Expertise
and insight
for the future

Frans Viitanen

Real Estate Investment Trusts & the European Union Common Consolidated Corporate Tax Base Proposal

Metropolia University of Applied Sciences

Double-degree Bachelor

European Business Administration

Bachelor’s Thesis

19.04.2020

Metropolia
University of Applied Sciences

Author Title Number of Pages Date	Frans Viitanen Real Estate Investment Trustees & Common Consolidated Corporate Tax Base Proposal 37 pages 19 April 2020
Degree	Bachelor of Business Administration
Degree Programme	International Degree Programme
Specialisation option	European Business Administration
Instructor	Darryl Chapman, Professor, Senior Lecturer

The purpose of this thesis is to study and speculate how the Common Consolidated Corporate Tax Base (CCCTB) -initiative of European Commission would affect the operation of Real Estate Investment Trustees (REITs), currently operating in the member countries of European Union. Streams of used literature have been selected accordingly to meet the needs of this two way approach to the subject. The streams include studies of REIT markets at different stages around the globe as well as articles of their performance and faults, especially in Europe. At the other end, literature was selected to gain knowledge of the CCCTB proposal, its purpose and desired effects on the internal market of European Union. An additional source of literature was added to support the underlying linkage between these two, as European Public Real Estate Association (EPRA), had made a review and recommendations in response to the CCCTB initiative.

Findings indicate that the CCCTB could possibly have an enabling effect to the REITs operating in EU member countries by reducing bureaucracy and lowering costs and uncertainty regarding the business decisions. To further enable these gains, a frame for EU-REIT should be created to unify the regulation and rules being applied to them between the different models of each member country.

Keywords	REIT, CCCTB, Real Estate, Corporate income, Capital Market Union

Contents

List of Tables

Glossary

CCCTB	Common Consolidated Corporate Tax Base, an initiative launched by European Council to develop single market of European Union for companies.
REIT	Real Estate Investment Trustee, a business model deeply involved in real estate industry. Highly regulated. Business model originates from the United States of America and dates back to 1960’s.
CMU	The capital markets union is an EU initiative which aims to deepen and further integrate the capital markets of EU member states.
EC	The European Commission (EC) is the executive branch of the European Union, responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU.
EPRA	European Public Real Estate Association, an agent organization ensuring Europe's listed real estate – stock exchange quoted property companies, investors and their suppliers rights and proper functioning in Europe.
MNE	Multi National Enterprise is typically a corporation that has facilities and other assets in at least one country other than its home country.

1 Introduction

Real Estate Investment Trustees (REITs) are regulated business vehicles, which ideally, invest in real estates of certain kind. By doing so they achieve efficiency and ultimately produce stability to the housing markets, as well as an access to investing on real estates for those private persons, whose limited capital in other ways would not allow them to invest on real estates with a direct investment of acquiring an apartment with a loan (Mazurczak, 2011). Those EU countries that have REITs, have adopted a special tax regime to facilitate better this type of business vehicle and to create a level playing field with different forms of real estate investment and ownership. In most countries, REITs have their corporate level income as tax exempt so that investors would avoid double taxation (Eichholtz and Kok, 2007). The investors of REITs would only be taxed at an income level according to the quarter- or semi-annual dividends. The business model of REITs originates from the United States of America, which currently is the leading and only mature REIT market globally. The special features of the US REIT market are common currency, big size and it has harmonized the relevant regulation and taxing policy between the member states. All features of which REITs operating in the European Union, have been struggling to achieve (Eichholtz and Kok, 2007).

The purpose of this bachelors thesis is to research and discuss how the current tax regimes within European Union member countries are hindering cross-border business activities by having varied sets of taxation regulations and rules being applied to the companies operating in their domestic markets. The free movement of capital, one of the foundational values of the European Union, cannot be easily implemented by the REITs operating in EU, therefore leaving them in disadvantage compared to their equivalents in the US (Eichholtz and Kok, 2007). EU REITs are obliged to comply with the varied sets of regulations, rules and taxing systems of each host country. Therefore, adding burdensome duties and increased bureaucracy to those by whom interest it would be to enter a domestic market of other EU member country to achieve increased efficiency.

The European Commission’s proposal of Common Consolidated Corporate Tax Base (CCCTB) would in effect increase transparency and simplify the tax distribution of the taxable profits, which companies are making within the EU. While this is not what the thesis aims to study, the assumed side-effect of the CCCTB would be that businesses like REITs, operating under heavy regulation, would feel more encouraged to extent their operations abroad. Ultimately this would increase the market size for REITs in European Union and yield many opportunities which they have been lacking so far.

The author discusses and aims to show how, theoretically, an establishment of the Common Consolidated Capital Tax Base (CCCTB) would remove some related and currently existing barriers, and enable more efficient operation of the Real Estate Investment Trustees (REITs) within the EU member countries.

1.1 Real Estate Investment Trustees in Europe today

REITs as business vehicles have existed in, roughly, half of the EU member countries for a longer than a decade, yet the experiences of REITs and their expected results have been far from desired ones, mainly due to the lack of efficient EU internal market for REITs to operate in. In the United States of America, where REITs originate from, they have been found to have many positive effects to the economy, real estate markets and to those private persons, who otherwise would not have access to real estate markets through sole ownership. Many experts of housing industry argue that by establishing a more transparent and simple regime in regards to taxation, EU could make major contributions to the control, stabilization and efficiency of the internal markets of EU (Eichholtz and Kok, 2007).

Table 1. EU REIT Market shares. Source: EPRA Global REIT Survey (Sept. 2009).

Country	Structure name	Year of establishment	% of Global REITS market
Belgium	Sicafi / Bevak	1995	1,4
Bulgaria	REIT	2004	0,1
Finland	FINNISH REIT	2009	0
France	SIIC	2003	11,3
Germany	G-REIT	2007	0,1
Greece	REIC	1999	0,2
Italy	FII	2007	0,1
Lithuania		2008	0
Luxembourg	SICAV	2007	0
Netherland	FBI	1969	2,1
Spain	SOCIMI	2009	0
UK	UK-REIT	2007	6,5

The table above was produced by Mazurczak in 2011 and its data is based on the EPRA Global REIT Survey from 2009. It gives a good signal of the underlying issue that although REITs have been existing in many EU countries for more than a decade, these markets are very insignificant when compared to those in the United States or in Asia, for example.

