# Tax compliance costs and administrative burden

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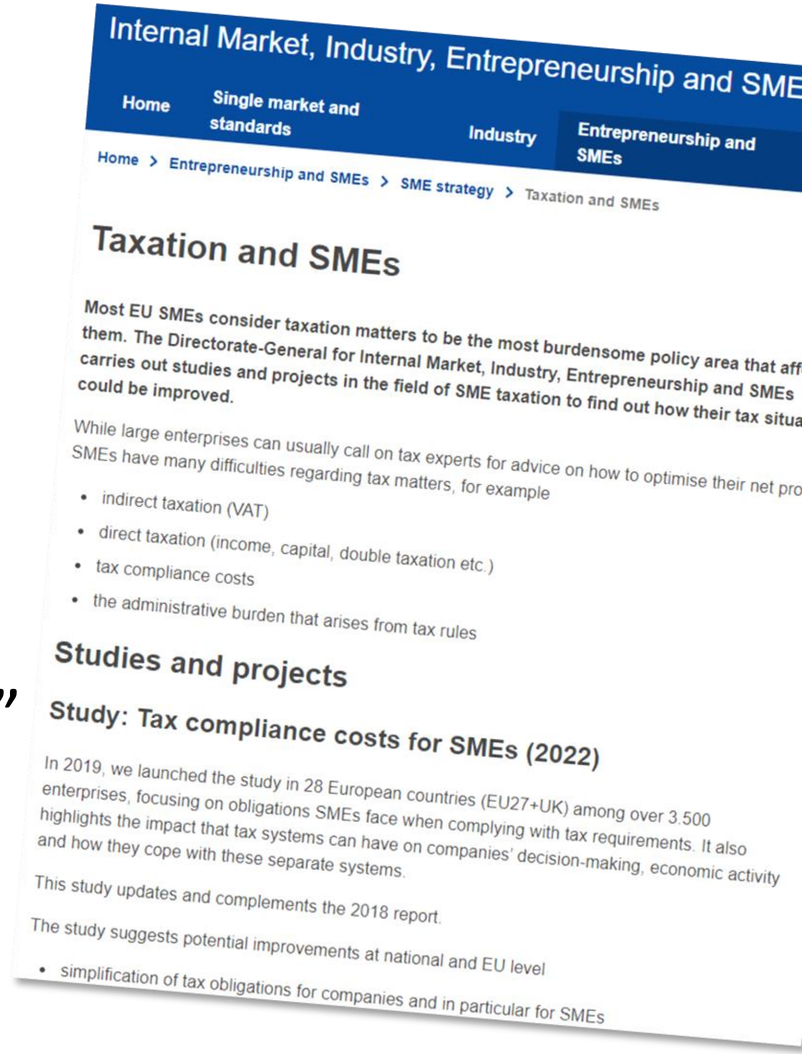
# EU studies on tax compliance cost

- **“Most EU SMEs consider taxation matters to be the most burdensome policy area that affects them.**
- While large enterprises can usually call on tax experts for advice on how to ensure compliance, SMEs have many difficulties regarding tax matters”
- (In addition, it seems many companies in the current situation have severe difficulty recruiting qualified staff to manage tax compliance)




https://ec.europa.eu/growth/smes/sme-strategy/taxation-and-smes_en

# EU studies on tax compliance cost

- Companies in the 28 countries in scope (2019) of the study are estimated to spend an annual total amount around **EUR 204 billion** in administrative costs to comply with obligations related to corporate income tax, VAT, wage related taxes etc., property and real estate taxes and local taxes.
- The average enterprise incurs an annual cost in meeting its tax compliance obligations, amounting to 1.9% of its turnover.

