Dutch
- English
- Estonian
- Finnish
- French
- German
- Greek
- Hungarian
- Irish
- Italian
- Latvian

- Lithuanian
- Maltese
- Polish
- Portuguese
- Romanian
- Slovak
- Slovenian
- Spanish
- Swedish

* I am giving my contribution as

- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

* First name

Bob

* Surname

van der Made

* Email (this won't be published)

bob.vandermade@pwc.com

* Organisation name

255 character(s) maximum

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](#). It's a voluntary database for organisations seeking to influence EU decision-making.

EBIT EU Transparency Register ID 26231733692-35

* Country of origin

Please add your country of origin, or that of your organisation.

- | | | | |
|-------------------------------------------|------------------------------------------|----------------------------------------|--------------------------------------------------------|
| <input type="radio"/> Afghanistan | <input type="radio"/> Djibouti | <input type="radio"/> Libya | <input type="radio"/> Saint Martin |
| <input type="radio"/> Åland Islands | <input type="radio"/> Dominica | <input type="radio"/> Liechtenstein | <input type="radio"/> Saint Pierre and Miquelon |
| <input type="radio"/> Albania | <input type="radio"/> Dominican Republic | <input type="radio"/> Lithuania | <input type="radio"/> Saint Vincent and the Grenadines |
| <input type="radio"/> Algeria | <input type="radio"/> Ecuador | <input type="radio"/> Luxembourg | <input type="radio"/> Samoa |
| <input type="radio"/> American Samoa | <input type="radio"/> Egypt | <input type="radio"/> Macau | <input type="radio"/> San Marino |
| <input type="radio"/> Andorra | <input type="radio"/> El Salvador | <input type="radio"/> Madagascar | <input type="radio"/> São Tomé and Príncipe |
| <input type="radio"/> Angola | <input type="radio"/> Equatorial Guinea | <input type="radio"/> Malawi | <input type="radio"/> Saudi Arabia |
| <input type="radio"/> Anguilla | <input type="radio"/> Eritrea | <input type="radio"/> Malaysia | <input type="radio"/> Senegal |
| <input type="radio"/> Antarctica | <input type="radio"/> Estonia | <input type="radio"/> Maldives | <input type="radio"/> Serbia |
| <input type="radio"/> Antigua and Barbuda | <input type="radio"/> Eswatini | <input type="radio"/> Mali | <input type="radio"/> Seychelles |
| <input type="radio"/> Argentina | <input type="radio"/> Ethiopia | <input type="radio"/> Malta | <input type="radio"/> Sierra Leone |
| <input type="radio"/> Armenia | <input type="radio"/> Falkland Islands | <input type="radio"/> Marshall Islands | <input type="radio"/> Singapore |
| <input type="radio"/> Aruba | <input type="radio"/> Faroe Islands | <input type="radio"/> Martinique | <input type="radio"/> Sint Maarten |
| <input type="radio"/> Australia | <input type="radio"/> Fiji | <input type="radio"/> Mauritania | <input type="radio"/> Slovakia |

- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh

- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan

- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria

- Burkina Faso
- Burundi

- Finland
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands

- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland

- Grenada
- Guadeloupe

- Guam

- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau

- Guyana

- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong

- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova

- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar/Burma

- Namibia
- Nauru

- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua

- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands

- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland

- Syria

- Taiwan
- Tajikistan
- Tanzania
- Thailand

- The Gambia

- Timor-Leste
- Togo

- Tokelau
- Tonga

- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Clipperton
- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d'Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena
- Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- United States Minor Outlying Islands
- Uruguay
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- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

- Denmark Liberia Saint Lucia

The Commission will publish all contributions to this public consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association', 'consumer association', 'EU citizen') country of origin, organisation name and size, and its transparency register number, are always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

* **Contribution publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

Anonymous

Only organisation details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published as received. Your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.