1.2 Common Consolidated Corporate Tax Base

Since 2011 there has been an ongoing process driven by European Council to create a more investment friendly environment, within European Union, for businesses operating across borders. This environment goes under name of legislation framework of Common Consolidated Corporate Tax Base (CCCTB). The CCCTB would be an extension of Common Corporate Tax Base (CCTB), which would fundamentally mean that:

> Companies operating across borders in the EU would no longer have to deal with 28 different sets of national rules when calculating their taxable profits. Consolidation means that there would be a 'one-stopshop' – the principal tax authority – where one of the companies of a group, that is, the principal taxpayer, would file a tax return. To distribute the tax base among Member States concerned, a formulary apportionment system is introduced. (Delivorias, 2018)

The thesis is closely focused on the above stated goal of CCCTB to eliminate barriers and harmonize the internal market of EU. In this thesis it is taken granted that regardless of EUs foundational common market principle of free movement of capital, the current situation does not reveal as appealing, as it was originally designed to. Especially small and medium size enterprises lack incentives to invest across border within the EU due to increased bureaucracy and having to deal with varying sets of taxing systems.

1.3 Problem related to the EU internal market for REITs

The current problem related to REITs, as they exist today, separately in various European countries, is that they are all operating under the laws and regulations of the host governments. The property regimes in EU are characterized by variety and fragmentation as most of the 27 EU member states have their own funds structure and applied legislation (Mazurczak, 2011).

In the council directive of Common Corporate Tax Base the European Commission recognises that: "Currently, businesses with cross-border activity have to comply with up to 28 divergent corporate tax systems. This is a burdensome process, both timing-wise and economically, and diverts the effort out of the main thrust of doing business." (Delivorias, 2016)

These regulations vary from country to another, although the basic fundamentals of legislative framework of REITs are relatively similar, having to distribute most of their profits thriven from mainly real estate assets, as dividends to the shareholders. The diversity of regulations applying to REITs causes incompatibility between the business models and the market structures, preventing them from reaching their full potential as highly diversified and stable assets for private and commercial investors. Furthermore, the fragmentation of the markets is causing additional negative effects such as inefficient allocation of capital and double taxation, which is particularly detrimental to the REITs in smaller member countries (Eichholtz and Kok, 2007).

1.4 Would CCCTB solve for EU-REITs?

The research gap lies in between of how and to what extend the establishment of the CCCTB would help to eliminate the barriers that REITs in European Union are currently facing, allowing them to operate more efficiently within EU. The different, assumed, benefits for businesses in the EU are assessed according to the special business vehicle of REITs. Although the real final effects of CCCTB can only be speculated, the author aims to draw conclusions based on the targets that European Commission has set for it.

In the webpage of European Commission, the commission states that by launching CCCTB it is aiming to improve single market for businesses by reducing the red tape and cutting compliance costs for the companies in the single market. A special ease is promised on companies to calculate their taxable incomes and filing tax returns for all their EU activities. (Taxation and Customs Union - European Commission, 2020)

The CCCTB is also promised to combat tax avoidance as it would be mandatory for all the largest groups operating in EU. Although this is in primary significance to REITs, at least at this point, it would add transparency to the markets and help to reduce the uncertainty of what is and will be the applied regulation to them. (Taxation and Customs Union - European Commission, 2020)

CCCTB has been estimated to support growth, jobs and investment in the EU. In fact, the commission estimates that by launching CCCTB, EU would gain 3,4% lift on investments and 1,2% lift on growth as short term consequence. Furthermore, CCCTB would encourage business and investment, by offering companies solid and predictable rules, a fair and level-playing field, and reduced costs and administration. (Taxation and Customs Union - European Commission, 2020)

The author is not aiming for a close ended answer but rather to conclude the possibility of such effects based on the findings drawn from the selected literature.

The research gap was identified after realizing that there were no studies made before on what kind of change the establishment of CCCTB would make to the current market environment for REITs within European internal market.
The Research question is set to “Could the establishment of the Common Consolidated Corporate Tax Base enable more efficient operation of Real Estate Investment Trustees in European Union?”.

1.5 The property industry

Property industry acts as one of the key cornerstones of any government in European Union as it provides a source of economic growth, stability and employment among other benefits. Real Estate Investment Trustee, a business model, which originates from the 1960s United States, are known of being beneficial to the governments, economy and to the public in general. They provide stabilizing effects to the real estate markets and enable small investors to safely invest indirectly in property markets, allowing them to enjoy the diversification benefits this asset class has to offer and its qualities as a protection against inflation.

> On the one hand, REITs are important from the investor’s point of view. On the other hand, this regime is also crucial for real estate financing system, collecting capitals from as many investors as possible. Therefore, REITs are investment vehicle that are prefect for different types of investors, as well as source of capitals needed for real estate markets development. (Mazurczak, 2011)

1.6 Overview of the paper

Related to the topic of real estates as an asset class, property bubbles are known to be extremely damaging to the economies given their nature and high capital requirements related to the direct access in to the market. Understanding of these matters as the assumed major benefits of efficiently operating REITs to the macro level markets, are the stabilizing effects, increased production of wealth, accessibility of small investors to the real estate markets and ultimately transparency of the market as a whole. In order to study the presented problem systematically the author aims to study the topic through several aspects, which are considered relevant:

First by providing a compact overview of the main fundamentals of REITs as a business model, including the regulations applied to them and to provide some basic figures that are associated with the regulation of the model in regards to the distribution of their profits as well as the shareholder requirements and asset holdings.

Secondly, the author discusses the CCCTB proposal presented by the European Commission with its main components, creating an overlook on how the proposal would accommodate businesses overall and what exactly would be changed from the current situation. This is to be done so that the differences are highlighted in a concrete way to further develop the main argument of the paper; the final assumed effects to the REITs model as a business vehicle.

Thirdly, the author aims to identify the main problems and limitations associated with REITs in the European internal market so far. There exist a lot of information about REITs as an investment vehicle, what opportunities they could have, what are the problems related to them and how to possibly solve them. Furthermore, the author of this Bachelor’s Thesis focuses on identifying the overall problems regarding the regulation and its complexity within EU from the relevant parts.

