INVEST EUROPE

12 July 2021

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

Feedback to the European Commission's Roadmap on Debt Equity Bias Reduction Allowance (DEBRA)

Invest Europe welcomes the European Commission's initiative to look into possible options to mitigate a potential debt-equity bias induced by taxation, and would like to share the following points, which we believe are important to take into account when designing such a system.

First and foremost, we endorse the European Commission's efforts to promote equity financing, of which private equity and venture capital is a crucial element. Indeed, equity investments play a fundamental role in supporting future growth, innovation and transitions.

However, we would like to stress that debt and equity financing should not be seen as in conflict or mutually exclusive. Rather, they are often complementary to each other, for example in a private equity context. There are various ways of setting up financing for especially small and innovative companies, and therefore it is crucial to get the tax deductions of costs related to financing right, in order to facilitate and support companies' access to capital.

Moreover, while we understand the aim to reduce a tax induced debt-equity imbalance, even further than it has already been reduced, it is important that this issue is dealt with in a way that is helpful and not detrimental to the access of diversified sources of financing for companies, keeping in mind the already existing measures restricting interest deductibility. For instance, ATAD 1, ATAD 2 and countries' additional constraints are already reducing the bias of debt-equity imbalance.

The choice between equity and debt is not made by companies solely because of tax reasons, but because of various other considerations. For instance, equity has significant governance implications (e.g. as a result of dilution of voting rights, giving access to boards, etc.). The choice is also often influenced by the fact that not all types of financing are available at a given time, particularly so for smaller companies and start-ups.

As also acknowledged in the impact assessment of the 2016 CCCTB proposal, also referred to in the present roadmap, the expected economic benefits of introducing an equity allowance are overall positive and should lead to moderate increases in investment, employment and growth. We are happy to support such idea and to enter into further discussions on how it can be realised in the best possible way. On the other hand, while disallowing tax deduction of interest on debt might be efficient in eliminating the bias, it is in the same impact assessment acknowledged that it would have negative effects on growth and employment due to depressed investment, an analysis we share.

Disallowing the deductibility of interest payments would especially penalize enterprises that lack easy access

Avenue Louise 81
B-1050 Brussels, Belgium
T +32 2 715 00 20

investeurope.eu
info@investeurope.eu

VAT: BE 0424 557 716
IBAN: BE33 3300 5785 0046
BIC/SWIFT: BBRUBEBB

European Transparency
Register: 60975211600-74

to equity and have instead to rely on debt financing to create jobs or invest in equipment. Small and innovative companies would probably be disproportionately impacted because they often rely on debt financing to fund growth initiatives.

In continuation of this, as investors providing SMEs, start-ups, scale-ups and other innovative companies with active support and long term financing, which they often would not have been able to get elsewhere or it would have been too expensive, we support the idea of designing a special measure for SMEs, as we are well aware that they typically find it more difficult than more mature companies to find financing.

We would very much welcome the opportunity to exchange views with the European Commission on this important topic, and we would be happy to discuss in greater detail how an allowance for costs of equity financing should look like in order to fully be able to fulfil the purpose of encouraging and supporting equity financing.

Contact

For further information, please contact Martin Bresson (martin.bresson@investeurope.eu) at Invest Europe.

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.

For more information please visit www.investeurope.eu.