Public

Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

I agree with the [personal data protection provisions](#)

Would be willing to take part in a possible follow-up interview related to this project?

[Or something similar, just to allow you to get in touch with the respondents in case of questions or need for follow up.]

- yes
 no

Current issues

To what extent do you agree or disagree with the following statements on the indebtedness of non-financial corporations in the EU?

	strongly agree	agree	neutral	disagree	strongly disagree	don't know
High levels of debt make enterprises more vulnerable to insolvency.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High levels of debt make enterprises more profitable.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High levels of debt are due to lack of other financing options.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Debt levels of large non-financial enterprises are too high.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Debt levels of small and medium sized enterprises (SMEs) are too high.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

In your view, how high **is** the proportion of debt compared to equity for non-financial corporations in your country?

- Not more than 25%
- 25% - 50%
- 50% - 75%
- 75% - 100%
- 100% - 125%
- 125% - 150%
- 150% - 200%
- More than 200%

In your view, how high **should** the proportion of debt compared to equity be for non-financial corporations in your country?

- Not more than 25%
- 25% - 50%
- 50% - 75%
- 75% - 100%
- 100% - 125%
- 125% - 150%
- 150% - 200%
- More than 200%

How much do you agree or disagree with the following reasons for enterprises to finance their investments through debt rather than equity.

Enterprises use debt to finance investments ...

	strongly agree	agree	neutral	disagree	strongly disagree	don't know
... to increase the return on equity.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because they have no or only limited access to equity financing.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... because interest levels are low and thus debt financing is cheap.	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... to diversify risk.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... to reduce their tax liabilities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... to avoid the dilution of voting rights of their main shareholders.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... for other reasons (dialog box with free text will open)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Do you think that enterprises in the EU should be encouraged to use less debt financing and more equity financing?

- strongly agree
- agree
- neutral
- disagree
- strongly disagree
- don't know

Do you have further points you would like to raise in relation to the indebtedness of the business sector in general or on the ratio of debt to equity specifically?

1000 character(s) maximum

We refer to our accompanying side letter (EBIT Additional Comments) which includes more input on this question.

Possible Solutions

Several Member States have introduced measures to limit the ratio of debt to equity by limiting the deductibility of interest payments. Other countries have introduced a tax allowance on equity to counter the debt-equity bias. This is often done by allowing the deduction of a notional interest rate on equity.

How much do you agree or disagree with the following statements about existing Member State measures to support equity financing?

National initiatives which tackle the tax debt-equity bias ...

	strongly agree	agree	neutral	disagree	strongly disagree	don't know
... are preferable to an initiative at the EU level since they can be better targeted to the needs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
... are creating difficulties for enterprises operating in the single market across countries.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... are a form of tax competition among countries.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How much do you agree or disagree with the following statements about an EU initiative to mitigate the debt-equity bias?

An EU-wide initiative which tackles the tax debt-equity bias ...

	strongly agree	agree	neutral	disagree	strongly disagree	don't know
... would be a useful tool to support the recovery of companies from the COVID-19 crisis and incentivise investment through equity in the transition to a greener digitalised economy without creating distortions in the single market.	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... would reduce tax competition among Member States.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... would be beneficial for enterprises operating in the single market across countries.	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... is not necessary: the tax debt equity bias should be addressed at Member State level.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... is not necessary: there is no such thing as a tax debt-equity bias.	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The tax debt bias could be addressed via several possible policy options. When considering the options below, the respondent should assume that the overall

impact on the tax costs for corporations and tax revenues for Member States will be neutral, even though the possible offsetting measures remain at the discretion of each Member State. As an example, the policy option to mitigate the debt equity bias could be combined with a change in the corporate tax rate to ensure that the global impact on tax revenues of Member States and on tax costs for corporations is neutral.

In your view, which option would be best suited to address the debt-equity bias? Please rank the options from 1 (most suited option) to 4 (least suited option).

