European Commission

Tax compliance costs for SMEs: An update and a complement

Final Report

Written by VVA and KPMG
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Table of Contents

Executive summary

Objective of the Study

This Study is an update of the European Commission study on tax compliance costs for SMEs[1] published in 2018 which provided an overview of the impact of tax regulation on the tax compliance burden faced by small- and medium-sized enterprises (SMEs). This study adopts and refines the approach and the methodology used in the 2018 study and complements it with a full coverage of the EU Member States and United Kingdom.

The purpose of this study is to estimate the administrative burden for SMEs and large enterprises in the European Union and its Member States plus the United Kingdom due to the fiscal rules for tax filing. Tax regulation is often written in a way that addresses all types of enterprises similarly, SMEs often face a comparative disadvantage to large-scaled enterprises (LSEs) as the burden of compliance falls disproportionately on them relative to their size and because they often do not have sufficient financial and human resources to manage their regulatory obligations.

SMEs currently account for almost all European Union (EU-28) non-financial business sector enterprises (99.8%), two-thirds of total EU-28 employment (66.6%) and slightly less than three-fifths (56.8%) of the value added generated by the nonfinancial business sector. This is why even small improvements in the regulatory environment for SMEs may have a large impact on the economy of the EU.

The scope of the analysis is the Fiscal Year 2019. The administrative burden is estimated for five categories of taxes: “Corporate Income Tax”, “Value Added Tax”, “Wage related taxes and contributions”, “Property and real estate tax” and “Local and regional taxes” while the industrial sectors covered for this study are “Manufacturing”, “Construction”, “Wholesale and retail trade”, “Accommodation and food service activities” and “Professional, scientific and technical activities”.

Methodology Employed

A mixed-methods approach combining qualitative and quantitative research methods such as desk research, Computer Assisted Telephone Interviewing (CATI) and collection of quantitative data via enterprise databases and public registries, key informant interviews and focus group discussions was applied to triangulate the findings and suggestions presented in this Study.

The quantitative data for this study are based on a large scale survey which ran in the first quarter of 2021 targeting SMEs and, to a lesser extent, LSEs. The survey questionnaire was designed to provide comprehensive picture regarding tax compliance obligations.

Through the survey, quantitative and qualitative data was collected regarding total enterprise tax compliance costs (TETCC) and other relevant characteristics of the enterprises. All survey respondents were asked to refer to their 2019 accounting year before providing their answers. This year was chosen to ensure that in all countries the tax filing for the same year was completed by the beginning of the survey.

In order to provide a representative picture regarding the burden of tax obligations faced by the 18.4 million enterprises in the underlying population of the sample, the responses of enterprises were weighted prior to the commencement of the analysis.

[1] European Commission, Study on tax compliance costs, 2018. DOI: 10.2826/02329. Available at: https://op.europa.eu/en/publication-detail/-/publication/0ed32649-fe8e-11e8-a96d-01aa75ed71a1

The data collection and data cleaning process chosen for the Study along with the resulting data are described in detail below.

Large scale data collection exercises regarding tax compliance obligations have some inherent limitations to them and this Study is no exception. Respondents are inclined to make mistakes in reporting actual data and to overstate tax compliance issues, thus even with more than 3 500 responses, it is often difficult to draw robust quantitative conclusions for different groups of enterprises at the country level. Systematic non-response to certain questions can be an additional issue. Notwithstanding these limitations, this survey provides, to the best of our knowledge, the most comprehensive dataset prepared to date regarding the tax compliance obligations faced by European SMEs and, as such, insightful conclusions can be drawn from the analysis of the data.

The quantitative assessment of the data made use of the Standard Cost Model (SCM), inferential statistics and regression analysis. The SCM is used in this Study to calculate the administrative burden (AB) related to information obligations (IO) stemming from tax regulation. This provides absolute figures on TETCC to give the reader a view on the AB of complying with different taxes. The SCM calculates the AB for the normally-efficient enterprises (NEE) (an enterprise deemed representative of an observed population). In this Study the TETCC of the average enterprise is deemed to be the TETCC of a NEE.

We then estimated certain ratios to provide further context and perspective on the SCM calculated costs in terms of their relationship to relevant measures of the economic performance of enterprises, such as turnover. We compared these estimated ratios across enterprise size, sectors, countries and other relevant enterprise characteristics. Through such comparisons, several findings emerged regarding the burden of tax compliance relative to these characteristics.

To add some further detail to the analysis, we estimated regressions by several methods. The regression analysis showed, whether or not there is statistical evidence that certain enterprise characteristics have an impact on the different measures of the relative burden of compliance while considering also the other characteristics of the enterprises.

Conclusions

Due to the limitations of the statistical significance of country level analyses in some Member States, the conclusions will mainly focus on EU level considerations and no country specific recommendations are provided in this study.

The main conclusions, and the related recommendations, are presented below.

Administrative burden

Companies in the 28 countries in scope of the study are estimated to spend an annual total amount estimated around EUR 204 billion to comply with obligations related to CIT, VAT, wage related taxes and contributions, 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.

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.

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 are the source of the administrative burden. While e-filing is adopted by several countries, there are still some margins of improvement.

SMEs vs larger enterprises

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 LSEs. This could indicate that compliance costs are, at least in part, fixed costs and also that larger enterprises utilise economies of scale to deal with tax compliance obligations.

Simplified tax regimes are present in several EU countries but not all. These solutions are considered positively by stakeholders and a solution to the disproportional effect of tax filing requirements on SMEs in comparison to larger enterprises.

There is no clear evidence that enterprise characteristics other than size have a profound impact on the relative burden of compliance. Understanding the enterprise specific drivers of compliance costs may require gathering more detailed, qualitative types of information from the enterprises.

There is no clear evidence that cross border trade has an impact on the relative burden of compliance (which can be disentangled from the impact of size). The majority of the leaders of companies does not believe either that engaging in cross-border activities leads to a disproportionate increase in the compliance burden. Those who do, refer to the complexity of European rules on cross-border operations and difficulties with dealing with different levels of government when it comes to explaining their perceptions.

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. At the same time, with the data at hand, it is difficult make robust inference to differences in the cost and the relative burden of compliance across countries. In the future, larger country level samples and an initial mapping of tax forms to tax categories could be the suitable approach to gather more information on this matter.

COVID-19 relief measures

All EU Member States have adopted some COVID-19 relief measures and, in turn, these had an impact on the administrative burden for businesses. In almost all countries some form of deferral of the tax filing and payment was adopted to allow companies to cope with lockdown measures and the objective difficulties. Nevertheless, in some cases, the additional information obligations needed to benefit from special relief measures had the counter-effect of increasing the administrative burden. Familiarisation with new norms and deductions introduced between 2020 and 2021, even if not accounted in the quantitative analysis (which covers the FY2019) may have also played an important role in increasing compliance costs. Since the quantitative analysis of this study is based on self-reported data in the CATI survey, the probability that the pandemic has influenced the responses is to be taken into account.

1. Objectives and scope of the study

1.1. Objectives

The objective of this study is to quantify the administrative burden for SMEs and large enterprises in the European Union and its Member States plus the United Kingdom. The scope of the analysis is the Fiscal Year 2019. The administrative burden is estimated for five categories of taxes: “Corporate Income Tax”, “Value Added Tax”, “Wage related taxes and contributions”, “Property and real estate tax” and “Local and regional taxes” and the industrial sectors covered for this study are “Manufacturing”, “Construction”, “Wholesale and retail trade”, “Accommodation and food service activities” and “Professional, scientific and technical activities”.

The study is structured into two main parts:

- A first one dedicated to the quantification of costs imposed on businesses by fiscal obligations, differentiated by country where they are established and according to their size and the nature of their business activity;
- A second part, in which dedicated country fiches provide an overview of the national obligation faced by SMEs in order to meet compliance requirements for the most burdensome taxes.

Finally, the study draws conclusions on the basis of the performed analysis and reports the recommendations collected through the interviews with relevant stakeholders on how to reduce administrative costs and how to mitigate possible distortions and disadvantages for EU based SMEs in tax compliance.

1.2. Methodology

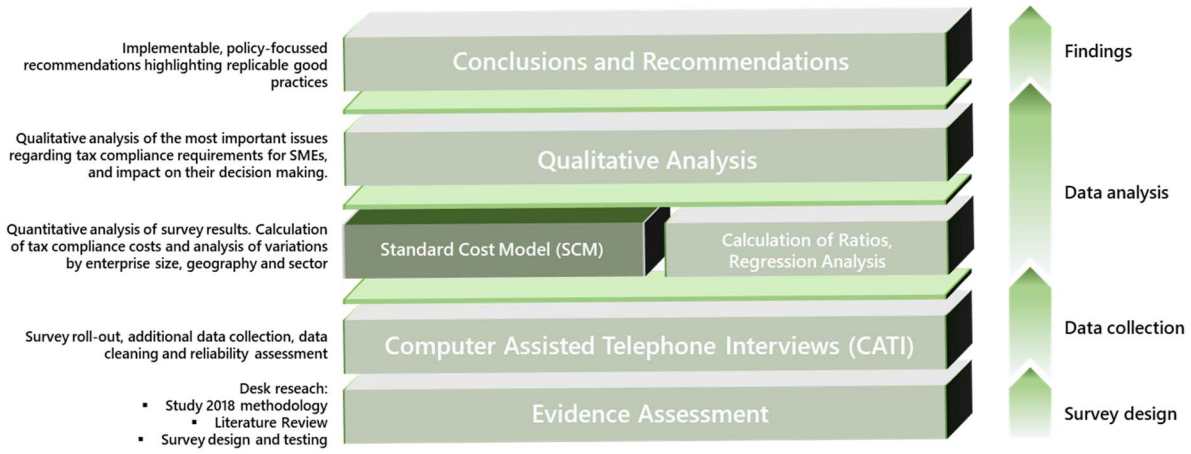
Supporting SMEs in their growth means tackling the remaining problems which hamper their development. As stated in the Investment Plan for Europe[2]: *“this includes reducing unnecessary regulatory burdens and improving business conditions, in particular for SMEs, to ensure that any necessary regulation is simple, clear and fit for purpose”* thus including the efficiency of tax systems. The most appropriate evaluation methodology to estimate the regulatory burden due to the information obligations, in this specific case, the tax filing obligations due to the local procedures for the taxes in scope of the analysis, is the Standard Cost Model, which aims at assessing the net cost incurred by enterprises to gather/produce the information obligations imposed by the regulation.

This exercise has been partially already conducted in the previous iteration of this study in 2018, which had a smaller geographical scope including 19 Member States. The present study updates the previous results with recent quantitative and qualitative information for its original geographic scope and integrates with recent quantitative and qualitative information for the remaining nine Member States.

The structure of the approch followed for this study is summarised in the figure below.

[2] An Investment Plan for Europe (p.14). https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0903&from=EN

Figure 1: Overview



As a first step the study team reviewed the findings of the 2018 report and refined the approach following the kick-off meeting with the Commission, the literature review on the topic and following the first consultation with the committee of national experts.

The key source of primary data collection and subsequent analysis was a dedicated **survey questionnaire** covering 28 countries and 5 sectors, carried out through computer assisted telephone interviews (CATI). After a pilot phase conducted on a limited number of interviews in Ireland (10), the full roll-out of the survey occurred in early 2021.

As requested in the Terms of Reference of the study, in each country (28) the study team collected 125 full responses with semi-fixed quotas as shown in the table below[3]. These figures where there elaborated to represent the underlying EU business population.

	Micro	Small	Medium	LSE	TOTAL
Commerce	13	4	4	4	**25**
Construction	13	4	4	4	**25**
Hotels & Restaurants	13	4	4	4	**25**
Manufacturing	13	4	4	4	**25**
Energy	13	4	4	4	**25**
TOTAL	**65**	**20**	**20**	**20**	**125**

Tax compliance costs were estimated following the methodology of the **Standard Cost Model** (SCM) which has been used to calculate administrative burdens and business-as usual costs for both direct and indirect taxes. Furthermore, a **regression analysis** was performed to quantify the impact of various firm characteristics on compliance costs, and thus identify key drivers of compliance costs at EU level.

In parallel with the quantitative data analysis, the research team peformed a **qualitative review of national fiscal provisions** as reported in the dedicated country fiches. The qualitative analysis primarily consisted of semi-structured interviews with relevant

[3] Additional details on the interview sample are provided in Annex III.

stakeholders and tax professionals and desk research[4] on the most recent administrative requirements in national fiscal law.

1.3. Definitions

The definition of key terms outlined below provides the basis for the calculation of the SCM, the calculation of ratios and the regression analysis conducted for this Study.

Administrative Burden (AB): The cost imposed on enterprises, when complying with information obligations stemming from government regulation.

Administrative obligations: Information obligations stemming from government regulations.

Areas for improvement: Features of the tax system that negatively impact (increase) the compliance burden.

Average enterprise: An enterprise within the calculated subset of enterprises that handles its administrative tasks in a normal manner. Depending on the analysis this can be, for example an average small-sized enterprise in a specific country or an average enterprise of all sizes in a given country. The computation excludes enterprises that handle such tasks better or worse than can be reasonably expected. The top 5% and bottom 5% of outliers in terms of TETCC were thus excluded from the analysis. The mean of the remaining sample represents the average enterprise. In this Study, we make the assumption that the average enterprise, is the same as the Normally-efficient enterprise (NEE) (see below).

Business-As-Usual costs (BAU): The costs resulting from collecting and processing information which would be done by an entity even in the absence of regulations.

Country average: The term refers to average results for all 28 countries that were covered by this Study unless specified otherwise.

Cross-border activities: All activities which involve the selling of goods, services or intangibles to a country other than the enterprise's home country.

Dependence structure: Differentiation of enterprises based on their position and role within a corporate group. Enterprises may be standalone, subsidiary, member of a group controlling a subsidiary in the home country or in other (EU) Member States, or the ultimate parent of a group. The term "dependence structure" can be used interchangeably with the term "group structure". Nevertheless, the Study uses the term "dependence structure" as it entails a higher level of granularity regarding the internal organisation of a group by focusing on the relationship between subsidiaries/branches/permanent establishments and the parent of a group and not the group as a whole.