Fourthly, the European Public Real Estate Association (EPRA) has responded to the preliminary proposal of the Capital Markets Union (CMU) presented by European Commission by stating their concerns on how the CCCTB should be adjusted in order to make it more accommodating to the special requirements of REITs. The scope of this proposal is to state the special needs of REITs so that they will be able to benefit from the standardisation of the rules and that the CCCTB regulations will not result in a greater distortion rather than the intended harmonization of tax rules impacting REIT regimes.

2 Literature review

This paper aims to show that the CCCTB, with its right sensitivity to REITs, could enable the more efficient operation of these valuable business models within EU internal market. With the CCCTB EU has a chance to make a major contribution to the control and stabilisation of the future property markets. It is also worth noting the current situation summarized by Devereux and Fuest already in 2010, in which the differences and incompatibilities between the national systems of corporate income taxation distort investment, complicate the tax system and give rise to conflicts between taxpayers and tax authorities as well as between tax authorities of different countries. (Devereux, M. and Fuest, C., 2010). This is a strong indicator of a need for a better coordinated taxation within European Union.

2.1 Development of Real Estate Investment Trust (REIT) Regimes in Europe

PhD Anna Mazurczak analyses the development of REIT regimes in Europe, explaining their fundamentals and original models from the United States. Majority of the REIT regimes in the world are almost direct copies of the original model created in the US with some country specific aspects. Major reason for this, is the historical success of these businesses behind the Atlantic (Mazurczak, 2011).

In general, there are four aspects which need to be fulfilled by business trust or corporation to be considered a US REIT for federal income tax purposes:

1. Organizational structure – the REIT must be organized as a business trust or corporation (Imperiale, 2006, p.16).

2. Nature of assets – at least 75% of the value of a REIT's total assets must be represented by real estate assets, cash and government securities; REIT may not own non-government securities in an amount greater than 25% of the value of the assets (Imperiale, 2006, p.16).

3. Sources of income – at least 75% of the company's income is derived from real estate or real estate – related investments. At least 75% of a REIT's annual gross income must consist of real estate rents, mortgage interest, gain from the sale of real estate assets, and other real estate – related sources (75% test). At least 95% of a REIT's annual gross income must be derived from the income items from the preceding 75% test plus other passive income sources such as dividends and any type of interest (Imperiale, 2006, p.16).

4. Distribution of income – 90% of net income must be distributed to shareholders. If it is fulfilled, REIT may deduct all dividends paid to its shareholders and avoid federal taxation at the corporate level on the amount distributed (Imperiale, 2006, p.16).

Anna discusses the main features and challenges in a descriptive way noting the possibilities and limits offered by the current state of the regimes in Europe in 2011. Although this source is more than five years old, not many things have changes and the basic fundamentals will remain unchanged. Ms. Mazurczak summarises REITs as an investment vehicle which provides an efficient solution for especially small investors to participate in commercial real estate markets, avoiding real estate disadvantages as part of an investment portfolio. While this can be regarded as a positive factor from an individual's point of view, the benefits of REITs extend to far deeper into society, as real estates are an important part of investment portfolio of institutions too (Mazurczak, 2011). The typical nature of real estate assets such as lack of liquidity, lack of efficiency, lack of relevant performance measurement as well as high capitalization, has been limiting the opportunities of real estate direct investments for a long time, especially in Europe. To better tackle this barrier, many EU member countries have created special tax regimes for property companies – REITs, so as to avoid double taxation, and to create a level playing field between different forms of real estate ownership. In practice this means granting a tax exemption for the corporate level taxation of income of REITs (Mazurczak, 2011).

> According to European Public Real Estate Association (EPRA), Europe accounts for just 21,8%of the global REITs market capitalization estimated at €754 billion, despite having 42,3% of the world's underlying assets in the direct commercial property market. The small size of European listed real estate assets compared to total property stocks (4,9%) suggests great potential for growth. (Mazurczak,2011).

Mazurczak argues that thereby creating one similar, yet not identical, EU REIT frame could act as a cure in turning the fragmented EU markets for property companies into the largest and possibly most efficient real estate markets in the world. This kind of optimal outcome would benefit many stakeholders, small and large investors, private and institutional to mention some. (Mazurczak, 2011).

This stream of literature will complement to the paper at hand by providing the basic information and fundamentals of REIT regimes and by providing an understanding of the nature of this type of business vehicle and its possibilities to the society.

2.2 The EU REIT and the Internal Market for Real Estate

In 2007 professors Piet Eichholtz and Nils Kok analyzed EU REIT and the internal markets for real estates in EU in their comprehensive study. This source provides an overview of what the problems have been with the current institutional structure of EU and how the structure hampers the efficient operation of EU REITs, putting them in a clear disadvantage compared to the mature REIT markets of United States or Australia for example (Eichholtz and Kok, 2007). The source lists six clear disadvantages, all of which are closely related and directly relevant to the research question at hand.

The current EU structure twists competition between member states as investors without tax-transparent framework required by government, are in disadvantage to investors from governments which have adopted such. This applies within EU member states as well as to other global competitors from United States for example (Eichholtz and Kok, 2007). EU is currently seeing effort to make the member states to provide more transparency in their taxing frameworks. Addition to that, unlike in United States, the institutional situation in EU is hindering cross border property investment across the EU. This is limiting the efficiency of REITs as they must invest in variety of different kind of real estate's due to the sizes of domestic markets (Eichholtz and Kok, 2007). REITs in Europe are forced to adopt a poorer strategy instead of specializing on one type of real estates, making them ultimately less effective in their businesses. The U.S. REIT strategy of sector focusing and demographic diversification has performance-enhancing effects as well as in terms of lowering the adjusted risk (Eichholtz and Kok, 2007). These benefits are currently out of reach to many REITs in EU member countries, due to the smaller domestic market size, compared to those in the United States.