	1 (most suited option)	2	3	4 (least suited option)
Option 1: Disallow any financing costs as deductible expense.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Option 2: An allowance on equity that provides for the deductibility of a notional interest on all equity (maintaining the existing interest deductibility).	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Option 3: An allowance that provides for the deductibility of a notional interest on new equity (maintaining the existing interest deductibility).	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Option 4: An allowance on corporate financial capital (financial debt+equity) that would replace the tax deduction of interests.	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Option 5: other	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If other, please explain shortly which type of measure should be envisaged and how it should be designed?

1000 character(s) maximum

We refer to our accompanying side letter (EBIT Additional Comments) which includes more input on this question.

Following the European System of Accounts 2010, the working definition of equity is: “equity is a financial asset that is a claim on the residual value of a corporation, after all other claims have been met”. Do you consider this definition useful or would you propose an alternative definition?

- Definition useful
- Definition not useful, I would propose an alternative.

When a tax allowance for corporate equity is granted (as in policy options 2, 3 and 4), a notional interest rate needs to be determined. The notional interest rate will be determined based on a risk free market interest rate in order to take annual interest rates variations into account. In addition a risk premium can be added to the risk free rate for calculating the notional interest rate. How high do you think the notional interest rate should be?

The notional interest rate for an equity allowance should be:

- equal to the risk free interest rate + 0.5%
- equal to the risk free interest rate + 1%
- equal to the risk free interest rate + 1.5%
- equal to the risk free interest rate + 2%
- equal to the risk free interest rate + 2.5%
- equal to the risk free interest rate + 3%
- higher

Please explain your response and/or provide further comments.

500 character(s) maximum

In view of better addressing financing issues for Small and Medium Enterprises (SMEs), do you think that a more generous notional interest rate should be granted to SMEs?

- strongly agree
- agree
- neutral
- disagree
- strongly disagree
- don't know

Please explain your response and/or provide further comments.

500 character(s) maximum

How much higher do you think the notional interest rate for SMEs should be compared to larger companies?

100 character(s) maximum

For a tax allowance for corporate equity (options 2, 3 and 4 above), do you agree that such a proposal should include robust rules to protect it against being used for aggressive tax planning?

- strongly agree
- agree
- neutral
- disagree
- strongly disagree
- don't know

Please evaluate the following elements in terms of effectiveness to make an allowance for equity more resilient to tax avoidance by expressing you (dis-) agreement with the following statements.

In order to prevent abuse of an allowance for equity for aggressive tax planning purposes, it is necessary to ...

	strongly agree	agree	neutral	disagree	strongly disagree	don't know
... add a general anti-abuse provision that would deny notional deduction for operations carried out without any substantial economic purpose or carried out with related parties and that have the main purpose of converting old equity into new equity with the aim of benefiting from the notional deduction.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude cascading through intra-group loans and loans involving associated enterprises;	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude cash contributions and contributions in kind;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude capital increase subscribed by the company or one of its subsidiaries (own shares);	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude intra-group transfer of participations;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

... prevent re-categorisation of old capital as new capital through liquidations and the creation of new companies;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude acquisitions of businesses held by associated enterprises	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... exclude assets not linked to the activity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (please specify)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Final remarks

You have the option to upload a brief document, such as a position paper in case you think additional background information is needed to better explain your position or to share information about data, studies, papers etc. that the European Commission could consider to prepare its initiative.

Please note that the uploaded document will be published alongside your response to the questionnaire, the latter being the essential input to this public consultation.

In case you have chosen in the section "About you" that your contribution shall remain anonymous, please make sure you remove any personal information (name, email) from the document and also from the document properties.

Please upload your file

Only files of the type pdf,doc,docx,odt,txt,rtf are allowed

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/EBIT_Additional_Comments_to_the_European_Commission_Questionnaire_on_DEBRA_-_October_2021.pdf

Contact

[Contact Form](#)