Direct enterprise taxes (DET): Direct enterprise taxes are defined to include the CIT or other profit based taxes, mandatory social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, municipal fees and taxes, church taxes, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other taxes or fees that are borne by the enterprise, other than indirect taxes as defined below.

Direct enterprise tax compliance costs: All costs related to complying with tax rules and obligations both within and outside the enterprise in relation to direct enterprise tax compliance costs including, in particular, the costs of acquiring information on tax laws and practices, tax obligations (registering, declaration, invoicing, payments and refunds), tax accounting, tax audit and litigation. It also includes the costs of external service providers

[4] The desk research was conducted consulting national regulatory documentation and the country profiles on the International Bureau of Fiscal Documentation (IBFD, www.ibfd.org) platform followed by a review by team's fiscal expert and participants to the project workshops.

such as tax lawyers and consulting enterprises. The costs include both related personnel costs (including salaries, social security and fringe benefits) and non-personnel costs (e.g. computers). The costs can be incurred within or outside the tax department. The direct enterprise tax compliance costs do not include the actual tax cost, costs for maintaining or developing a financial accounting system, a management accounting and reporting system or an information system. The direct enterprise tax compliance costs in this Study are defined as the perceived costs. DET to gross profit ratio: Direct enterprise taxes (DET) expressed as a percentage of the gross profit (i.e. the profit before taxes of the enterprise).

Good practice: Initiatives that positively impact (decrease) the compliance burden.

Indirect enterprise taxes (IET): Indirect enterprise taxes are defined to include VAT, sales taxes and other service and good taxes, i.e. taxes which normally are levied on the value of a trading transaction. DET, as defined above, are excluded.

Indirect enterprise tax compliance costs (IETCC): All the costs related to complying with tax rules and obligations, both within and outside the enterprise, in relation to IET including, in particular, the costs of acquiring information on tax laws and practices, tax obligations (registering, declaration, invoicing, payments and refunds), tax accounting, tax audit and litigation. It also includes the costs of external service providers such as tax lawyers and consulting enterprises. The costs include related personnel costs (including salaries, social security and fringe benefits) and non-personnel costs (e.g. computers). The costs can be incurred within or outside the tax department. IETCC do not include the actual tax cost, costs for maintaining or developing a financial accounting system, a management accounting and reporting system or an information system. The indirect enterprise tax compliance costs in this Study are defined as the perceived costs.

IETCC to turnover ratio: Total cost of tax compliance across all indirect taxes as a percentage of the enterprise turnover.

Information obligation (IO): A duty to procure or prepare information and subsequently make it available to either a public authority or a third party. It is an obligation that enterprises cannot decline without infringing legal obligations. Each information obligation consists of a number of required pieces of data or messages that enterprises have to report.

Irritation costs: Costs that are not directly attributable to an information obligation such as the opportunity cost of waiting time when dealing with administrative or litigation procedures or costs that are subjectively felt by enterprises as a result of, for example, overlapping regulatory requirements on specific enterprises. The irritation caused by the magnitude of the tax (e.g. tax is too high) is not included.

Normally-efficient enterprise (NEE): An enterprise deemed representative of an observed population. In this Study the weighted average TETCC is deemed the TETCC of a normally-efficient enterprise. Although the SCM (see below) would normally start from a detailed process analysis to derive the time/cost for each step to comply with each IO in order to define a normally-efficient enterprise, this methodology is not possible for this Study due to the size of the samples and sub-samples. Further, given the nature of tax compliance and its relationship to the specific characteristics of the enterprise concerned, it would be impossible to generate one process flow for tax that would represent all of the different countries, sectors and enterprise sizes covered under this Study. We therefore deem that a weighted average is the most practical way to estimate the TETCC of an NEE. To summarize: in this Study we assume that the normally-efficient enterprise will be the same as an average enterprise (see definition above).

One-stop shop (OSS): For VAT, the OSS is a simplification measure to reduce administrative burdens and costs on business in dealing with VAT compliance. This is a measure provided for in EU VAT law. Other OSS arrangements may be found at national level for procedures such as the registration of a new enterprise.

Relative burden of tax compliance obligations: The various relative measures (ratios) of the burden of compliance activities, such as TETCC to turnover ratio and the IETCC to turnover ratio.

Smaller/larger enterprise: There are four size categories of enterprises covered by this Study: micro-, small-, medium-sized enterprises and large-scaled enterprises (LSEs). The term 'smaller/larger enterprise' refers to a comparison between size categories. For instance, when we say that smaller enterprises bear a disproportionally high relative burden compared to larger enterprises, we mean that micro-sized enterprises bear a larger burden than small-sized enterprises, small-sized enterprises bear a larger burden than medium-sized enterprises, and so on.

SMEs: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC).

Standard Cost Model (SCM): The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on enterprises by central government. The basic SCM formula is: Cost per administrative activity (or per data requirement) = Price x Time x Quantity (population x frequency).

Tax revenue: Tax revenue is defined as a tax or contribution that is transferred from the enterprise to a tax authority. Taxable person: Taxable person (VAT legislation) is used in the Study as a synonym to enterprise. Total enterprise tax compliance burden: The total enterprise tax compliance burden aggregates all efforts that an enterprise commits to meet its tax compliance obligations. This can be both time and money. To allow comparison of burdens between countries, the time burden for compliance is transformed to a monetary value by multiplying the time spent with the average labour costs for administrative personnel in that country.

Total enterprise tax compliance costs (TETCC): TETCC is the sum of all the costs, expressed in monetary value, that an enterprise incurs to pay its taxes and comply with related administrative obligations. It excludes the actual amount of tax that is paid to the tax authority. When measuring the TETCC, all types of direct enterprise tax compliance costs and IETCC are included.

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. The TETCC to tax revenue ratio provides a broad measure for governments of the cost burden that enterprises are required to spend on tax compliance in order to generate a given amount of tax revenues and provides an indication of the relative efficiency of the revenue raising mechanism.

TETCC to turnover ratio: This ratio measures the total cost of tax compliance across all direct and indirect taxes as a percentage of the enterprise's turnover.

Turnover: Turnover is defined as net turnover, i.e. calculated excluding VAT and other indirect taxes.

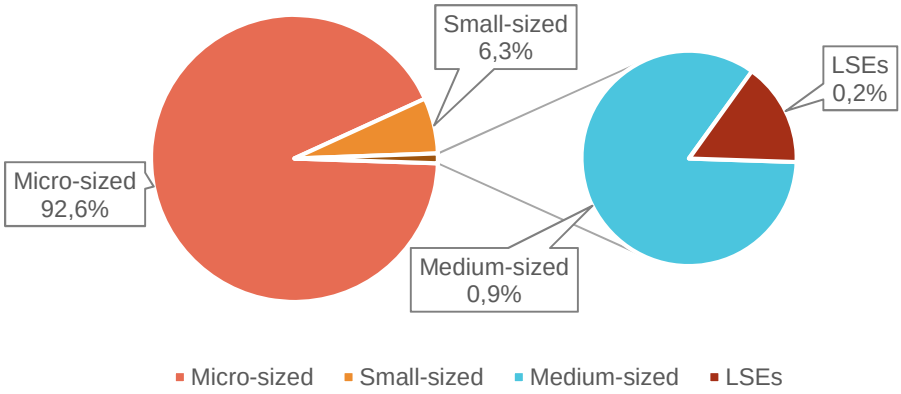
Wage related taxes and contributions: Wage related taxes and contributions include all social security and health insurance contributions and payroll taxes that the employer is required to withhold from employees' wages.

2. Description of the population of enterprises in the 28 countries

This section provides key information on the characteristics of the population of enterprises operating in 28 countries and industry sectors, i.e. the underlying population of the sample.

The sample represents an underlying population of more than 18.4 million enterprises in the 28 countries operating in the five industry sectors selected for this Study. As presented in the Figure below, 92.6% of the enterprises are micro-sized enterprises, 6.3% are small-sized enterprises, 0.9% are medium-sized enterprises and 0.2% are LSEs.

Figure 2 : The represented population of enterprises by size categories

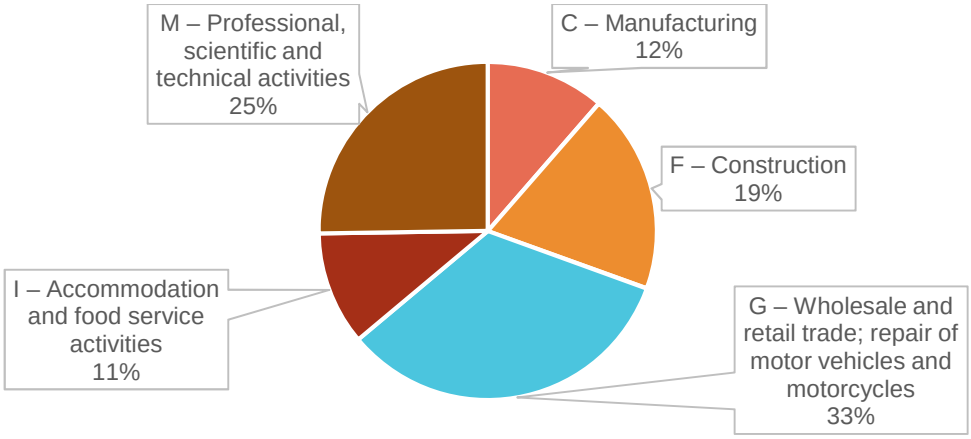


Source: EUROSTAT[5].

As shown by the figure below, most enterprises in the underlying population operate in the wholesale and retail trade sector, while the number of enterprises is the smallest in the accommodation and food service activities sector.

Sectors of operations

Figure 3: The number of enterprises represented by the sample by industry sectors



Source: VVA / KPMG (2021).

The number of enterprises is further broken down by size and sector in the table below.

5 Source: EUROSTAT. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sbs_sc_sca_r2&lang=en

Table 1: Number of enterprises in the sample by sector and size

	Micro	Small	Medium	Large	Total
C – Manufacturing	1 742 969	270 806	71 252	16 639	2 101 666
F – Construction	3 316 236	187 283	18 149	1 888	3 523 556
G – Wholesale and retail trade; repair of motor vehicles and motorcycles	5 741 647	356 361	45 928	8 071	6 152 007
I – Accommodation and food service activities	1 771 135	212 088	17 916	2 118	2 003 257
M – Professional, scientific and technical activities	4 494 926	133 363	17 108	3 106	4 648 503
Total	17 066 913	1 159 901	170 353	31 822	18 428 989

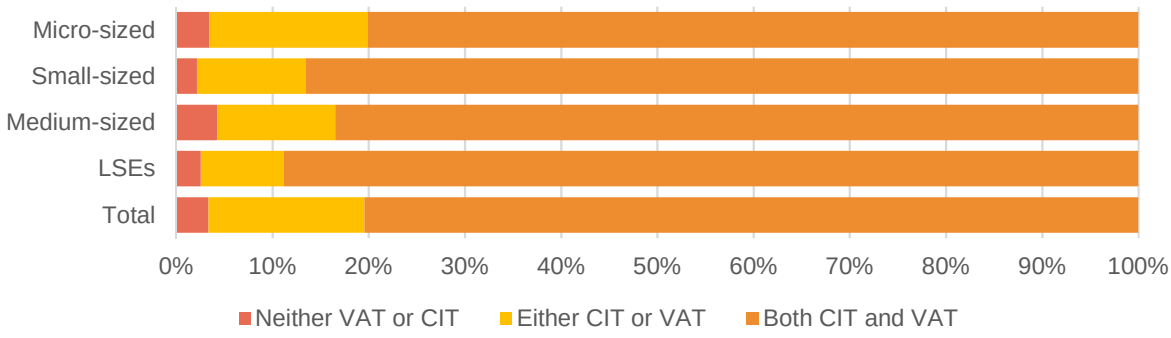
Source: EUROSTAT[6].

6 Source: EUROSTAT. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sbs_sc_sca_r2&lang=en.

3. Digitalisation in support of compliance processes

The figure below presents the estimated proportion of enterprises submitting their CIT and VAT returns electronically in the EU as self-reported by businesses in the survey.

Figure 4: The estimated proportion of enterprises filing their tax returns electronically by size categories

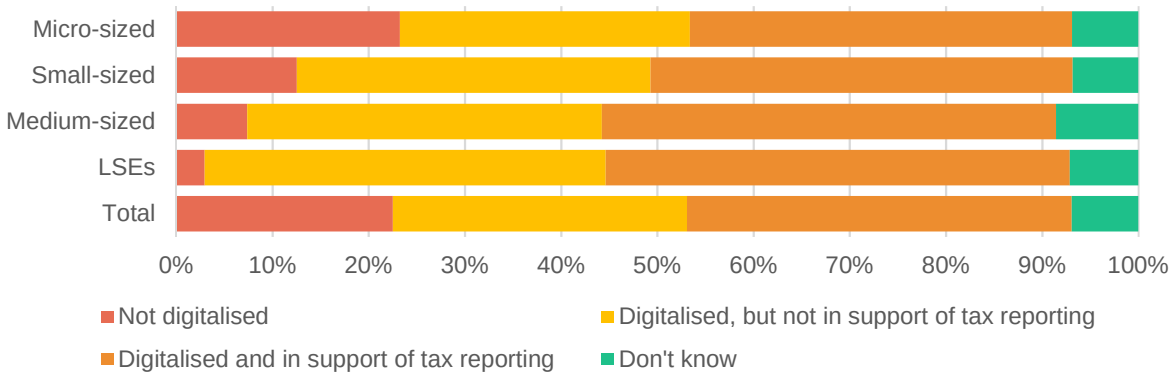


N=2 888, source: VVA / KPMG (2021).