Closer study will reveal which of these problems are possible to solve with the establishment of CCCTB as it is today and what are the effects to the REIT landscape in European member countries. The disadvantages listed consist of such as distortion of competition between member states because of the issue of tax-transparency (Eichholtz and Kok, 2007). The institutional situation in EU barriers of cross-border business opportunities for REITs practically forcing them to operate in one country solely. This directly leads to poorer strategy as companies cannot specialize to certain type of properties, which is very common in the United States, for example, due to the lack of offering in the domestic markets of each state. The positioning of smaller member states is also discussed as they are in natural disadvantage due to the lack of scale. Finally, the current situation does not provide incentives for market parties to behave in ways conducive to market safety and security, as many of these disadvantages incentivizes market participants to seek ways to go around these issues it can be ultimately harmful to the EU in many ways (Eichholtz and Kok, 2007).

2.3 Common Consolidated Corporate Tax Base (CCCTB)

The CCCTB is building on to the 2016 Common Corporate Tax Base (CCTB) proposal. This proposal will serve the author as a key source when estimating the possible effects of CCCTB to the REITs in Europe and answering the research question. Preliminary analysis of the proposal, and the criticism, and ongoing debates have revealed that there are many opinions about its final effects to EU and its member countries. Some say that the CCCTB will likely be something of a zero-sum game on a country level, meaning that the tax revenues of the governments won't see significant changes. Some sources state that they will, however, with major differences between one country to another (Delivorias, 2018). That being said, this Bachelor's Thesis is only keen on analysing what are the possible effects to REITs as what will happen on a country level, may have nothing to do with the effects posed to the REITs.

As part of the more interesting and relevant aspects of CCCTB, it recognizes that many companies, especially multinationals which are doing a cross-border activities and strive revenues from multiple countries, are being incentivised for what is commonly known as aggressive tax planning. The principle that companies should pay taxes in the country in which the profits are generated, is not so easy to apply in an increasingly digitalized era (Delivorias, 2018).

In todays' tax rules of EU, multinational enterprise (MNE) is not considered as a single company, instead, the various subsidiaries forming the MNE are considered as independent entities in so called "separate entity" approach (Delivorias, 2018). In tax law these numerous legal entities are being taxed in different countries separately, based on their status and tax residence. Here we get to the very core of the problem, as naturally MNEs plan their taxes in the most effective way, which may not be the most ethical or fair way, but it is still legal in the taxing scheme of EU. In other words, a corporate tax system based on a physical or legal presence does not recognize direct economic link, the so-called substance requirement (Delivorias, 2018). CCCTB aims to tackle the issue by introducing a "unitary business approach", in which the taxing of

MNEs according to the real economic substance of where they actually do business, would take place. (Delivorias, 2018).

The CCCTB proposal would, in effect, allow companies, REITs included, to treat the Union as a single market for the purpose of corporate tax and thereby facilitate and incentivize cross border trade and investment (SWD, 2016). This is assumingly the biggest change that would face REITs as they would have much clearer view of the markets within the unified tax level. Not only would the companies be relieved from that burden, but they would also be hindered from other practices such as profit sifting between member countries to achieve the most efficient allocation of profits. This, in the end, could be considered as a burdensome process to some multinational companies.

2.4 Real Estate Investment Trusts in Europe – Evolution, Regulation, and Opportunities for Growth

In the book by Ramón Sotelo and Stanley McGreal, the two authors discuss the elements of *Evolution, Regulation, and Opportunities for Growth.* The popularity of the different type of real estate business vehicles is analyzed and explained thoroughly and differentiated from one to another. More importantly for the Bachelor's Thesis, this source also provides drafted criteria for the so-called optimal design for REITs. According to the authors, the question of optimality is closely tied to the components of the financial structure of the company. In the making of an argument that the neoclassical economics theory of finance, among other existing theories, is incompetent to differentiate between the different financing vehicles of real estate investments, Mr Sotelo and McGreal summarize that further development of financial theory towards the concept of latitude is needed if one wants to identify real estate investment products and formulate recommendations for their design (Sotelo & McGreal, 2013).

One of the stressed points from this source of literature, is that “tax transparency is fundamental characteristic of REITs” (Sotelo & McGreal, 2013). The importance of tax transparency has been stressed in many other sources too. The author of the term paper is especially interested in this information as CCCTB is aiming at tackling mainly issues and barriers closely related to tax efficiency with respect to allocation of the MNEs in EU member countries. Second important thing to consider, to which this literature sheds light on, is the fact that, for example, Germany is leaning towards a direction, in which it increasingly limits the tax transparency of corporate debt. In tax frameworks, in which debt is tax transparent, but equity is not, international groups in particular are motivated by means of arranging the proportions of debt and equity in foreign subsidiaries in order to minimize corporate income in countries with higher corporate taxes (Sotelo & McGreal, 2013). Once this form of distortion of competing is eliminated from the market, between those companies from smaller states and the ones from bigger, we could assume that competing becomes fairer to all the stakeholders in the market. On the other side, an investment through REIT vehicles would become far more attractive as to both, institutional and private investors.

2.5 Real Estate Investment Trusts (REITs) in Europe – Europeanizing Tax Regimes

The PhD Thesis of Wolfgang Speckhahn discusses the REITs in Europe and the matter of Europeanizing of the tax regimes within European Union. The source provides detailed information about the EU laws and policies on direct taxation of REITs and Speckhahn vision on how the harmonized EU-REITs could look like. Mr. Speckhahn compares the understanding and experiences of REITs between selected EU member countries (France, Bulgaria and Spain), which all have established REIT frameworks based on the USA model. By using the framework of the three selected countries as case studies, Speckhahn was able to summarize some of the common views and concerns that the three countries have regarding the directs taxation on cross-border activities of companies, the loss of sovereignty and tax bases. According to Speckhahns foundings these are all the crucial elements which should be considered within any harmonized direct tax regimes (Speckhahn, 2015).

In the third chapter a fairly detailed model of the EU-REIT is laid down by discussing the legal requirements, including the legal form, residency, listing and shareholder requirements.

For this Bachelor's Thesis, the author chose to focus on the two most relevant parts (1) the legal form, which should be a corporate type, and shall and should be listed in stock exchange by the means of increased transparency and publicity. Mr. Speckhahn claims that this would allow the companies to better focus on sector or geographical segments all the while ensuring sufficient differentiation to existing real estate investment vehicles, mainly to open-ended real estate funds. (2) Secondly, the question regarding the REIT residency should be solved by binding the residency of the company to the country in which the REIT is originally listed. This should be done without creating any additional regulations to limit its cross border activities. To this Bachelor's Thesis the question of residency matters little as the CCCTB would in effect, eventually distribute the taxed incomes accordingly between the countries in which the revenues are being created, regardless of its origin of residency. However, Mr. Speckhahns argument of the residency question matters as it supports the theory in which the preferable structure of REIT, would be binned to a single country within EU.

