

# Business in Europe: Framework for Income Taxation (BEFIT)

February 22, 2024



## What is BEFIT?



On September 12, 2023, the European Commission (EC) issued a [proposal](#) for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT). The proposal provides for common rules for determining the corporate tax base of EU-based entities that are part of a group with global consolidated revenues above a certain threshold. Resulting profits would then be allocated to the relevant Member States and subject to the corporate income tax rate of the respective Member State.

For more details, please refer to Euro Tax Flash [Issue 521](#).

## Who is affected?



- **Mandatory scoping provisions:** groups operating in the EU (whether headquartered in the EU or in a third country) with annual combined revenues of at least EUR 750 million (with de minimis thresholds for non-EU headquartered groups).
- **Voluntary scoping provisions:** groups that do not meet the threshold requirements but prepare consolidated financial statements.

## Why has this been proposed?



- The EC has been actively promoting the idea of a common consolidated corporate tax base (CCCTB) since 2011, but none of the past initiatives achieved consensus.
- The EC is of the view that the common framework will create a level playing field, enhance legal certainty, reduce compliance costs, and stimulate investments and growth in the Union, as well as protect the tax bases of Member States against abuse.

## How does BEFIT operate?



### Calculation of the preliminary tax result of each BEFIT group member

- The preliminary individual corporate tax base is determined by making adjustments to the results in the financial accounting statements. Adjustments include taxable/excluded income, non-deductible expenses, depreciation rules and other specific adjustments.

### Aggregation and allocation of the tax results

- The BEFIT tax base of the group is obtained by aggregating profits and losses of BEFIT group members into a single tax base.
- Under a transitional mechanism, the resulting tax base is allocated to eligible group members based on the average preliminary taxable results in the prior three fiscal years. The aim is for a permanent allocation method based on formulary apportionment to be agreed on at a later stage.

### Local adjustments

- Each BEFIT group member is required to make several local adjustments to its part of the taxable base (e.g., for pre-BEFIT losses, pension provisions, etc.).
- Member States are free to apply further deductions, tax incentives, or base increases to their allocated parts.

### Transfer Pricing (TP) matters

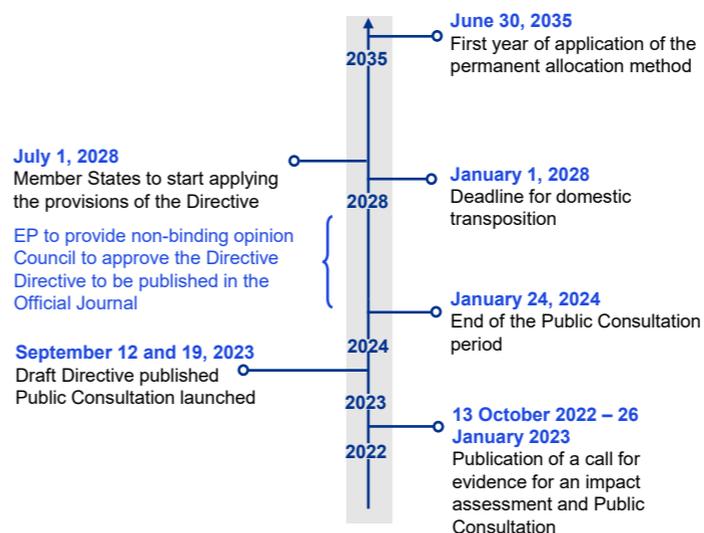
- TP simplification measures apply both for transactions between BEFIT group members and transactions with related parties that are not part of the BEFIT group.

## Administration



- **One-stop-shop system:** the ultimate parent entity files a single information return for the BEFIT group with its own tax administration, and each group member files an individual tax return with its own tax administration to reflect local adjustments.
- **Tax assessments and audits:** creation of 'BEFIT Teams' to assess the completeness and accuracy of the BEFIT Information Return among tax administrations where the BEFIT groups operates in the EU.

## When would BEFIT be implemented and when would it become applicable?



## How can KPMG help?

The network of EU tax specialists based in KPMG firms can help you assess how the new rules may impact your business.

If you would like to receive more information, feel free to contact one of the following advisors, or, as appropriate, your local KPMG contact.

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