The statistical evidence shows that micro enterprises are somewhat less likely to file their tax returns electronically. We suspect the most likely explanation for this is that there is a lower occurrence of equipment and know-how required to complete forms electronically in smaller companies. Nonetheless, the occurrence of paper filing is low (less than 5%) in all size categories.

In order to have a better understanding about the digitalisation of processing taxes at companies in the EU, respondents were asked to assess the level of digitalisation of their tax reporting systems[7].

Figure 5: The estimated proportion of enterprises with a digitalised internal reporting system by size categories



N=2 914, source: VVA / KPMG (2021).

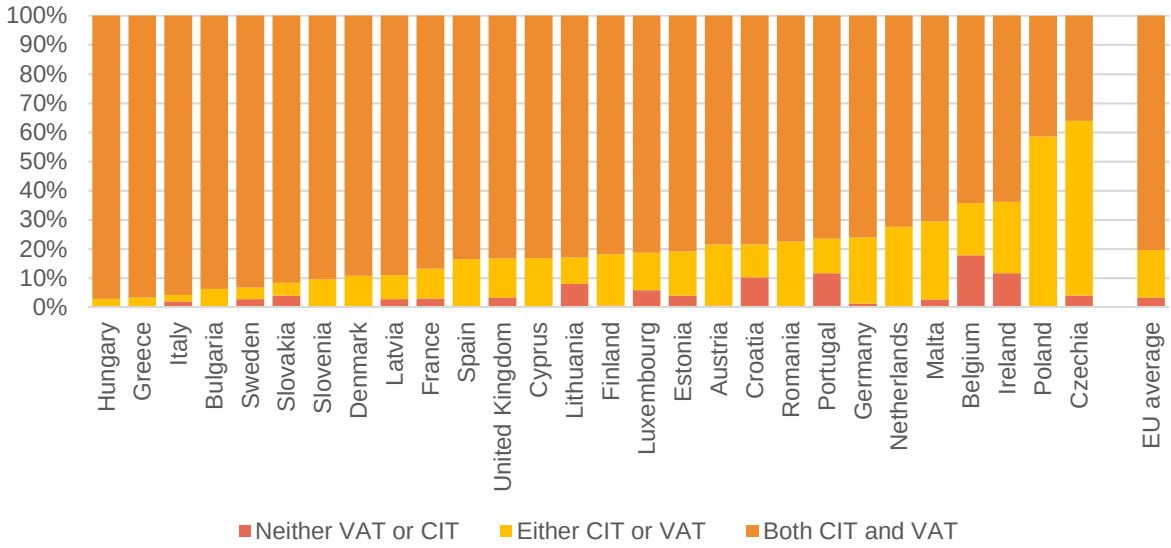
The estimated proportion of enterprises with no digitalised system that would support the tax reporting process is 26% among micro enterprises, while only 6% for LSEs.

[7] The study assumes two possible types of digitalisation of enterprises: enterprises with an enterprise resource system (ERM) which collects data and information useful for tax filing but which require a dedicated intervention to elaborate the data for the submission, and enterprises that have an ERM with a dedicated module to elaborate and process accounting data for digital submission of the tax return.

This in turn might be one of the reasons why fewer micro firms submit their tax returns electronically and hints at an opportunity to decrease the compliance burden, e.g. by centralised electronic solutions available free of charge for small companies.

The figure below presents the estimated proportion of respondents filing their tax returns electronically by countries.

Figure 6: The estimated proportion of interviewed enterprises which report filing their tax returns electronically by countries8



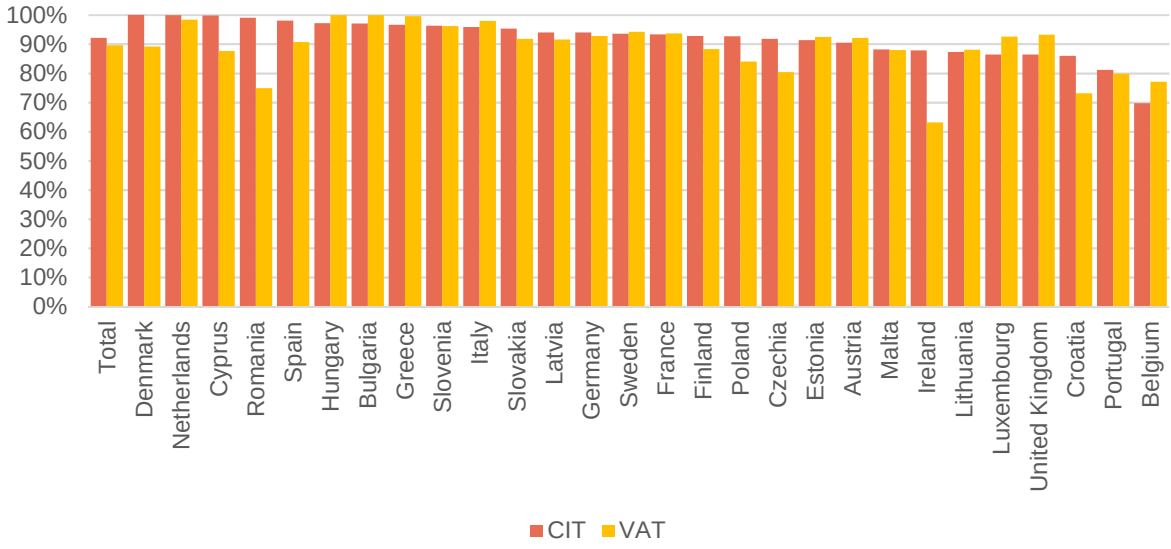
N=2 888, source: VVA / KPMG (2021).

An estimated 81% of enterprises file both CIT and VAT returns electronically and only 3% of the respondents refrain from using electronic submission altogether. Electronic filing seems to be the most prevalent in Hungary, Italy and Greece.

Looking at CIT and VAT separately (see the figure below) by countries, it is evident that the majority of companies submit their CIT and VAT returns electronically regardless of the country they operate in. With some exceptions – with by far the biggest difference being in Ireland and Romania – the prevalence of electronic submission is similar for VAT and CIT.

[8] We take note that the figures represent the perceptions of the respondents, i.e. they may not be in line with administrative data collected by member state authorities.

Figure 7: The estimated proportion of enterprises submitting CIT and VAT tax returns electronically[9]

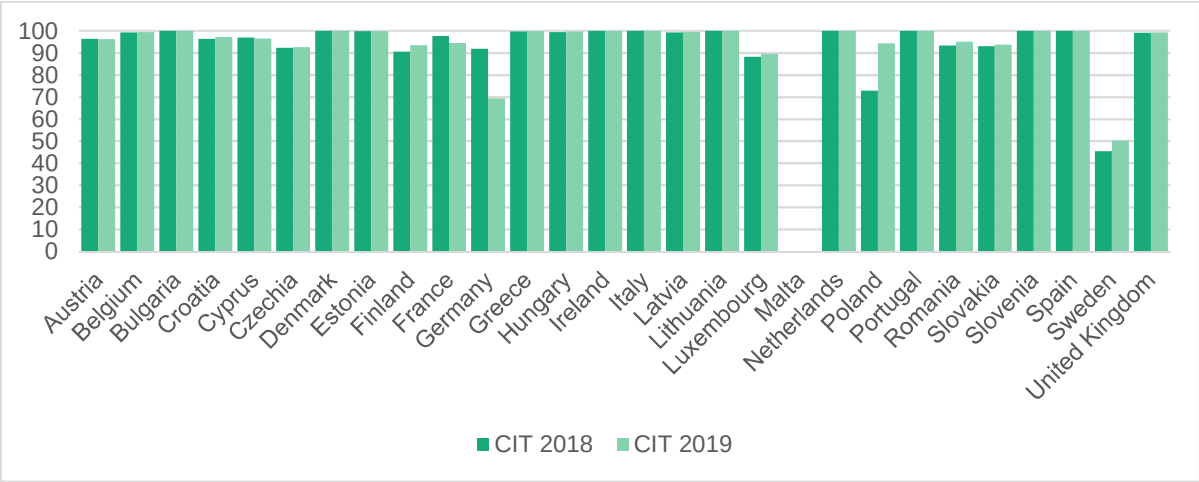


N=2 888, source: VVA / KPMG (2021).

It is important to remark that figures on the electronic submission here presented are provided by interviewed companies and not based on official national authorities. For this reason there are some discrepancies between the study sample and other studies such as the OECD study on Tax Administration.

To provide a more complete picture, according to the latest OECD study Tax Administration 2021, which reports data on electronic filing based on administrative data in 2018 and 2019, the share of online submissions for CIT and VAT are the following:

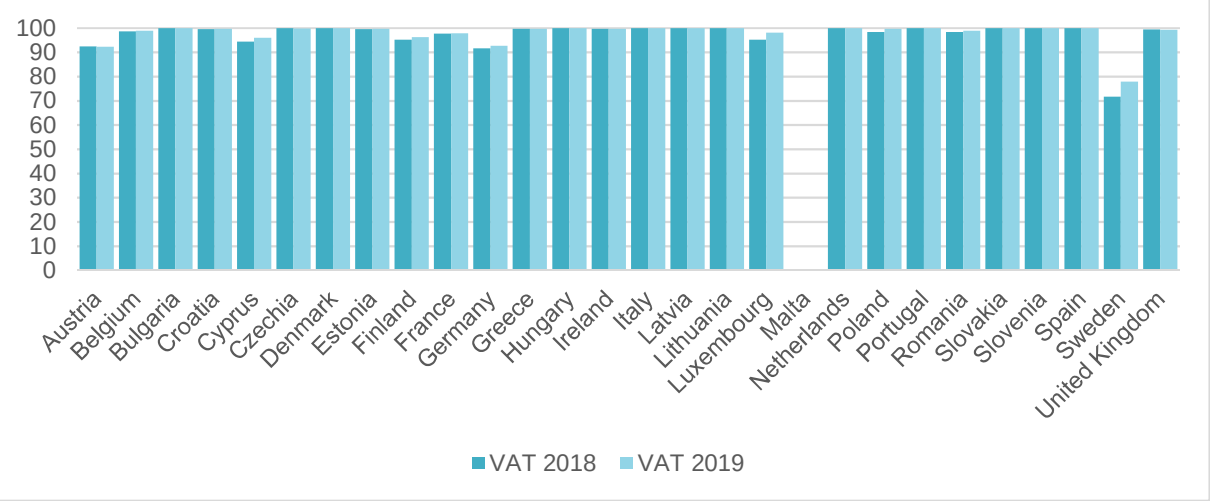
Figure 8: CIT electronic submission as reported by national statistics in OECD Tax Administration 2021



source: Tax Administration 2021: Comparative Information on OECD and Other Advanced and Emerging Economies (OECD, 2021)

[9] We take note that the figures represent the perceptions of the respondents, i.e. they may not be in line with administrative data collected by member state authorities. In addition, payments under personal income tax are excluded under this study.

Figure 9: VAT electronic submission as reported by national statistics in OECD Tax Administration 2021



source: Tax Administration 2021: Comparative Information on OECD and Other Advanced and Emerging Economies (OECD, 2021)

4. Tax compliance costs in absolute terms (results of the SCM)

4.1. Introduction

A tailored version of the EU SCM approach was utilised to estimate the compliance cost of a normally efficient enterprise (NEE) as an absolute (monetary) value. A NEE is an enterprise deemed representative of the observed population. The NEE of this study is an enterprise:

- with 6 employees; and
- with EUR 2 041 000 of annual turnover.

The details of the methodological approach are provided in Annex III.

A ratio and regression analysis were carried out to provide further context and perspective on the SCM calculated costs in terms of their relationship to relevant financial measures such as turnover (see section 4).

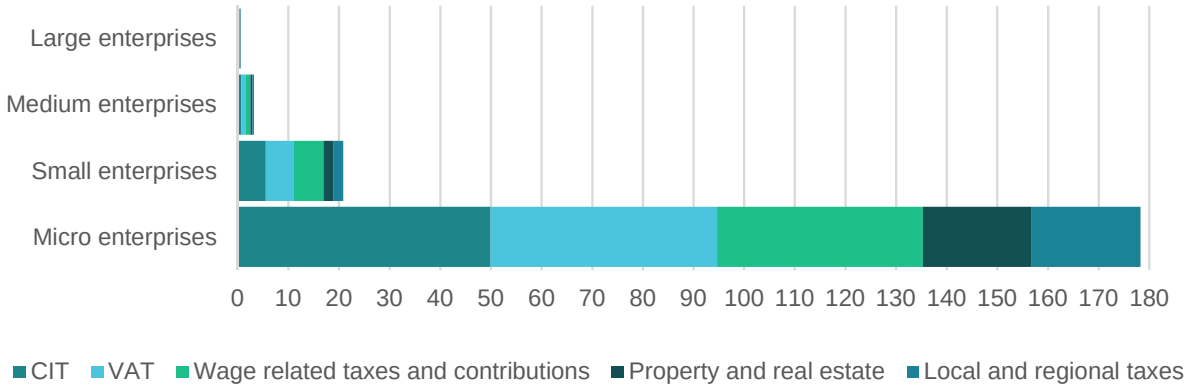
The estimations were preceded by a number of data preparation and data cleaning measures (see Annex III). They are based on a maximum number of 2 920 observations in the survey sample. Due to trimming and missing data the actual number of observations is most often smaller than this number. The actual number of observations used for the different estimations is included as a note under each figure in this report.

4.2. European level findings

4.2.1. Tax compliance costs at the macroeconomic level

The figure below presents an overview of the estimated total enterprise tax compliance costs at the level of the EU, broken down by size categories.

Figure 10: Total tax compliance costs of enterprises in their home countries by size and cost type (EUR billion)



N= 2 479, source: VVA / KPMG (2021)

Based on reported data, companies in the 28 countries in scope of the study are estimated to spend an annual total amount of circa EUR 204 billion to comply with the most burdensome tax obligations. This roughly equals to 1.3% of the GDP of these countries. The majority of these costs occur at micro (87%) and small (10%) companies.