2.6 The necessity of Corporate income tax coordination in the European Union and its significance for REITs

Devereux, M. and Fuest, C. from the Oxford University Centre for Business Taxation, did a case study in 2009 about the corporate income tax coordination in the European Union. The article mainly discusses the problematic environment of the tax coordination from the EU and its member countries perspective, which helps the author of this Bachelor's Thesis to understand what is wrong with the current system and how the harmonization of the rules would crucially change the operating environment to companies such as REITs. Devereux, M. and Fuest, C. summarize that the globalization of economic activity and the growing importance of multinational corporations have far-reaching consequences for national tax policies (Devereux, M. and Fuest, C., 2010). In addition the differences and incompatibilities between the national systems of corporate income taxation distort investment, complicate the tax system and give rise to conflicts between taxpayers and tax authorities as well as between tax authorities of different countries (Devereux, M. and Fuest, C., 2010). The article discusses the economic advantages and drawback of the CCCTB concept in the light of what was known about it then, back in 2009.

The article presents many fundamental phenomena, which have been occurring in the problematic environment of EU taxation to multinationals and their profit sifting activities. According to Mr. Devereux and Fuest, in the global perspective, investment should locate where it can achieve highest possible productivity instead of there where it is taxed the lowest. (Devereux, M. and Fuest, C., 2010). The current global business environment, including the EU and its applicable taxation rules, however, incentivize the businesses indirectly to act contrary to this rule. To the national authorities, the increasing mobility of investment is adding increasingly pressure to attract those investments by reducing tax rates on corporate income. This type of “race to the bottom” has proven to be enormously popular in the EU over the last three decades although it shouldn’t be desirable to the societies. Devereux, M. and Fuest, C. recognize another major problem in the taxation of international profits by discussing the difficulties to determine where those profits arise. Overall and most relevantly to this term paper, the differences and incompatibilities between the national systems of income taxation distort investment, complicate the tax system, causing an decrease in the market size and its attractiveness to REITs. The decrease can be summarized by the following points identified in Mr. Devereux study:

- Companies operating in the EU currently have to deal with 28 different national tax systems, which gives rise to high compliance and administration costs.

- Differences in effective tax burdens across Member States distort economic activity in the EU.

- The growing importance of multinational companies makes it increasingly difficult to collect corporate tax based on separate accounting systems.

Regardless to the possibility of the outdated information, to which Mr. Devereux was basing his opinion about CCCTB, the existing problems caused by lacking of such concept are mostly considered relevant to this term paper and evermore current today. (Devereux, M. and Fuest, C., 2010)

2.7 CCCTB and REITs: EPRA response to the European Commission's public consultation on the Capital Markets Union (CMU) mid-term review 2017

European Public Real Estate Association (EPRA) has acted to make recommendations on what the CCCTB should look like. EPRA shares the European Commission's vision that Europe needs to create a more neutral and investment-friendly tax system to build a successful CMU and to attract inward investment to EU (EPRA, 2017). Like European Commission, EPRA too, has noted that there are currently existing tax distortions against equity financing. Other concerns EPRA states are the low interest rate environment and increasingly aging population, which possibly pose a growing risk to the future of European capital markets. According to EPRA, investing in real estate through capital markets helps create stable and balanced domestic real estate market. 13 EU countries have so far introduced REIT regimes to maximize the returns through an effective pass-through for tax purposes. It is likely that this number will grow and therefore the EU should do everything it can to make sure the efficiency of that market. (EPRA, 2017). CCCTB is a step towards the right direction, yet it needs to be sensitive enough to REITs or otherwise it may even hinder the investment attractiveness through this vehicle. This being said the companies should also do everything in their power to make sure their business models are arranged to benefit from the standardization of the rules (EPRA, 2017).

2.8 Summarizing table of used literature

Table 2. Literature review findings.

Author(s)	**Source**	**Main argument**	**Main findings**

Anna Mazurczak	Development of Real Estate Investment Trust (REIT) Regimes in Europe	"EU REIT" frame could act as a cure in turning the fragmented EU markets for property companies into the largest and possibly most efficient real estate markets in the world. The existing statistics show that in the EU there exist a lot of room for growth.	REITs are an investment vehicle which provide an efficient solution for small investors to participate in commercial real estate markets, avoiding real estate disadvantages as part of an investment portfolio. Positive effects of properly functioning REITs can extend deep into society.
Piet Eichholtz & Nils Kok	The EU REIT and the Internal Market for Real Estate	The current EU structure and its lack of harmonized taxing system hampers the efficient operation of EU REITs and creates many clear disadvantages compared to the mature REIT markets of United States and Australia for example	The disadvantages listed consist of such as distortion of competition between member states because of the issue of tax-transparency. The institutional situation in EU barriers of cross-border business opportunities for REITs forcing them to operate in one country solely. Companies cannot

			specialize to certain type of properties, which is very common in U.S. for example, due to the lack of offering in the domestic markets.
Angelos Delivorias	Common Consolidated Corporate Tax Base	The CCCTB proposal would in effect allow companies, REITs included, to treat the Union as a single market for the purpose of corporate tax and thereby facilitate and incentivize cross border trade and investment.	The current corporate tax system based on a physical or legal presence does not recognize actual economic link. CCCTB aims to tackle the issue by introducing a "unitary business approach", in which the taxing of MNEs according to the real economic substance of where they actually do business, would take place.
Ramón Sotelo & Stanley McGreal	Real Estate Investment Trusts in Europe – Evolution, Regulation, and Opportunities for Growth	Source describes optimal design for REITs, which is closely related to the financial structure of REITs.	The tax transparency is fundamental and most important characteristic of REITs. International groups in particular are motivated by means of arranging the proportions of