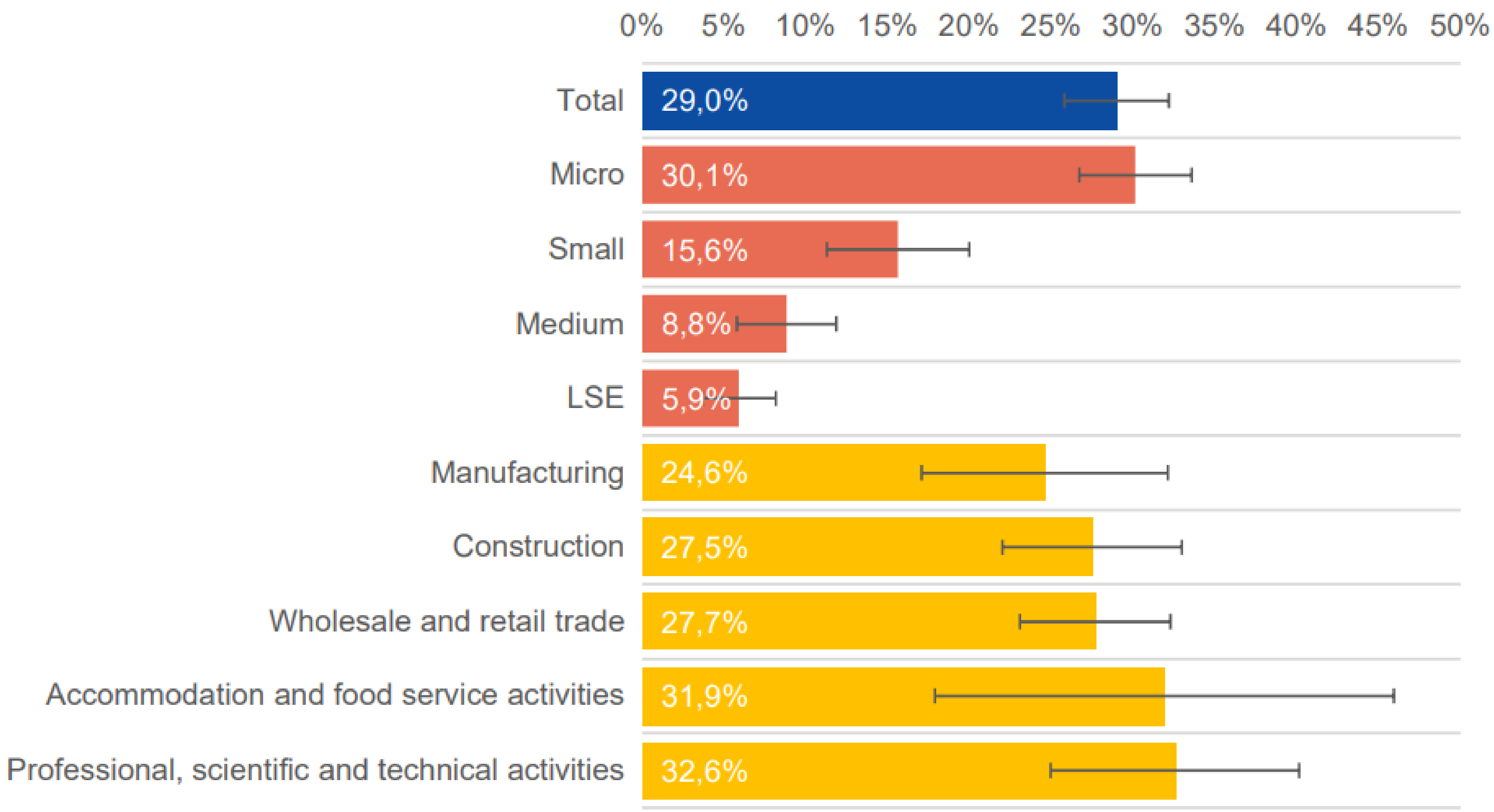

https://op.europa.eu/en/publication-detail/-/publication/70a486a9-b61d-11ec-b6f4-01aa75ed71a1

# EU studies on tax compliance cost

- **TETCC to tax revenue ratio**: The total cost of tax compliance across all direct and indirect taxes as a percentage of the total tax revenue transferred to the tax authorities.
- **Tax compliance cost for the average enterprise ≈ 29% of the tax.**

  (see figure next slide)

# Figure 28: Estimated average TETCC to tax revenue ratio (R3) by size and sector




*N=2 201. The figures indicate the estimated average ratio for the 28 countries in each category. Confidence intervals (95%) are indicated by the black brackets. *** p<0.01, ** p<0.05, * p<0.1.*
*Source: VVA / KPMG (2021)*

# EU studies on tax compliance cost

- Data collection is generally the most burdensome activity induced by tax compliance (information) obligations for all five types of taxes in scope.
- Preparation and review make up a larger proportion of total costs when it comes to local taxes compared to other types of taxes.
- This can likely be explained by the larger variety of forms related to local taxes and the resulting variety in information required to fill them.