4.2.2. Estimated tax compliance costs

The figures below present the estimated average and median tax compliance costs for a normally efficient enterprise:

- for all taxes by size categories;
- for VAT;
- for CIT;
- for wage related taxes and contributions;
- for property and real estate taxes;
- for local and regional taxes.

Figure 11 : Estimated average and median tax compliance costs by enterprise size category – all taxes (top left), VAT (top middle), CIT (top right), wage related taxes (bottom left), property and real estate taxes (bottom middle) and local and regional taxes (bottom right)

N= 2 479 (all taxes), 2 477 (VAT), 2 479 (CIT), 2 479 (wage related), 2 146 (property and real estate), 2 477 (local and regional), source: VVA / KPMG (2021)

It is clear that the estimated average TETCC[10] for all taxes is positively correlated with the size of the enterprise (see

Figure 11):

- the estimated tax compliance costs for micro-sized enterprises are EUR 13 897, and grow to EUR 33 917 for LSEs.
- the estimated tax compliance costs for CIT range from EUR 2 699 for micro-sized enterprises to EUR 5 830 for LSEs (see
- Figure 11).
- the estimated tax compliance costs for VAT range from EUR 2 957 for micro-sized enterprises to EUR 5 619 for LSEs (see
- Figure 11).
- while medians are in general close to the lower end of the confidence intervals estimated for averages, they show a similar trend when it comes to assessing the impact of size on compliance costs.

Tax compliance costs for CIT and VAT follow the same trend (positive correlation with the enterprise size), and the weight of the tax compliance costs for CIT and VAT as a share in overall TETCC for all taxes slightly decreases with the size of the enterprise (CIT: 19% for micro-sized enterprises, 17% for LSEs; VAT: 21% for micro-sized enterprises and 17% for LSEs). **This indicates that the tax compliance costs for other taxes may grow somewhat more rapidly with the size of an enterprise than compliance costs related to CIT or VAT.**

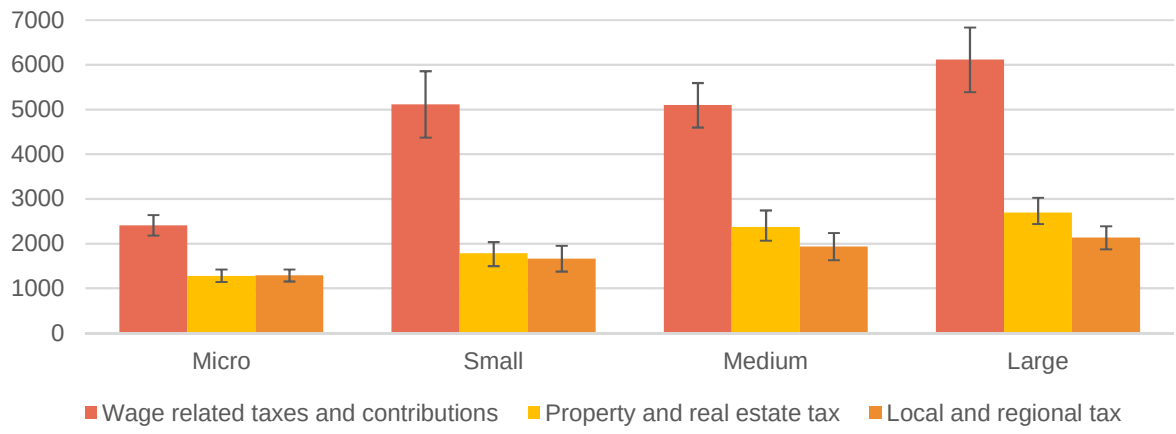
As regards taxes besides CIT and VAT, the objective of the predecessor study was to identify those three types of taxes which are the most burdensome for SMEs. These proved to be 1) wage related taxes and contributions, 2) property and real estate taxes, and 3) local and regional taxes. The objective of this study on the other hand was to collect structured evidence which enables a more precise estimation of the burden meant by these three types of taxes for enterprises in the EU.

The figure also gives an overview of the weighted average TETCC per tax types by enterprise size.

Compliance with wage related taxes and contributions is a burden comparable to CIT and VAT compliance for SMEs, regardless of the size of the enterprise. **Property and real estate taxes and local and regional taxes pose a smaller but still significant burden for SMEs**.

10 Throughout the Study the sum of individual TETCC may be larger than the TETCC. This is a direct result of the outlier exclusion procedure that focuses on outliers in a given variable and influences the total sample size (and therefore also the estimated TETCC).

Figure 12 : Estimated average TETCC by enterprise size categories – wage related taxes and contributions, property and real estate taxes and local and regional taxes



N=2 477, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

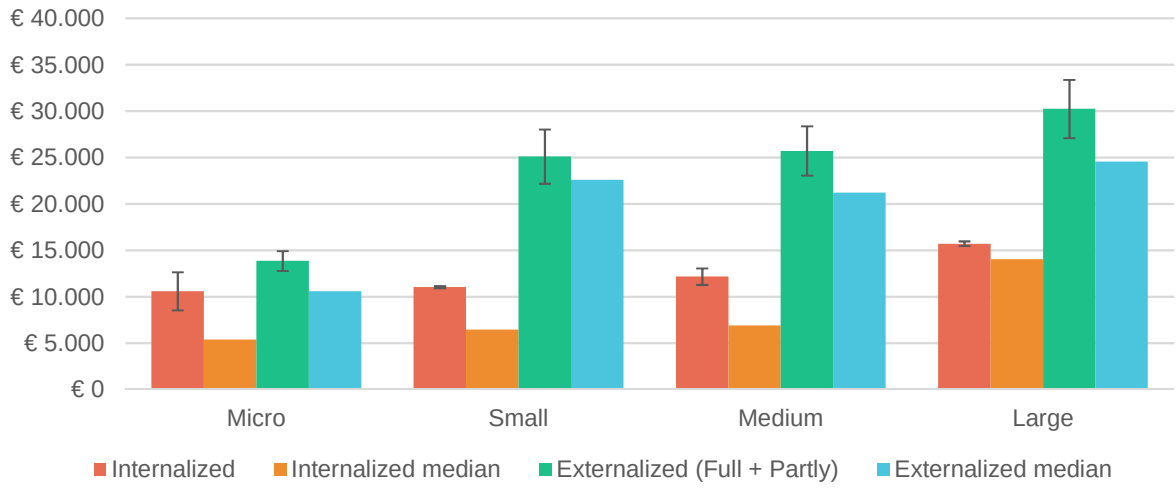
Compliance with wage related taxes and contributions is a burden comparable to CIT and VAT compliance for SMEs, regardless of the size of the enterprise. **Property and real estate taxes and local and regional taxes pose a smaller but still significant burden for SMEs.**

Similarly to CIT and VAT, **a gradual increase in compliance costs can be observed by size** in all three types of taxes, but the most notable is wage related taxes, where estimated tax compliance cost for micro sized enterprises is EUR 2 408, and it grows to EUR 6 111 for LSEs. This is in line with the findings of the previous study where wage related taxes were mentioned the most often as burdensome.

4.2.3. Approach to compliance (outsourcing or internalising compliance activities)

The figure below presents the TETCC for all taxes by size category and by approach to compliance (internalised or fully/partly outsourced).

Figure 13 : Estimated average and median tax compliance costs by enterprise size categories and by outsourcing/internalising compliance activities



N=2 479, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

The estimated average TETCC is higher when an enterprise partly or fully outsources compliance tasks. The estimated average tax compliance costs for enterprises with

internalised tax compliance activities range from EUR 10 588 for micro-sized enterprises to EUR 15 704 for LSEs, while the estimated average tax compliance costs for enterprises with fully or partly externalised tax compliance range from EUR 13 846 for micro-sized enterprises to EUR 30 227 for LSEs, which means that there is a significant difference throughout all size categories.

The table below presents information on the proportion of enterprises handling compliance obligations internally and those outsourcing them, broken down by size classes, specifically for VAT and CIT.

Table 2: The estimated share of enterprises handling tax compliance internally and outsourcing it

Handling tax compliance obligations …	VAT				CIT			
	Micro	Small	Medium	LSE	Micro	Small	Medium	LSE
Internally	26%	24%	33%	28%	16%	20%	29%	24%
Outsourced (Full+Partly)	74%	76%	67%	72%	84%	80%	71%	76%

N=2 479; Source: VVA / KPMG (2021)

For CIT, 84% of micro-sized enterprises (partly) outsource these obligations. This number is decreasing with size, to 71% for medium sized enterprises, but then increases again to 76% for LSEs.

For VAT, 74% of micro-sized enterprises (partly) outsource these obligations. This number is more or less independent of size, with the notable exception of medium sized enterprises, where the ratio of enterprises who (partly) outsource their tax compliance obligations decreases to 67%.

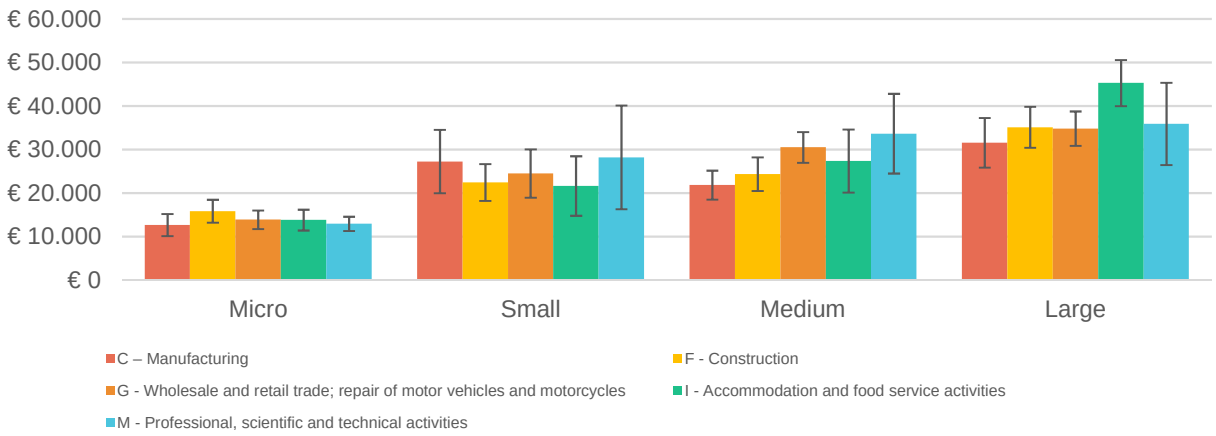
Overall – while outsourcing compliance obligations is prevalent regardless of the size of the enterprise – it seems that smaller enterprises which may lack legal/administrative knowledge required to comply and those enterprises that face a higher compliance burden are more likely to outsource tax compliance obligations. Larger enterprises on the other hand with ability to cope internally with their taxes are more likely to have the scale to internalise those functions.

This is evidenced by TETCC being correlated with the method of compliance (i.e. in-house or outsourced) (see Figure 13). According to the estimations, micro sized enterprises that fully internalise their tax compliance have TETCC that is 24% lower than their peers that outsource their tax compliance, while this rate is 48% in case of LSEs.

4.2.4. Industrial sectors

The figure below presents the average TETCC by enterprise size and by industry sector.

Figure 14: Estimated average TETCC by enterprise size categories and by industry sectors



N=2 479, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

It seems safe to say that industry is not a key driver of compliance costs in absolute terms. Evidence for differences across sectors within size categories is weak:

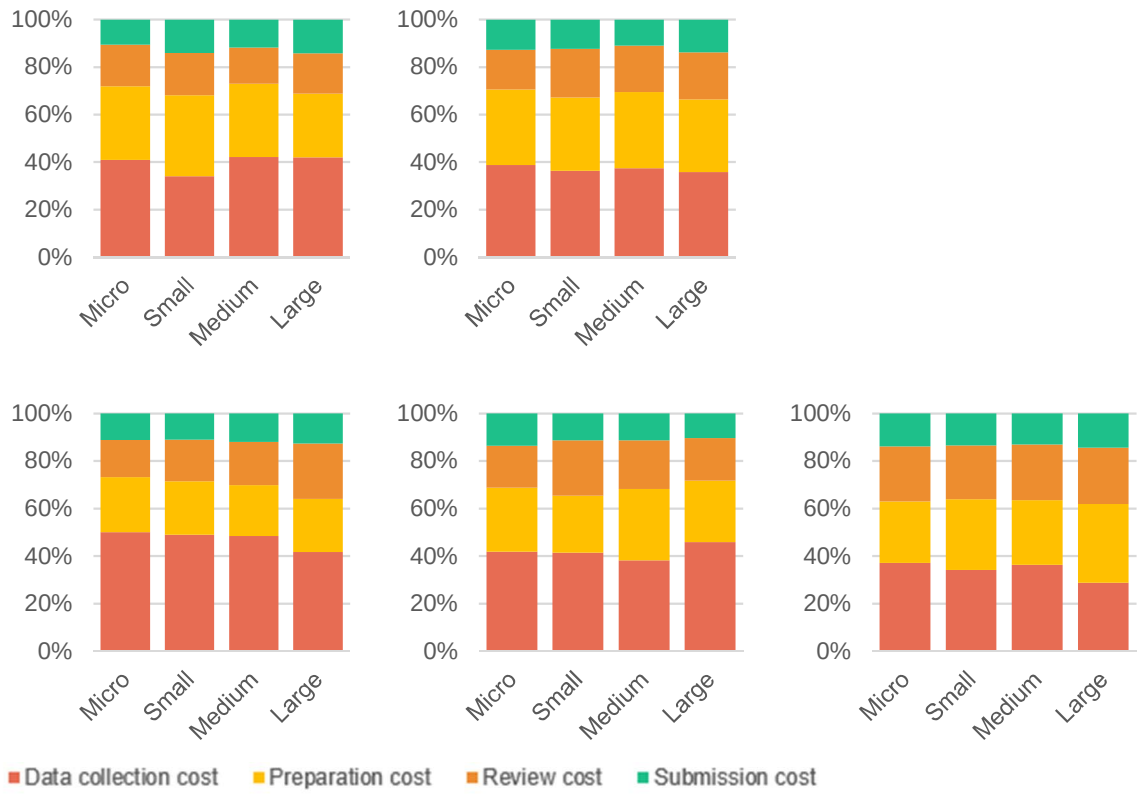
- in the case of micro, small and medium enterprises, industry seems to play no role at all
- in the case of large enterprises evidence suggests higher compliance costs in the accommodation and food service sector compared to manufacturing, retail trade and construction.