			debt and equity in foreign subsidiaries in order to minimize corporate income in countries with higher corporate taxes.
Wolfgang Speckhahn	Real Estate Investment Trusts (REITs) in Europe – Europeanizing Tax Regimes	Source summarizes the common views and concerns that the three countries (France, Bulgaria and Spain) have regarding the directs taxation on cross-border activities of companies, the loss of sovereignty and tax bases.	A model of the EU-REIT is laid down by discussing the legal requirements, including the legal form, residency question, listing and shareholder requirements.
Devereux, M. & Fuest, C	Corporate Income Tax Coordination in European Union	EU is in a problematic situation with the corporate income tax coordination.	Investment should locate where it can achieve highest possible productivity, not where it is taxed the lowest. EU and its applicable taxation rules, however, incentivize the businesses indirectly to act contrary to this rule. The differences

			and incompatibilities between the national systems of income taxation distort investment, complicate the tax system, causing an decrease in the market size and its attractiveness to REITs.
European Public Real Estate Association ERPA	ERPA response to the European Commission's public consultation on the Capital Markets Union (CMU) mid-term review 2017	Europe needs to create a more neutral and investment-friendly tax system to build asuccessful Capital Markets Union and to attract inward investment to EU.	Currently existing tax distortions against equity financing. CCCTB is a step towards the right direction, yet it needs to be sensitive enough to REITs or otherwise it may even hinder the investment attractiveness through this vehicle.

3 Conceptual model

In this term paper the author aims to speculate on what would be the effective consequences of the establishment of the Common Consolidated Corporate Tax Base

(CCCTB) to the investment vehicle of Real Estate Investment Trustees (REITs). The proposal by the European Commission aims to make the cross border investments of the companies operating within European Union more attractive, by eliminating business hindering barriers and incentivizing them, in particular, by simplifying their stated objectives of tax planning through more equal and harmonized set of rules regarding the calculations and distributions of their taxable profits.
The REIT model as a business vehicle originates from the United States. So far, roughly half of the EU member countries have created a framework for REITs to be established and operate in their domestic markets. The history of REITs in the United States of America dates back to early 1960s and their results and effects to the economy have been found positive. This without a doubt has been acting as one of the main incentives for EU member countries to allow their operation within their regimes. However as the results of REITs in EU member countries have been quite far from the desired ones, an increasing attention has been exposed to the question on why it is the case. The short answer lies in the difference of the nature of the markets of United States of America and any EU member country which has adopted the business model. To provide the longer answer one first needs to recognize that although the EU aims to be a free market where the movement of the capital, good, services and labor and not hindered, in many ways this is not the reality. At least to businesses which have operations in multiple EU countries and are incentivized to operate in the most effective way according to the local regulations which are imposed to them in the, so many ways, differing EU countries.

Many studies have been made to answer to the question of what exactly are those barriers that are hindering EU REIT business activities and many improvements to tackle the barriers have been suggested. One can say that there is sufficient amount of data to answer to this question. However, to solve the hindering problems EU countries need to come together and present a common will to solve the question. Because of the nature of REITs, the problem is closely tied to the local laws and regulations of each member country and, therefore, sensibly the initiative is coming from the EU Commission. The CCCTB is not aimed to solve the problems of REITs only, but in effect, it would differ the market factors which are currently being exposed to them. The author of this term paper is solely interested to answering on how the market factors may influence to REITs after the establishment of CCCTB. Fundamental assumption of the author is that the effects would have an enabling outcome to at least some of the current issues.

As have been mentioned earlier, the markets within EU are fragmented and the REITs which are operating within these markets are facing barriers which differ from one country to another. Some problems are more relevant in one country some are more relevant in the other. However, in the literature serving this Bachelor's Thesis, some common issues of EU REITs have been identified and will be used to draft a set of barriers which could possibly be solved partially or entirely by the establishment of CCCTB. The yet non existing CCCTB will be taken as it is presented today, i.e. incomplete, and examined to identify the possible effects it would introduce to the EU internal markets, if come to existence.

4 Methodology

The data gathering process started in the spring of 2017 while the author was participating on an online Research Methods course as part of his study plan to Metropolia UAS. During the early stages of the research the author had a strong personal interest towards private direct investment on real estates. This eventually has led the author to the well-known business vehicles of REITs and so on to their rather immature frames of EU REITs, compared to their predecessors of USA REIT models. The interest towards REITs deepened as it became apparent that the REITs in EU were not as successful as they are in USA today. This was the key motivator for the author to study further the experienced problems that had occurred within the EU internal market.

Methods used in gathering the data for this Bachelor's Thesis, consist mostly of those found online. More specifically, those, which were chosen through reading recommendations from professors in Finland as well as in Germany. More specifically, the data gathering process was done by using database searches by HoWeR, OPAC and Google scholar, books of the library of Hochschule für Wirtschaft und Recht Berlin and Metropolia University of Applied Sciences Helsinki as well as articles found online by the author. The author also spent hours on reading related articles online and watching newsclips as well as listening podcasts.

While many of the articles used to deepen the knowledge of the author of REITs can be considered non-scientific but rather opinionated professionals opinions about them, the author also collected many scientific journals and books to validate the non-bias nature of the information, then to be used for the Bachelor's Thesis at hand. Other primary source of the information is the ongoing legislation process considering the CCCTB, provided by the authors of European Commission. Overall the validity and reliability of the information is considered to be accurate and based on figures, data and accurate numbers, especially regarding the historic performance of REITs in EU. The criticism towards the REITs, the regulation as well as market factors opposed to them today are presented in this term paper as neutrally as possible. Some of the situational factors may have changed over the time, which has been considered as a fundamental problem when doing the research. The author of this Bachelor's Thesis is aware of the weaknesses of the formulated theory presented according to the information at hand.

5 Findings

According to the findings based on the empirical works, REITs are an investment vehicle with numerous benefits to private and institutional investor as well as to society. They provide an efficient way especially for small investors to invest indirectly to real estate markets. Institutional investors, on the other hand, can easily gain an access to diversified asset portfolios through REITs (Mazurczak, 2011). EU markets for REITs are currently fragmented because REITs are operating under the regulations of their home countries solely, therefore hindering their business opportunities from those that they could possibly achieve when going abroad. The cross border business operations of REITs, so far, are lacking incentives. A harmonized EU REIT frame could act as a cure for the fragmented markets (Mazurczak, 2011).

