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On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Feedback to the EC's Roadmap on business taxation for the 21st century

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Invest Europe welcomes the EC's initiative to take stock of discussions in international forums on reforming the international tax system and set out a vision for business taxation in the EU to ensure that the system is appropriate for the modern economy. In this context, we would like to share the following points, which we believe should be considered, in order to ensure that the business taxation framework across the EU responds to the realities of the modern globalised and digitalised economy.

First and foremost, a tax regime for the 21st century should encourage the innovation and research needed for the green and digital transition by creating the right policy and environment for start-ups, scale-ups and R&D, which play a crucial role in this transition. Furthermore, any tax regime that is to be future proof needs to entail incentives for investments and for retaining capital.

One element we think is worth exploring is incentives for businesses to involve employees in taking ownership. An important factor behind the success of a start-up is its ability of attracting and retaining the right talent, and one way it can be able to do so is by providing stock options to its employees. However, for the ultimate success of such incentives, it is necessary to have the right tax framework. We believe the right tax incentives will allow start-ups and scale-ups to attract the talent they need to continue growing. Moreover, a harmonised tax treatment of stock options across the EU would create a level-playing field. Finally, as also reiterated in the paper on "Effectiveness of tax incentives for venture capital and business angels to foster the investment of SMEs and start-ups" prepared for the EC, venture capital is more common in countries with more generous taxes, allowing to incentivise key personnel with stock options. Tax incentives encouraging stock options can therefore also promote venture capital funding.

Another aspect we find worth looking into is tax deductions for the companies that can contribute to the green and digital transition and the recovery of the European economy after the COVID-19 crisis. Innovative start-ups, scale-ups and companies active in fields such as green and digital technologies, circular economy, life sciences, infrastructure, health and deep-tech play a crucial role in the recovery and transition, in the creation of jobs, and in tackling the health threats posed by the virus. All of this should be encouraged and supported by the right tax incentives. As an industry committing long term and active capital to these innovative businesses, we see benefits in looking into incentives such as super deductions for R&D, development of assets, start-ups and scale-ups, as well as long term deductions in these areas. Furthermore, in order to encourage investments in these companies, tax deductions for such investments could also be considered particularly for seed/early-stage investments. The private equity and venture capital industry stands ready to actively contribute to the green and digital transition and economic recovery we have ahead of us, and such incentives would enable the industry to maintain and further boost its role as driver of innovation.

Finally, when taxing businesses which are part of global value chains, the global aspects must be taken into account. Therefore, it is important that the upcoming EU initiative on digital levy is consistent with and builds on the OECD work on Pillar 1 and Pillar 2. Having two different regimes – one at EU level and one at international level – would increase the complexity and compliance burden and the risk of double taxation. This could also lead to a situation where investments in the EU are more expensive and less attractive than in other territories, which would be to the detriment of the EU economy and EU companies depending on those investments, in particular in the times during and after the COVID-19 crisis, where investments are all the more needed.

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

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