4.2.5. Information obligations

Four distinct IOs were identified in relation to tax compliance activities: 1) data collection (gathering all information needed for the tax declaration), 2) preparing the tax declaration, 3) reviewing the tax declaration and 4) filing (submitting) it.

The next figure presents information on the proportion of internal TCC by information obligations and size categories for CIT and VAT.

Figure 15: The estimated breakdown of internal TCC for CIT (upper left), VAT (upper right), wage related taxes and contributions (lower left), property related taxes (lower middle) and local and regional taxes (lower right) by information obligations and by enterprise size categories



N=2 112 (CIT), 2 479 (VAT), 2 578 (wage related, property related, local and regional), source: VVA / KPMG (2021). Excluding outsourcing costs.

While it is important to note that the results on information obligations presented above only cover the internal hours spent on these activities[11], these results are still useful to get a view on the relative roles of IOs in explaining compliance costs.

Data collection is the most important driver of costs both when it comes to CIT and VAT compliance. Related costs make up about 34-41% of tax compliance costs for CIT and 36-39% for VAT. Preparation costs make up about 27%-34% of tax compliance costs for CIT and 31%-32% for VAT. Review costs make up 27-34% of tax compliance costs for CIT and 31-32% for VAT. Submission costs make up the smallest proportion (15-18% of CIT and 17-20% of VAT) of compliance costs. Overall, variation by size is greater for CIT compliance costs. The figure also presents the distribution of the TCC for the three most burdensome taxes besides CIT across IOs by size categories.

Regarding the other three most burdensome taxes, data collection again proved to be the driving factor behind internal tax compliance costs. Related costs make up about 41-50% of tax compliance costs for wage related taxes, 38-46% for property taxes and 29-37% for local and regional taxes. Preparation costs make up about 21-23% of tax compliance costs for wage related taxes, 23-30% for property related taxes, and 25-33% for local and regional taxes. Review costs make up about 15-23% of costs for wage related taxes, 17-23% for property related taxes and 22-24% for local and regional taxes. Finally,

[11] In this wave of the survey, the respondents were not asked about these details of the outsourcing costs. This means that the results in this regard are not directly comparable with the results of the previous study. This approach was selected in consideration of the fact that respondents within the companies cannot realistically distribute the cost of their external service provider across IOs as they simply don't have a view on the activities of their service provider. These are self-reported data and thus subject to stakeholders' opinion and possibility of overstatement of compliance costs.

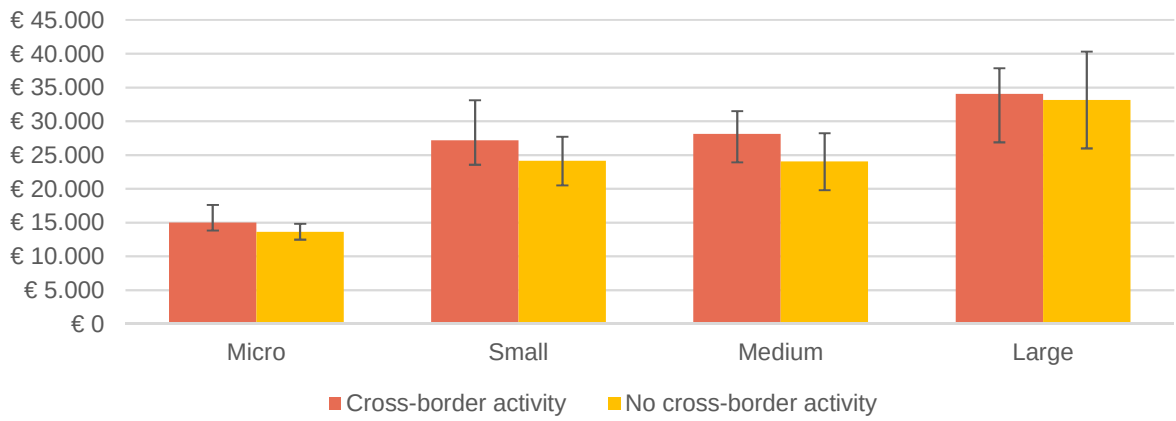
submission costs make up about 11-13% of costs for wage related taxes, 10-14% for property related taxes, and 13-15% for local and regional taxes.

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.

4.2.6. Cross-border activities

The figure below presents the estimated average TETCC by international activities[12] and enterprise size categories.

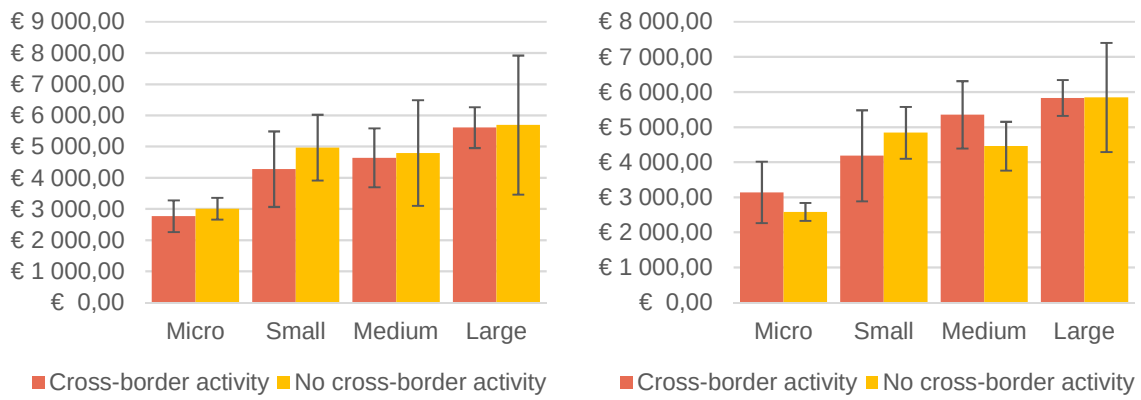
Figure 16: Estimated average TETCC by international activity and by enterprise size categories



N=2 479, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

Cross-border activities appear to have at best a minor effect on micro, small and medium sized enterprises, while it appears to have no effect at all on LSEs (see the Figure above). If it has some effect, cross-border activities lead to an increase tax compliance costs for micro, small and medium sized enterprises with a small amount. Looking individually at CIT and VAT, the conclusion remains the same (see figures below).

Figure 17: Estimated average tax compliance costs for CIT (left) and VAT (right) by international activity and by enterprise size categories

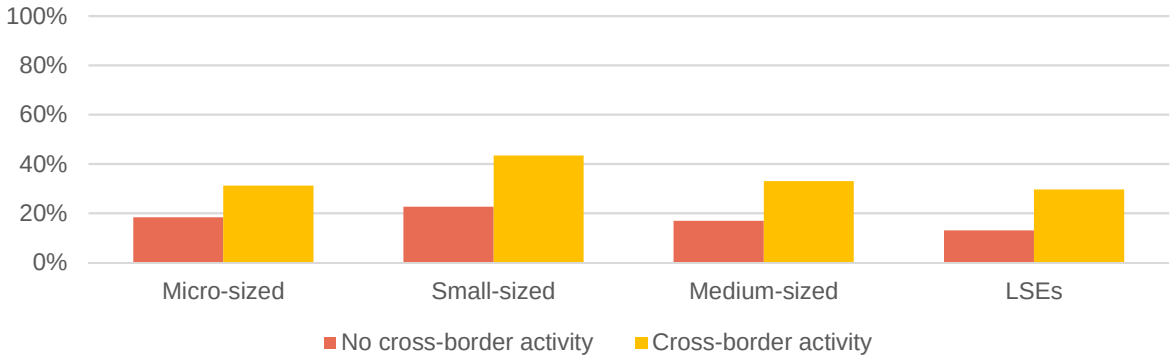


N=2 477 (CIT), 2 479 (VAT), source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

[12] Understood as sales of goods and services across borders.

To add further context to this finding, we assessed the qualitative perceptions of the enterprises regarding the compliance burden resulting from engaging in cross-border activities (see figure below).

Figure 18: Estimated proportion of enterprises with a perception that SMEs operating cross-border face disproportionate tax compliance burdens compared to similar SMEs who operate only in domestic markets

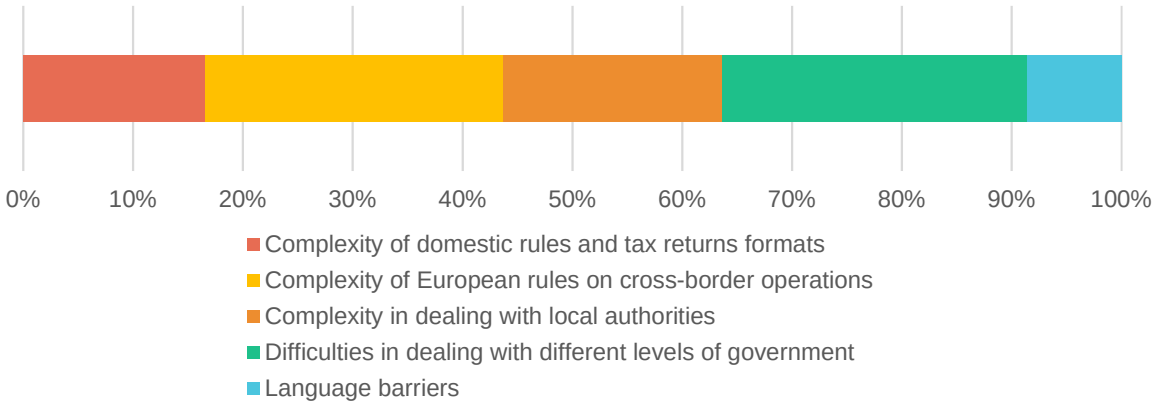


N=2 914, source: VVA / KPMG (2021).

It seems that the majority of respondents does not believe that engaging in cross-border activities leads to a disproportionate increase in the compliance burden. A larger number of respondents with prior experience in cross-border trade seem to have this perception than those not engaging in such activities.

The figure below presents the frequency of the reasons cited for the disproportionate increase in the compliance burden as perceived by the respondents.

Figure 19: Estimated proportion of reasons behind disproportionate tax compliance costs for SMEs operating cross-border



N=660, source: VVA / KPMG (2021).

Interestingly, respondents did not refer very frequently to language barriers when it comes to explaining the perceived disproportionate compliance burden of trading across borders. Instead they most often referred to the complexity of EU rules and difficulties in dealing with different levels of government.

4.3. The frequency and cost of tax audits

The figure below presents the estimated frequency of audits[13] for the five most burdensome taxes by countries.

Figure 20: The estimated average frequency of audits in the last three years by types of taxes and by countries

Country	VAT	CIT	Wage related taxes and contributions	Property and real estate	Local and regional taxes
Austria	0.14	0.05	0.19	0.00	0.09
Belgium	0.08	0.08	0.02	0.03	0.01
Bulgaria	0.23	0.09	0.04	0.00	0.02
Croatia	0.45	0.02	0.16	0.11	0.36
Cyprus	0.10	0.13	0.01	0.01	0.00
Czechia	0.81	0.20	0.41	0.04	0.02
Denmark	0.02	0.00	0.10	0.02	0.02
Estonia	0.27	0.10	0.08	0.06	0.09
Finland	0.30	0.27	0.03	0.23	0.03
France	0.34	0.02	0.24	0.05	0.17
Germany	0.34	0.13	0.27	0.13	0.08
Greece	0.23	0.25	0.12	0.20	0.10
Hungary	0.88	0.47	0.91	0.31	0.48
Ireland	0.08	0.00	0.61	0.17	0.18
Italy	0.18	0.12	0.29	0.00	0.04
Latvia	n.a.	1.26	0.15	1.10	0.06
Lithuania	1.22	0.00	0.12	0.00	0.00
Luxembourg	0.14	0.08	0.12	0.00	0.02
Malta	0.21	0.04	0.11	0.01	0.01
Netherlands	0.77	0.20	0.75	0.03	0.38
Poland	0.02	0.00	0.19	0.00	0.00
Portugal	0.23	0.27	0.01	0.00	0.07
Romania	0.17	0.16	0.15	0.01	0.00
Slovakia	0.59	0.53	0.31	0.15	0.15
Slovenia	0.78	0.05	0.26	0.05	0.04
Spain	0.24	0.07	0.01	0.00	0.02
Sweden	0.17	0.35	0.36	0.06	0.00
United Kingdom	0.08	0.00	0.02	0.04	0.05
28 countries	**0.33**	**0.13**	**0.23**	**0.05**	**0.09**

Source: VVA / KPMG (2021).