Current institutional structure, especially regarding the taxing of multinational corporations and any tax transparency differences between EU member states hampers the efficient operation of REITs, putting them in a clear disadvantage compared to the mature REIT markets of United States and Australia, for example (Eichholtz and Kok, 2007). The current EU structure twists competition between member states, as investors without tax-transparent framework required by government, are in disadvantage compared to investors from governments which have adopted such rules. Further, REITs in EU member countries are forced to invest in variety of different kind of real estate's due to the limited sizes of their domestic markets. REITs in Europe are therefore forced to adopt a poorer strategy instead of specializing on one type of real estates, like REITs do in mature markets of USA and Australia for example (Eichholtz and Kok, 2007).

Common Consolidated Corporate Tax Base intends to allow companies, REITs included, to treat the Union as a single market for the purpose of corporate tax and thereby facilitate and incentivize cross border trade and investment (SWD, 2016). In the changed circumstances companies would no longer be incentivized to do profit sifting between member countries to achieve the most efficient allocation of profits. While the profit shifting is not necessary relevant to the studied topic in direct terms, it certainly adds value to the increased transparency in the market and further helps companies to evaluate their possibilities to prospects with their over-border business expansions. This in the end can be considered as a burdensome process to many growing companies as well as those who already are multinational-companies. The taxing of multinational corporations would mean introducing a "unitary business approach", in which the taxing of multinational enterprises (MNEs) would be conducted according to the real economic substance, of where they actually do business, would take place (SWD, 2016). The tax transparency is a key character for the so called "optimal design" for EU REITs. International businesses, in particular, are motivated to arrange the debts and equities into foreign subsidiaries of such way that the tax burden is minimized (Sotelo & McGreal, 2013).

These problems have been recognized long time ago yet the EU has had limited means and will to tackle them due to its complexity of tax coordination within the internal markets (Devereux, M. and Fuest, C., 2010). It is sensible to assume that lobbying by global players is also part of the reason for the slow legislative progress in the creation of CCCTB. In the optimal market structure, investment should locate where it can achieve highest possible productivity and profit, yet the current scheme incentives companies to locate it where it is taxed the lowest. This is caused mainly due to the lack of internal tax coordination and incompatibilities between the national systems of income taxation, leading to distorted investment opportunities (Devereux, M. and Fuest, C., 2010). The situation is complicated even further as the current member states are increasingly worried as they experience a decrease in their sovereignty to taxation and cross border activities (Speckhahn, 2015). Regardless to the concerns of national governments, the business environment in EU is currently too complicated and according to business directors, should be reconstructed to be more investment friendly. Assumingly, in the future, EU will have increasingly difficult problems to solve such as the low interest rate environment and the increasingly aging population. CCCTB is a step towards the right direction if EU wants to survive and remain competitive as a business environment to multinational companies such as REITs (EPRA, 2017).

6 Analysis and discussion

The findings indicate that European REITs currently, and through their history, have faced several barriers that hinder their efficiency in the market. The European REITs have not been able to achieve mature or even developed market situation on European soil because of the fragmented market, diversified legislation and lack of incentives for the companies extend their businesses to their neighboring countries. Currently the REITs exist separately in the domestic markets of those European member countries which have created a regulatory framework for their special business structure.
The regulatory framework varies between the member countries and this naturally causes additional layer in form of a market entry barrier. Regardless of the struggle to

achieve maturated markets for REITs to operate in Europe, their persistence in the evolving market stage indicates that the struggle may be worth the while if common structure for EU REITs can be achieved. Digitalized era certainly has the means to make it possible and that sensible reductions could be found. The question remains on whether the common will and courage is going to be realized now or later in the future and with what reasons will it be backed up.

6.1 REITs in EU are lacking the incentives to do cross-border investments

Today, in many of these European countries, REITs are not incentivized enough to do cross border business investments. It is assumingly due to the uncertainty of the achievable profits through scaling of the business, lack of market transparency and increased bureaucracy why EU REITs are finding it not worthwhile to expand their business operations abroad. Risk and probable reward are imbalanced. This also hinders the opportunities, which REITs could offer to the economies in which they are currently operating in and evidently prevent them from their proper functioning. It is likely that by focusing more on making the internal market effective for REITs, a proper gains could be achieved by the governments, economies, public and REITs as well as private investor. In other words, due to the complexity of the income taxation of multinationals within EU, and the complexity of REITs as a business model, the companies are currently focusing on operating in their domestic markets. A problem related to operating in the domestic markets is that they are usually relative small. This disables the REITs to become sector specialists by focusing on certain kind of real estate’s only, say office buildings or car repair shops. By being able to focus on one kind of real estate’s only, the property assets would produce synergies of the kind, like they have experienced in the United States market, the only mature REIT market globally. Furthermore, the domestic markets are often seemed not to be varied enough to support the REITs business model, which highly derives from the diversity of assets and the achieved reduced risks. To eliminate the barriers related to corporate income taxation in general level, EU has launched a two-step approach towards Capital Markets Union (CMU), with an initiative called Common Consolidated Corporate Tax Base (CCCTB). In its right sensitivity to REITs, CCCTB could be the needed incentive for REITs to start doing more cross border business activities as the taxation of the corporate income would be far more simple. At least in theory. In the reality, the final effects of CCCTB to the companies are very hard to predict and major adjustments are likely to be made after the initial establishment of the CCCTB.

6.2 EU needs to further develop its internal market

In any case, the material used for this Bachelor's Thesis indicates that European Union needs to create a more simple way for companies to do business over borders within the EU. Closely related to this issue is the question of the tax coordination of those companies that have subsidiaries in multiple countries. By fixing the corporate tax rate in the EU internal market, the companies would no longer be incentivized to aggressive tax planning and profit shifting. In the creation of CCCTB, a coordination between the EU member countries could also act as an important aspect on solving the question of the future of the EU REITs. The question of taking EU countries towards more equal and investment friendly environment for businesses seem to divide opinions because, assumingly, those countries who have achieved to create an environment to benefit from current situation are going to be the ones to gain less in the future and wise versa.

