

High capital mobility creates headache in some of the European countries who are afraid of potential race to the bottom in corporate taxes. They warn the tax competition can have a negative impact on tax revenues and redistributive motives of European governments. These concerns became more pronounced in the wake of the EU enlargement in 2004, when 10 mostly low tax countries entered the EU.

Tax competition theories generally conclude there is a pressure forcing corporate tax rates downwards. Nevertheless, under certain conditions the race to the bottom does not have to materialize. Downward trend in corporate taxation is not confirmed by European reality either. Despite lower corporate taxes in new member countries enlargement has not so far led to erosion of tax bases.

It is unclear, however, how corporate taxation in the EU will evolve in the following years, especially in face of new European Commission's plan to introduce Common Consolidated Corporate Tax Base (CCCTB) and ongoing process of economic catching-up by new member states.