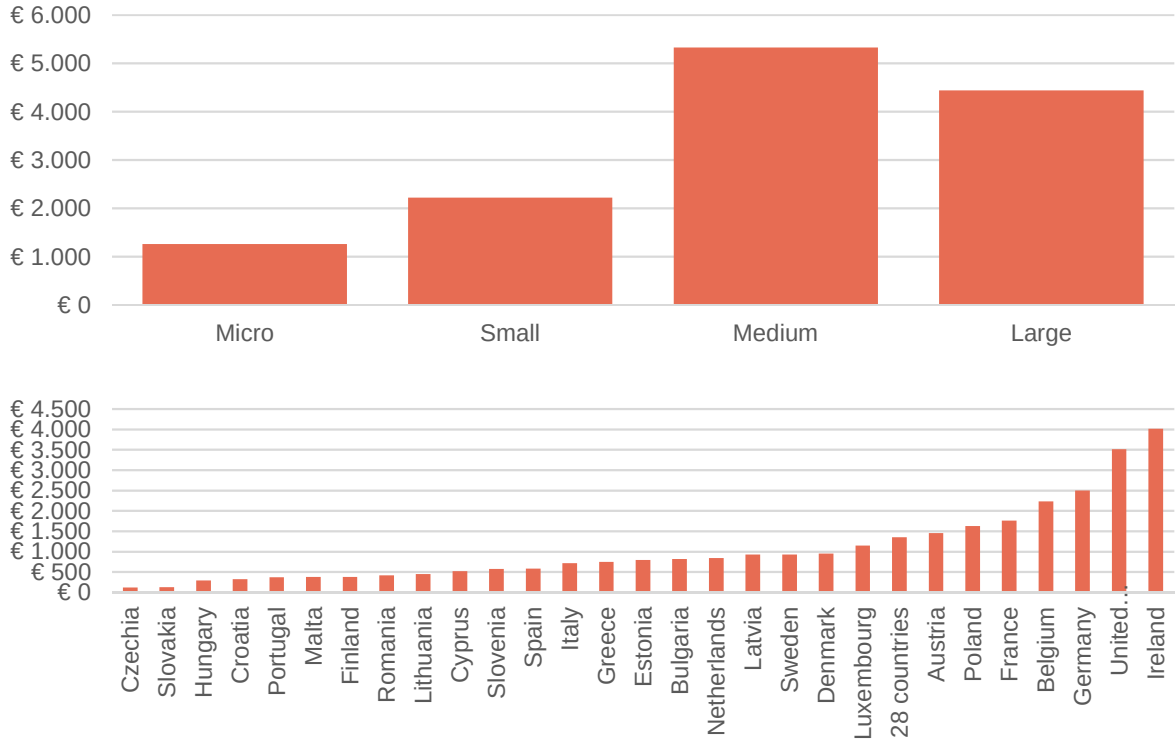
In the 28 countries, the average enterprise is estimated to have been audited 0.33 times for VAT, 0.13 times for CIT, and 0.23 times for wage related taxes and contributions in the last three years.

The number of audits for VAT is estimated to be higher in Lithuania, Latvia and Hungary, while the number of audits for CIT is estimated to be the largest in the case of Latvia, Hungary and Slovakia.

The estimated average of audit related costs for enterprises that underwent an audit for VAT increases by enterprise size. Based on the estimations, the average cost of an audit for an enterprise is the smallest is the Czech Republic and Slovakia, and enterprises in the United Kingdom and Ireland bare the largest costs.

[13] For the purposes of this analysis, audits are considered in the broader sense comprising several types (e.g. tax inspection, examination, verification actions, control, or simply tax audit). The study relies on self-reported data and thus interviewees were asked the frequency of an audit activity without further specifications.

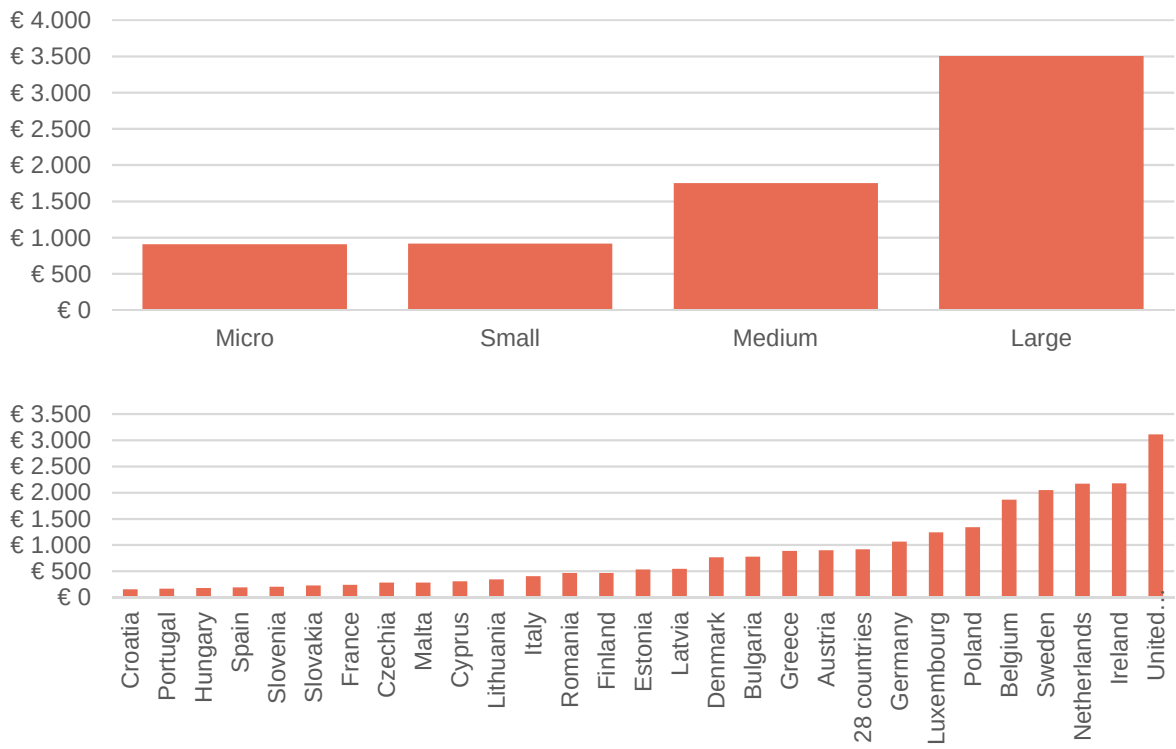
Figure 21: Estimated average of audit related costs for enterprises that underwent a tax audit during the last three years for VAT by size (top) and by country (bottom)



Source: VVA / KPMG (2021).

The estimated average of audit related costs for enterprises that underwent an audit for CIT also increases by enterprise size. Based on the estimations, the average cost of an audit for an enterprise is the smallest is Croatia and Portugal, and enterprises in the United Kingdom and Ireland bare the largest costs.

Figure 22: Estimated average of audit related costs for enterprises that underwent an audit for CIT by size (top) and by country (bottom)



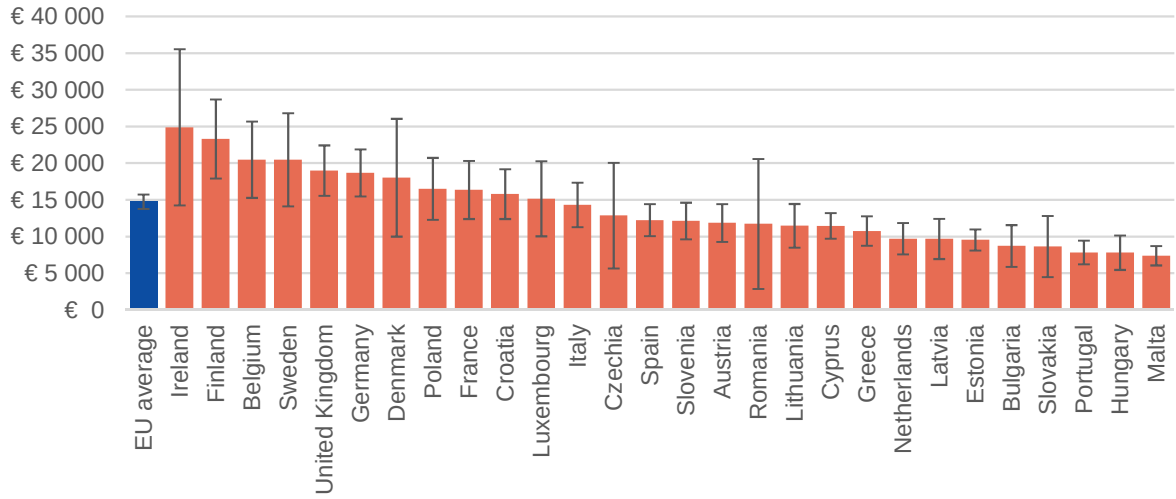
Source: VVA / KPMG (2021).

Additional estimations regarding audits on the other three most burdensome taxes can be found in Annex VIII.

4.4. Country comparisons

The figure below presents the estimated average total tax compliance costs by countries. The weighted average TETCC in the EU is EUR 14 745.

Figure 23: Estimated average TETCC by countries



N=2 479, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

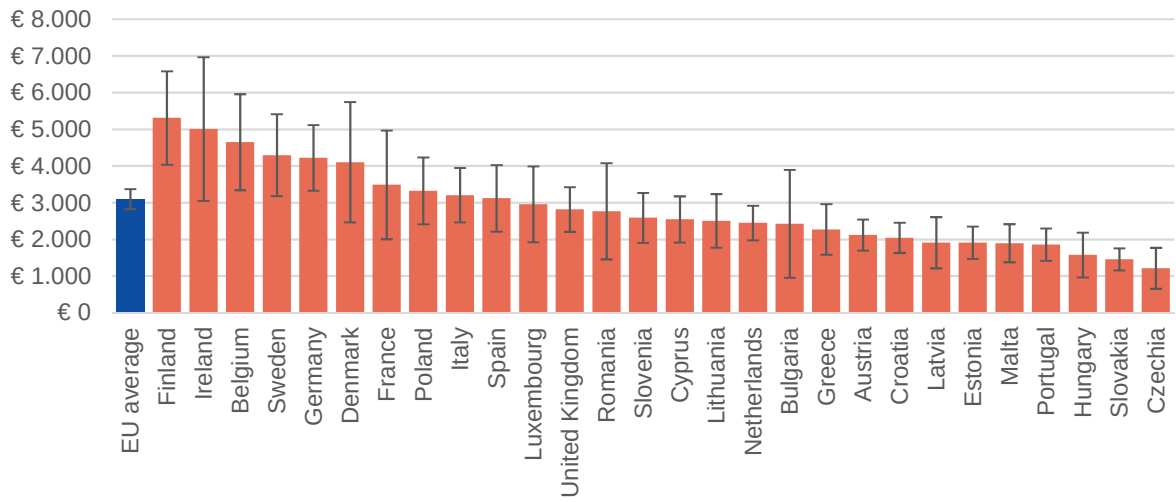
Member state level estimations are prone to have greater uncertainty due to the smaller sample size at country level (75-120 depending on country). This uncertainty is signalled by 95% confidence intervals accompanying the point estimates in the figure above. In case of

some countries, the estimations have very wide confidence intervals, even after thorough steps of data cleaning and data preparation. These countries include Ireland, Denmark, Romania, Czechia, Bulgaria.

Taking these caveats into account it seems that in absolute terms compliance may be a larger burden than the EU average for enterprises in Belgium, Germany and Ireland and a smaller in Malta, Slovakia and Portugal. Taking these results alone into account would not be appropriate to make a judgement on the comparison of the compliance burden across countries, among others because absolute differences are at a large part driven by wage differentials across countries. For a well-grounded judgement, evidence from the analysis of ratios and the regression analysis needs to be taken into account as well.

The figure below presents the estimated average CIT tax compliance costs by countries. The weighted average CIT compliance costs in the EU is EUR 3 097.

Figure 24: Estimated average tax compliance cost for CIT by countries



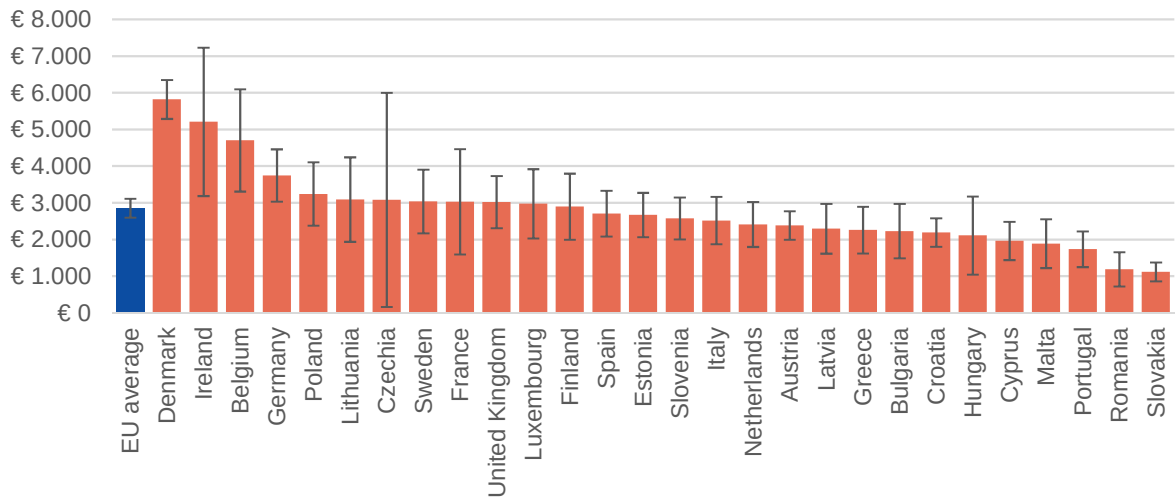
N=2 477, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

Taking into account the caveats described above, the evidence suggests that compliance in absolute terms may be:

- more costly compared to the EU average in Finland, Ireland, Belgium, Sweden and Germany;
- appears to be less costly than the EU average in Austria, Croatia, Latvia, Estonia, Malta, Portugal, Hungary, Slovakia and Czechia.

The figure below presents the results of weighted average VAT tax compliance costs by countries. The weighted average VAT compliance cost in the EU is EUR 2 853.

Figure 25: Estimated average tax compliance cost for VAT by countries



N=2 479, source: VVA / KPMG (2021). Confidence intervals (95%) are indicated by the black brackets.

Evidence suggests that compliance in absolute terms may be:

- more costly compared to the EU average in Denmark, Ireland, Belgium;
- appears to be less costly than the EU average in Croatia, Hungary, Cyprus, Malta, Portugal, Romania, Slovakia.