# EU studies on tax compliance cost

- While larger enterprises incur a higher absolute cost in meeting compliance obligations than smaller ones, the relative burden of tax compliance is disproportionately higher for SMEs than for larger enterprises.
- The study indicates that national tax systems, tax administrations and, in general, differences in the broader public administration of the countries do have an impact on the burden of compliance.

# EU studies on tax compliance cost

- Electronic filing allows for a reduction of administrative burden, the benefits are evident and solutions as “one-stop-shops” at both national and EU level are considered positively allowing for a cut in the duplication of information obligations which is the source of the administrative burden.

# OECD Report for the G7 Finance Ministers

“The last decade has seen substantial and often unprecedented changes to the international taxation framework. Those changes were necessary [for] an open and rule-based global economy, necessary for promoting cross-border investment, innovation, growth and employment... If the tax issues of the last decade had not been addressed at the international level, they would have led to fragmentation and uncoordinated unilateral approaches resulting in double taxation, barriers to cross-border trade and investment and impeding the efficient allocation of resources.”


www.oecd.org/tax/tax-co-operation-for-the-21st-century-oecd-report-g7-may-2022-germany.htm

# OECD Report for the G7 Finance Ministers


## Corporate tax recommendations

- **Removing burdens.** Against the backdrop of the Two-Pillar Solution and other changes to the international tax landscape, countries should eliminate or modify existing rules and measures addressing essentially similar risks which have become duplicative.
- **Duplicative rules** and measures complicate the international tax architecture and increase the compliance burden for taxpayers, without any commensurate benefits for the corporate income tax system or for tax administrations.

# OECD Report for the G7 Finance Ministers

**Corporate tax recommendations (elaboration)**

- Given the addition of several new rules and standards in recent years at international, regional and domestic level, there may now be **overlapping rules** and obligations that largely address the same or similar risks.
- Often **no comprehensive analysis** is undertaken on which existing rules or obligations could be standardised, simplified or removed with the introduction of a new standard or regime.

# OECD Report for the G7 Finance Ministers

**Corporate tax recommendations (elaboration)**

- When countries introduce or adopt new rules or filing requirements, an **impact assessment** should be performed to determine which existing rules and obligations would no longer seem needed, could be refocused, revised, simplified or standardised.
- For instance, there may be slightly different information **reporting obligations** that could be streamlined.

# OECD Report for the G7 Finance Ministers


**Corporate tax recommendations (elaboration)**

- Similarly, given that the Pillar Two rules reduce the incentive to shift profits across jurisdictions by providing a floor to tax competition, countries may wish to **review existing anti-abuse measures** with this in mind.
- To the extent duplicative rules or filing requirements are identified in this assessment, countries should assess the possibility to eliminate or adapt the duplicative rules or filing requirements.

# OECD Report for the G7 Finance Ministers

**Corporate tax recommendations**

- **Going digital.** Effective digital communications channels coupled with one stop shop approaches should be in place to support the administration of the Two-Pillar Solution and common international tax rules more generally.
- Should cover the engagement with taxpayers as well as the communication between tax administrations, whilst maintaining data privacy and taxpayer confidentiality.

# OECD Report for the G7 Finance Ministers

**Corporate tax recommendations**

- **Reliable framework for cross-border investment.** Countries should ensure that the framework for international tax co-operation enhances rather than presents an obstacle to cross-border investment.
- **Tax administration as a common mission.** Countries should view the administration of common international tax rules as a joint mission of correctly and consistently applying the same rule, rather than as a potentially adversarial exercise.

# EU Better Regulation

- EU actions based on evidence
- Making simpler and better EU laws
- Involving citizens, businesses and stakeholders in the decision-making process


https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how_en

# EU Better Regulation


## Business comments

- Call for analysis of the possibilities of further adapting the existing EU regulation and filing requirements to international standards.
- Call for better impact assessment concerning administrative burdens regarding new regulation.
- Business find that the forms used in EU consultations make it difficult to provide relevant input.
- Unrealized potential in more coordinated and efficient tax regulation as a foundation of a strong EU Single Market.