6.3 EU REIT frame is needed

Although REITs globally have generally similar structure and they fundamentally operate the same way, it would be beneficial for the EU countries to design an EU REIT that meets the general terms of the member countries. An EU REIT should be created regardless their structure in other countries outside of EU to make sure that the efficiency within EU internal market can be maximized. Tax transparency of REITs and their financial structure are the most important characters of the EU REITs in order to make them sensitive enough to benefit from the CCCTB. To answer the research question, "Could the establishment of the Common Consolidated Corporate Tax Base enable more efficient operation of Real Estate Investment Trustees in European Union?", it is safe to say that CCCTBs biggest change in the EU internal market between now and after its establishment, is the harmonization of the corporate tax rate. This alone would be a major accelerator for many businesses to do more cross border investments within EU, as the market transparency would increase, the related uncertainty of the risks of the investment would decrease and it would be therefore be more clear at least from taxation perspective, what the costs are.

7 Conclusions

The topic of this extended Bachelor’s Thesis is to study on how would the European Commission’s initiative of establishment of Common Consolidated Corporate Tax Base would enable the efficient operation of Real Estate Investment Trustees (REITs) in European Union internal market. To answer the question the author studied several literature sources to gain a concise understanding of what REITs are, where does the business model originate from and what is their historical performance and significance in housing markets. An effort was also put on recognising and testing the possible reasons on why the European market for REITs has been underperforming. Further, special attention was paid on how they operate as business vehicles in order to formulate an understanding about the regulatory dilemma they are currently facing within European Union. The author deepened his knowledge about REITs by studying in particular the problems which REITs are facing in EU to date, how the regulation applied effects on them and what is causing their inefficiency. The author also collected various opinions about how the current problems could be tackled and what sort of change in the market fundamentals would possibly act as a cure to incentivize them to access markets outside of their domestic ones. The fundamental assumption of the thesis is that larger markets and effective operation in them would help EU REITs to develop the maturity of their markets and this could potentially turn the EU REITs into one of the most prospective ones globally.

7.1 Companies benefit most from CCCTB

The findings indicate that CCCTB would change the internal market of EU significantly, especially from the private companies’ point of view. It would offer companies simpler environment to operate from financial point of view, whilst also reducing the supporting elements of businesses due to reduced bureaucracy. Because of the mentioned main benefits the companies would also benefit from the reduced risk that is always related to expansion related activities of such as going abroad to the neighboring country. The question of taxation of the abroad business activities would be greatly simplified, which plays a big role in the REITs structure and is one of the key elements in a decision making of whether to go abroad. In achieving more efficient markets for REITs to operate in the EU, it would be equally important to create a common EU REIT structure to make sure that once harmonized markets have been achieved, the business models of REITs in different EU countries would be compatible with each other. As part of the limitations of this paper, the author identified that as it is not known exactly how the EU REIT would look like, it is by least difficult or even impossible to draft solid conclusions on what kind of impact exactly the CCCTB would have on them. The preliminary study however indicates that because of the special structure of REITs as businesses, it is very much possible that they would be among those who would greatly benefit from the harmonization of EU internal market. Further research should be conducted on the question on how exactly the harmonized EU REIT structure would look like and how it would differ from the US REIT model. This would then allow further studies to be made after the final form of the CCCTB has been published and it has become effective in the EU.

8 References and bibliographies

Delivorias, A. (2018). *Common consolidated corporate tax base (CCCTB)*. [online] Europarl.europa.eu. Available at: http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/599395/EPRS_BRI(2017)599395_EN.pdf [Accessed 5 Oct. 2019].

Devereux, M. and Fuest, C. (2010). *Corporate income tax coordination in the European Union*. *Transfer: European Review of Labour and Research*, [online] 16(1), pp.23-28. Available at: https://journals.sagepub.com/doi/pdf/10.1177/1024258909357699 [Accessed 7 Oct. 2019].

Eichholtz, P. and Kok, N. (2007). *The EU REIT and the Internal Market for Real Estate*. Maastricht University.

European Public Real Estate Association (2017). *EPRA response to the European Commission's public consultation on the Capital Markets Union (CMU) mid-term review 2017*. ERPA.

Feedback Statement for the Public Consultation on the Capital Markets Union Mid-Term Review, 2017. Brussels: European Commission.

Grover, R. and Grover, C. (2014). *Property bubbles – a transitory phenomenon*. Journal of Property Investment & Finance, 32(2), pp.208-222.

Imperiale, R. (2006), *Getting started In Real Estate Investment Trusts*, John Wiley&Sons, Inc., Hoboken, New Jersey, USA.

Mazurczak, Anna "Development of Real Estate Investment Trust (REIT) regimes in Europe", *Journal of International Studies*, Vol. 4, No 1, 2011, pp. 115-123.

Nerudová, D. and Solilová, V., 2014. Missing Data and its Impact on the CCCTB Determination. *Procedia Economics and Finance*, 12, pp.462-471.

Oestreicher, A., Reister, T. and Spengel, C., 2009. *Common Corporate Tax Base*

(CCTB) And Effective Tax Burdens In The EU Member States. Mannheim: ZEW, Zentrum für Europ. Wirtschaftsforschung.

Ortmann, R. and Sureth-Sloane, C., 2016. Can the CCCTB alleviate tax discrimination against loss-making European multinational groups?. *Journal of Business Economics*, 86(5), pp.441-475.

Sotelo Ramón and McGreal, S., 2013. *Real estate investment trusts in Europe: evolution, regulation, and opportunities for growth*. Berlin: Springer.

Speckhahn, W., 2015. Real Estate Investment Trusts (REITs) in Europe - Europeanizing Tax Regimes. *Real Estate Investment Trusts (REITs) in Europe - Europeanizing Tax Regimes*.

Taxation and Customs Union - European Commission. (2020). *Common Consolidated Corporate Tax Base (CCCTB) - Taxation and Customs Union - European Commission*. [online] Available at: https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en [Accessed 22 Feb. 2020].

The Commission Staff Working Document (SWD), 2016. Proposal for a COUNCIL DIRECTIVE on a Common Corporate Tax Base. *Proposal for a COUNCIL DIRECTIVE on a Common Corporate Tax Base*. [online] Available at: <https://ec.europa.eu/taxation_customs/sites/taxation/files/com_2016_685_en.pdf> [Accessed 9 Feb. 2020].

Valenduc, C., 2018. *Corporate Income Tax In The EU, The Common Consolidated Corporate Tax Base (CCCTB) And Beyond*. Brussels: ETUI aisbl.