5. Tax compliance costs in relative terms (analysis of ratios)

5.1. Introduction

This section presents several estimated measures of the compliance burden in the 28 countries and five industry sectors covered by this study. We estimate the central tendency of four measures of the relative burden of compliance, as presented in the table below. The estimations were preceded by several data preparation and data cleaning measures. For details, please refer to Section 3.1 of the Study.

Table 3: Measures of the relative burden of compliance

Measure of the compliance burden	Summary
TETCC to turnover ratio (R1)	The ratio measures the total cost of tax compliance across all direct and indirect taxes as a percentage of the enterprise turnover. It provides an indication of the relative burden of TETCC to the enterprise's total turnover.
IETCC to turnover ratio (R2)	The ratio measures the total cost of tax compliance across all indirect taxes as a percentage of the enterprise turnover. It provides an indication of the relative burden of indirect enterprise tax compliance costs (IETCC) to the enterprise's total turnover.
TETCC to tax revenue ratio (R3)	The ratio measures 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. It provides a broad measure of the cost burden that enterprises are required to spend on tax compliance in order to generate a given amount of tax revenues and provides an indication of the relative efficiency of the revenue raising mechanism.
DET to gross profit ratio (R4)	The ratio measures the DET as a percentage of the gross profit (i.e. the profit before taxes of the enterprise). It provides a broad indication regarding the proportion of earnings before taxes paid as direct taxes.

Source: KPMG/VVA (2021).

Estimation results are first presented on European level by enterprise size categories, sectors, enterprise structure and cross-border activities. Subsequently, the aggregated results are compared across countries.

We estimated the above-mentioned ratios by using a trimmed mean approach to account for the skewed distribution of the data while still maintaining comparability with earlier studies. Trimming was carried out on 15%[14] of the sample distribution.

The estimations were preceded by a number of data preparation and data cleaning measures (see Annex III). They are based on a maximum number of 2 920 observations in the survey sample. Due to trimming and missing data the actual number of observations is most often smaller than this number. The actual number of observations used for the different estimations is included as a note under each figure in this report.

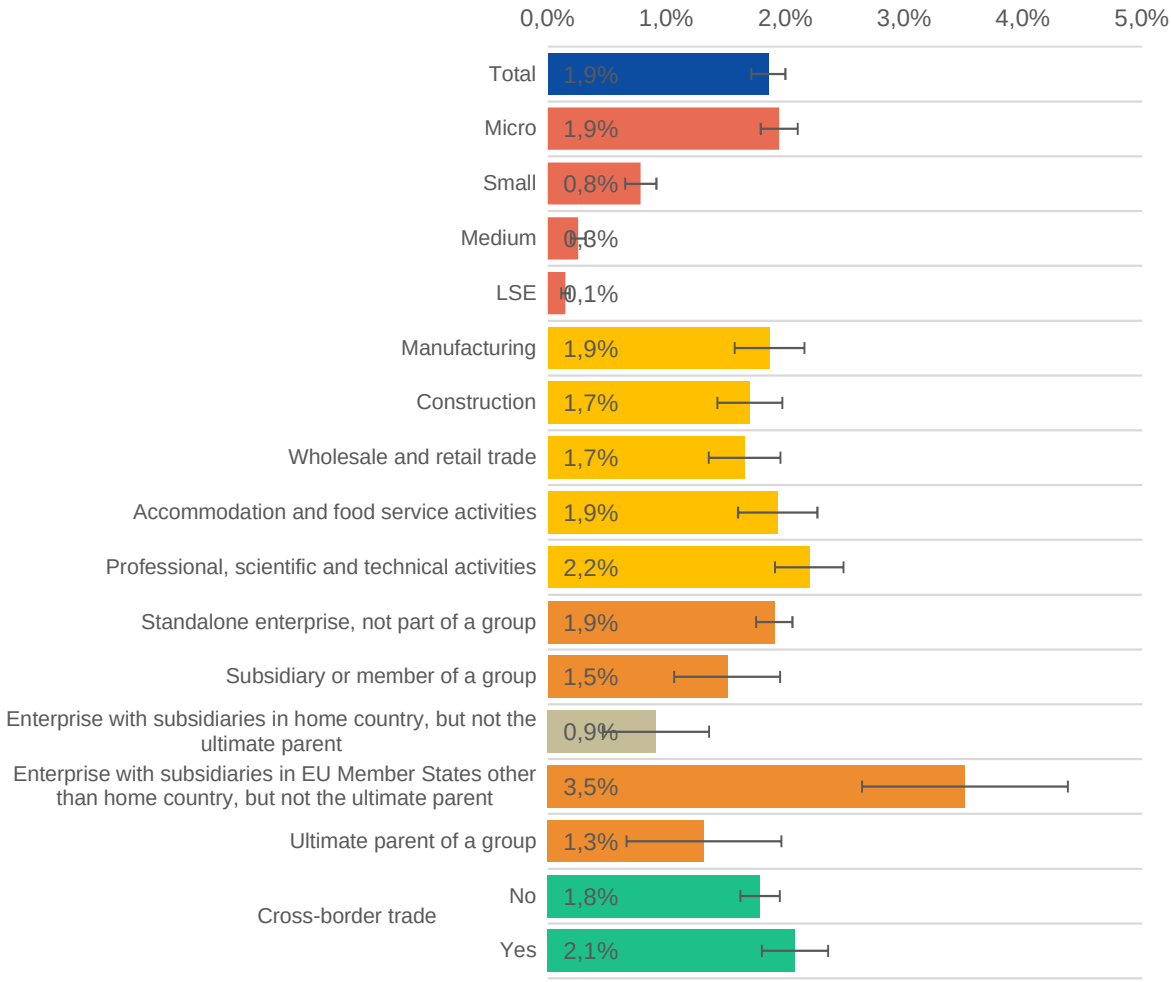
14 Due to the characteristics of the data, a 15% trimming seemed to be a more adequate approach as opposed to the 10% trimming used in the predecessor study.

5.2. European level findings

5.2.1. TETCC to turnover ratio

Figure 26 below presents estimations of the average TETCC to turnover ratio by size, sector, enterprise structure and cross-border trade activities for the 28 countries covered by the Study.

Figure 26: Estimated average TETCC to turnover ratio (R1) by size, sector, enterprise structure and by cross-border activity



*N=2 480. 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).

The average enterprise in the 28 countries is estimated to spend 1.9% of its turnover on compliance with tax obligations.

The relative burden has a clear and statistically significant negative correlation with the size of the enterprise. We found that the relative burden of tax compliance is the highest for micro-sized enterprises (1.9%). The ratio is 0.8% for the small-sized enterprises and only 0.3% for the medium-sized enterprises.

These figures could indicate that TETCC are, at least in part, fixed costs and also that larger enterprises utilise economies of scale to deal with tax compliance obligations.

Additional key insights include the following:

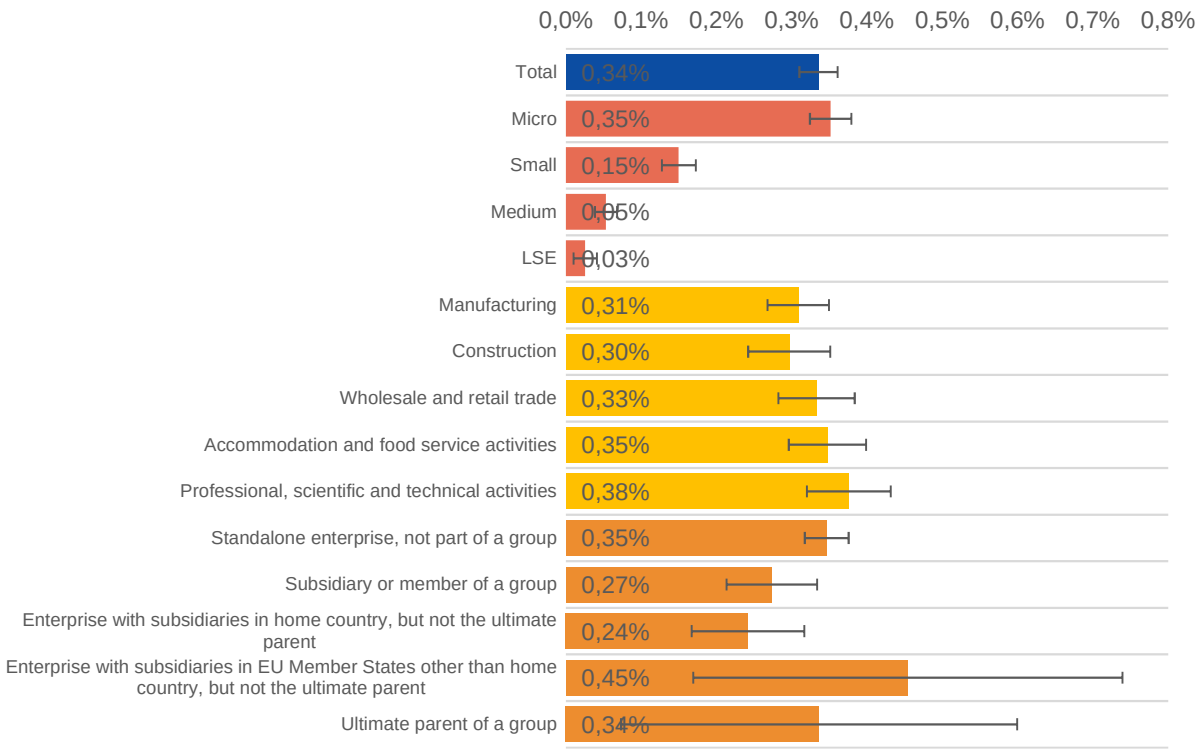
- Sectoral differences are statistically negligible in the relative burden of compliance;
- The relative burden of compliance seems to be the largest for standalone enterprises and enterprises which have subsidiaries/branches/permanent establishment in Countries other than the home country, but not the ultimate parent of a group. This may indicate that operating in more countries with branches/subsidiaries results in higher compliance costs due to an increase in the heterogeneity of compliance obligations and that compliance costs do not occur at the level of parent companies but rather downstream.
- Statistical evidence supporting the hypothesis that enterprises engaging in cross border trade face a higher relative burden is weak.

5.2.2. IETCC to turnover ratio

The relative burden of tax compliance obligations can also be analysed by tax types. The relative burden of indirect tax obligations[15] is especially interesting as this is an area where harmonisation efforts due to the VAT Directive have been the highest across the EU member states, although detailed implementation lies in the hands of the member states.

The following figure presents estimations on the 28 countries covered by this Study and of their average IETCC cost to turnover ratio by size, sector and enterprise structure.

Figure 27: Estimated average IETCC to turnover ratio (R2) by size, sector and enterprise structure



*N=2 479. 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).

The average enterprise (total in Figure 27) in the 28 countries selected is estimated to spend 0.34% of its turnover on compliance with indirect enterprise tax (IET) obligations, indicating that compliance with IET obligations is a smaller burden for

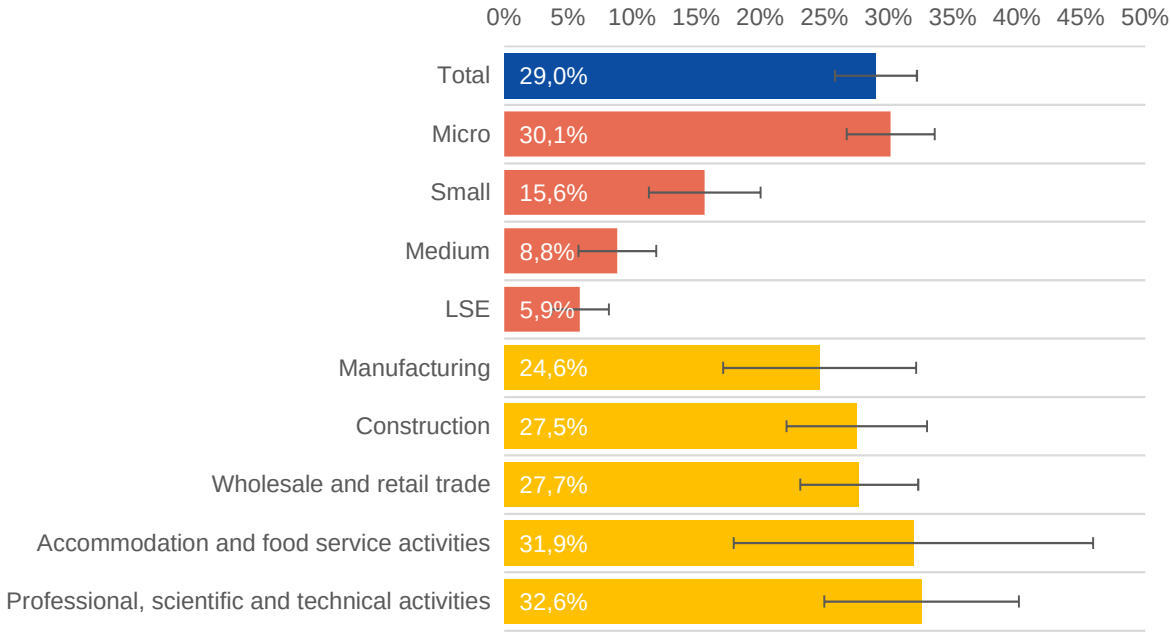
15 Indirect tax obligations include tax compliance costs of VAT in home country, which makes up the majority of indirect taxes, and compliance costs of indirect taxes in cross-border activities.

enterprises compared to direct taxes. Similarly to the TETCC to turnover ratio, the IETCC to turnover ratio is estimated to be higher for smaller enterprises compared to larger. Other enterprise characteristics seem to have no to limited impact on this measure of the relative burden of compliance.

5.2.3. TETCC to tax revenue ratio

In the previous sections we looked at the compliance burden from the perspective of the enterprises. In this section we assess the cost of tax collection, a measure of the efficiency of tax systems. The following figure presents the estimations of the TETCC to tax revenue ratio by size and sector for the 28 countries covered by this study.

