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European Tax Survey

EXECUTIVE SUMMARY

The European Tax Survey

In order to have a better understanding of the impact of taxation on companies' decisions and activities, and potential costs that may arise from the lack of coordination in this area at EU level, the European Commission's Taxation and Customs Union Directorate-General launched a European Tax Survey. Seven hundred companies active in the EU participated in the Survey providing information on a large number of tax compliance related issues. Company responses included quantitative estimates of their compliance costs and opinions on a number of issues related to tax systems.

Companies from all the then EU-15 countries had the opportunity to participate in the survey and the 700 companies that participated cover 14 EU Member States.[1] In order to correct for under- or over-representation of some countries the responses of companies were weighted in order to reflect the number of companies of the same size in their country. However, due to the relatively low number of responses, the results presented below do not pretend to provide a fully representative picture of the EU, as is explained in Chapter 1. This does not preclude, however, drawing interesting and innovative insights from the considerable amount of information provided by the 700 companies involved in the survey.

The European Tax Survey contained both quantitative and qualitative questions, which are analyzed in turn.

Main results of the quantitative analysis

The first part of the study bears on a quantitative analysis of data concerning the perceived total absolute compliance costs of companies (Chapter 2). These compliance costs consist of company taxation and Value Added Taxation (VAT) compliance costs in the EU and taxation compliance costs outside the EU. The first stage of this quantitative analysis presents the weighted perceived compliance costs of the EU companies. The second stage presents a series of regression analyses.

Compliance costs relative to sales are larger for SMEs than for large companies

The data provided by companies on their perceived compliance costs, taxes paid and sales leads to the following main results:

- Weighted total absolute compliance costs are estimated at €1.460.000 for large companies. This corresponds to 1.9% of taxes paid and to 0.02% of sales, respectively. The figures for large companies are consistent with figures presented in other studies.

[1] No companies from Luxemburg participated in the survey. For most of the topics, information for France was not available.

- Weighted total absolute compliance costs are estimated at €203.000 for Small and Medium-sized Enterprises (SMEs). This amount corresponds to 30.9% of taxes paid and to 2.6% of sales, respectively. However, these ratios should be taken with great caution for reasons explained in Section 2.2.

- Econometric regressions provided significant and recurrent evidence that total, VAT and company taxation compliance costs increase with company size and impose a higher relative burden on smaller companies. These results are in line with established findings in the economic literature.

Cross-border activity leads to higher compliance costs for companies

Furthermore, the econometric analysis provides a strong body of evidence as to the importance of cross-border activities for compliance costs and highlights some of the variables that are correlated with compliance costs:

- Compliance costs are higher for companies with at least one subsidiary in another EU Member State compared with companies without subsidiaries in another Member State.

- Compliance costs increase with the number of subsidiaries abroad.

In the context of a study focusing on the impact of taxation on the functioning of the Internal market, these results need to be particularly stressed. The econometric results based on the data provided by the 700 EU companies participating in the European Tax Survey provided quantitative evidence that there is an additional cost for companies that are active cross border in the EU. Significant results in this respect recurred in the various estimated models.

Main results of the qualitative analysis

The quantitative analysis was complemented by a qualitative analysis. The latter aimed to provide better information on the sample companies' opinions on a number of tax related issues and to facilitate the interpretation of the quantitative results.

Transfer pricing requirements are a major difficulty in the company tax area

Companies participating in the European Tax Survey were asked to indicate whether a number of tax requirements lead to difficulties. The analysis of their responses related to company taxation shows the following:

- Tax accounting and record keeping requirements as well as audits and litigations are the issues related to company taxation which raise the main concerns in the domestic context;

- In relation to foreign-sourced income, the results highlight that large companies with a branch, a subsidiary or a permanent establishment in another EU Member State have particular difficulties with regard to audits and litigations. Furthermore, transfer pricing appears as a major tax obstacle. The estimates highlight that transfer pricing is an important issue for 82.8% of large companies, in particular when it comes to dealing with documentation requirements, which are a difficulty for 81.9% of the large companies.

Repayment and refund requirements are a major difficulty in the VAT area

Companies participating in the European Tax Survey were also asked to provide their opinion on a number of tax requirements related to VAT in the domestic and foreign context. The main findings are as follows:

- Four issues raise particular difficulties for companies in the domestic context, namely audits and litigations, record keeping requirements, the complexity of tax returns and listings and invoicing requirements.

- In relation to VAT obligations in other Member States, one issue appears particularly problematic for large companies, namely the repayment and refund requirements. Other issues, such as accessing tax information and contacting tax officials and audits and litigations appear also to lead to difficulties.

- The difficulty of repayment and refund requirements in other EU Member States is especially prominent for companies registered in a Member State where they do not have a permanent establishment. It is estimated that 86.1% of large companies incurring VAT costs on their inputs in an EU Member State without being registered have difficulties coping with procedures for refunds under the 8th VAT directive. In fact, the complexity or the length of the procedure are such that an estimated 53.5% of large companies have not requested refunding at some point. The estimates furthermore indicate that 14.2% of small and 9.9% of large companies have not carried out VAT taxable activities in another Member State where they do not have a permanent establishment because of VAT compliance requirements.

Taxation is a factor for investment location decisions

In addition to questions related to tax requirements, participants in the European Tax Survey were also asked a number of questions on the impact of taxation on decisions relating to investment and company structure. The results suggest that taxation could affect the choice of location and the type of investment in the EU. In particular,

- The results highlight that taxation is a relevant factor mainly for the location of production plants, coordination centres and financial services centres;

- When it comes to mergers and acquisitions, taxation could also prove to be a serious issue. The estimates show that a majority of firms that merged with, or acquired another business in the EU during the past five years had difficulties regarding capital gain taxes and double taxation.

Taxation affects company structure decisions

The analysis also shows that tax conditions affect companies' decisions concerning the financial and legal structure of their international operations. The main findings here are:

- For 87.3% of the companies taxes can influence decisions on whether foreign operations should be organised through a subsidiary, a branch or a permanent establishment;

- Estimates indicate that 77.2% of the companies consider tax as a factor when they decide to use new equity or debt when financing foreign operations directly or indirectly via the parent company;

- Overall, companies with cross-border activities are significantly more sensitive to taxation when deciding the financial and legal structure of their operations than those who are active only in one country.

Conclusions

This study highlights the importance of taxation for a very broad range of operations of companies in the Internal market. The evidence obtained from the responses provided by the 700 companies involved in the European Tax Survey strongly indicates that compliance costs of EU companies increase when they undertake cross-border activities in the EU. These costs also increase when company activities increase, for example by setting up new subsidiaries in other EU Member States, ceteris paribus.

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