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



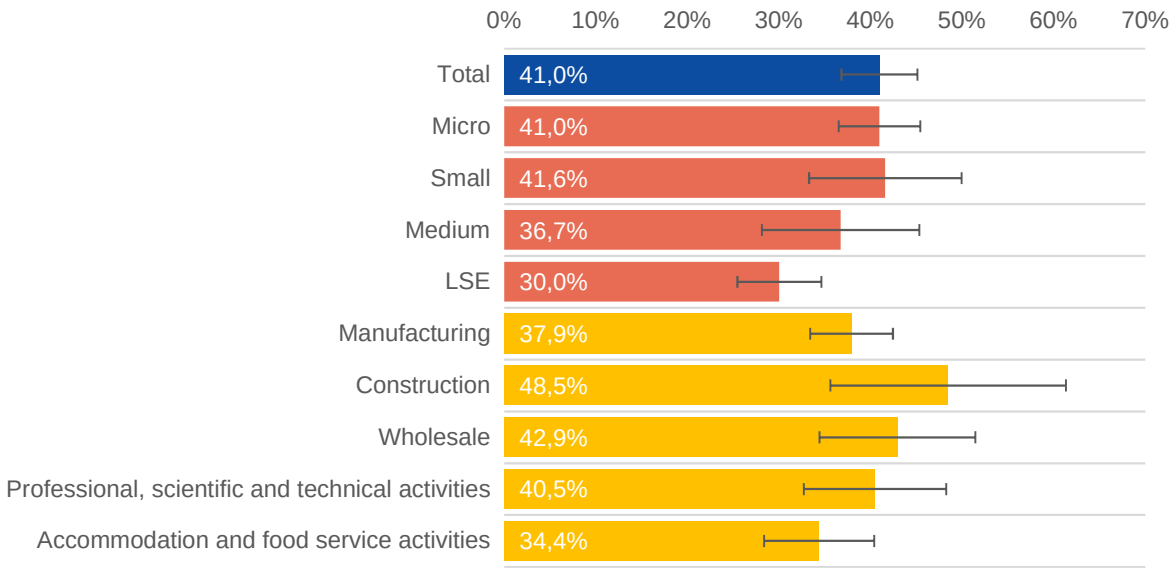
*N=2 201. The figures indicate the estimated average ratio for the 28 countries in each category. Confidence intervals (95%) are indicated by the black brackets. *** p<0.01, ** p<0.05, * p<0.1.*
Source: VVA / KPMG (2021)

In the 28 selected countries, TETCC for the average enterprise (total in Figure 28) is estimated to constitute 29% of the total tax revenue. Collecting taxes from larger enterprises, again, is less costly compared to smaller enterprises. Taking into account the confidence interval of the estimates, sectoral differences are negligible.

DET to gross profit ratio

The Direct Enterprise Tax (DET) to gross profit ratio provides a broad picture regarding how heavily enterprises are taxed in the 28 countries of the study. Figure 14 presents estimations of the ratio by size and sector for the 28 countries covered by this Study. All the estimated ratios are significant at the 1% level.

Figure 29: Estimated average DET to gross profit ratio (R4) by size and sector



*N=2 130. 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)

The average enterprise (total in Figure 29) in the 28 countries pays a higher amount of direct taxes i.e. 41% of its gross profit. Although micro and small-sized enterprises once again seem to be more heavily burdened by tax obligations, the only statistically significant difference is between micro-sized enterprises and LSEs. Micro- and small-sized enterprises are again more heavily burdened by tax obligations compared to larger enterprises. Taking into account the confidence interval of the estimates, sectoral differences are negligible.

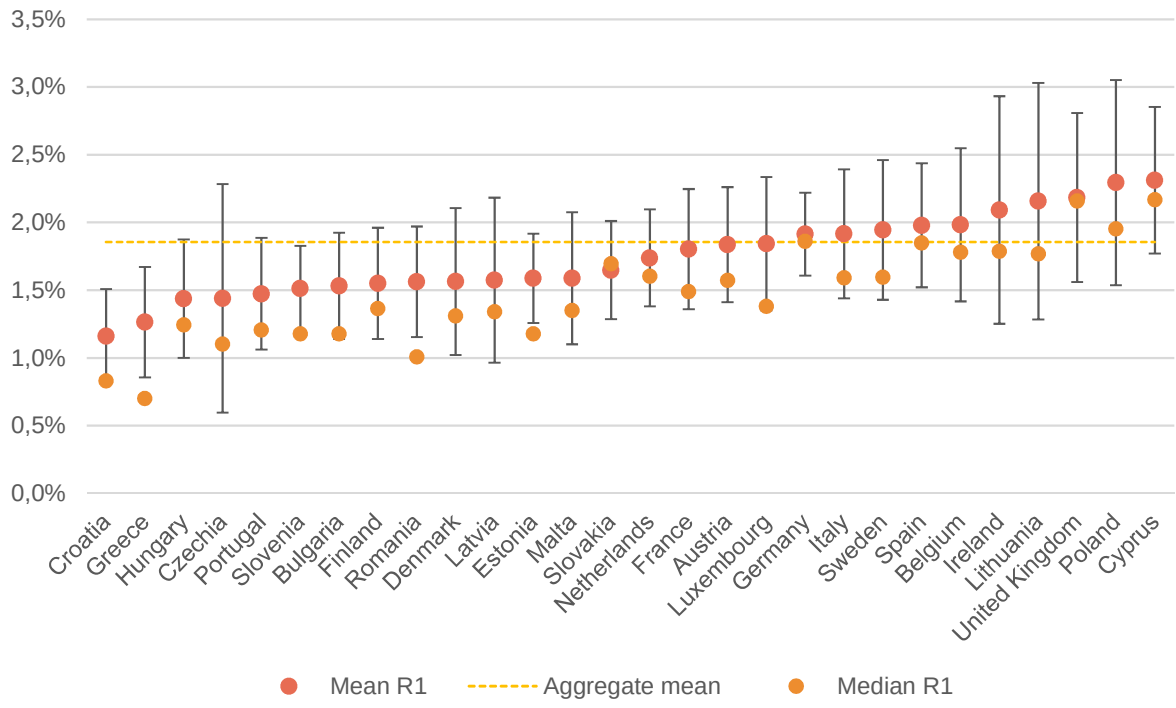
5.3. Country comparisons

This section presents the estimated four ratios in the 28 countries. For each point estimate, we present confidence intervals. In light of the wide and most often overlapping confidence intervals resulting from low sample sizes at the country level (75-120 depending on country), it is evident that the estimates need to be treated with caution and the results can be used to make inference regarding differences between countries to a limited extent. In order to test the robustness of the results to estimation approaches, medians are also presented.

5.3.1. TETCC to turnover ratio

We saw that the average enterprise in the 28 countries spends 1.9% of its turnover on tax obligations (Figure 26). This figure, however, may hide large differences between the countries in scope of the study (see Figure 30). The Figure below presents the estimated average TETCC to turnover ratio by countries.

Figure 30: Estimated average and median TETCC to turnover ratio (R1) by countries



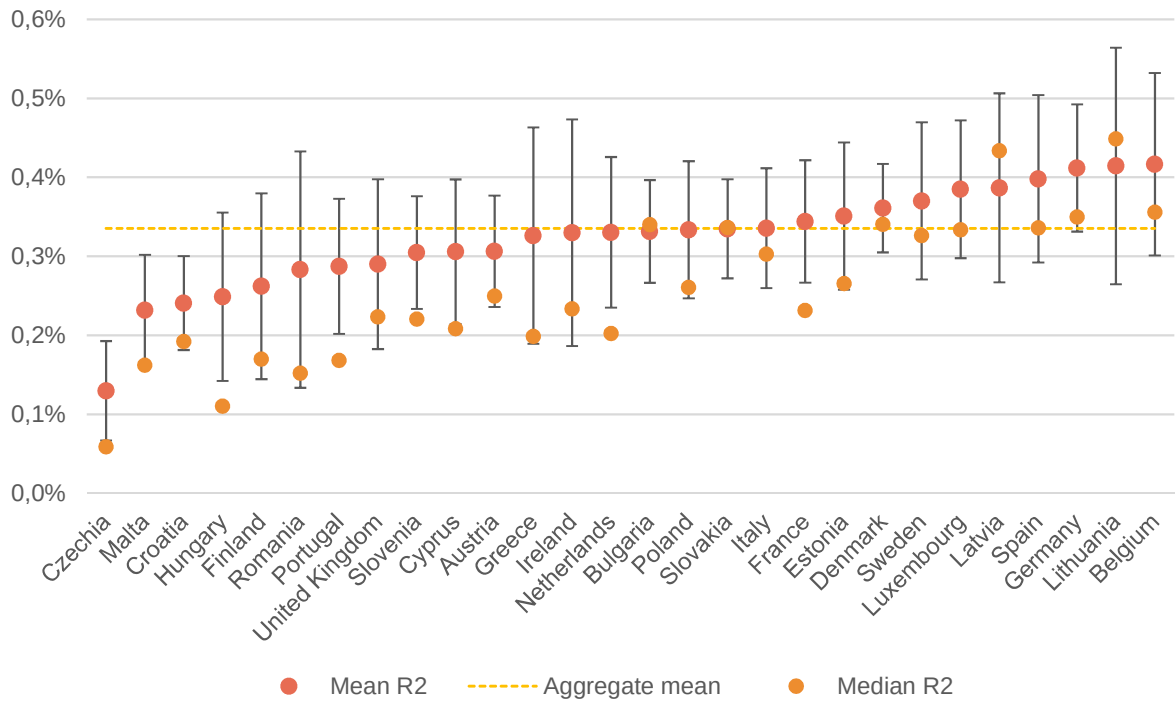
N=2 480. Confidence intervals (95%) indicated by brackets. Estimation average for the 28 countries indicated by the dashed line i.e. 1.9%.
Source: VVA / KPMG (2021).

Based on the results, it seems that enterprises in Croatia and Greece bear a relative burden lower than the EU average. As regards the other countries, it is difficult to make inference with high certainty based on the data we have. The medians are in general somewhat lower than the estimated means in all of the cases (except for Slovakia) but still within the limits of the confidence intervals of the estimated averages.

5.3.2. IETCC to turnover ratio

Figure 31 presents the estimated average IETCC to turnover ratio by countries.

Figure 31: Estimated average and median IETCC to turnover ratio (R2) by countries



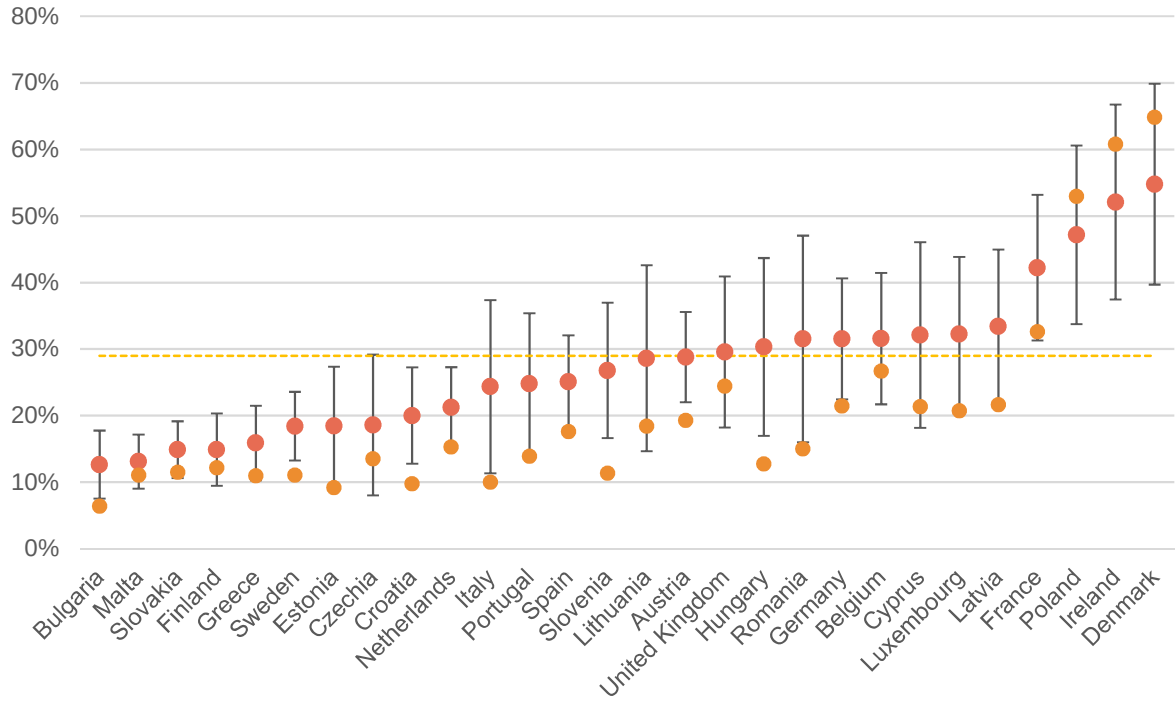
N=2 479. Confidence intervals (95%) indicated by brackets. Estimation average for the 28 countries indicated by the dashed line i.e. 0.34%.
Source: VVA / KPMG (2021).

The relative burden of complying with indirect tax obligations is estimated to be smaller than the EU average in Czechia, Malta and Croatia. As regards the other countries, it is difficult to make inference regarding differences between countries with the available data. Similarly to the TETCC to turnover ratio, the confidence intervals overlap in most of the cases, meaning that a strict interpretation about the ranking of countries should be avoided. In some cases, the median is out of the confidence interval of the estimated average, which again draws attention on the difficulties of country level estimation with a small sample size.

5.3.3. TETCC to tax revenue ratio

While tax collection seems to be costly if we look at the estimates for all 28 countries, there can be large differences between the countries. Figure 32 below presents the estimated average TETCC to tax revenue ratio by countries.

Figure 32: Estimated average and median TETCC to tax revenue ratio (R3) by countries



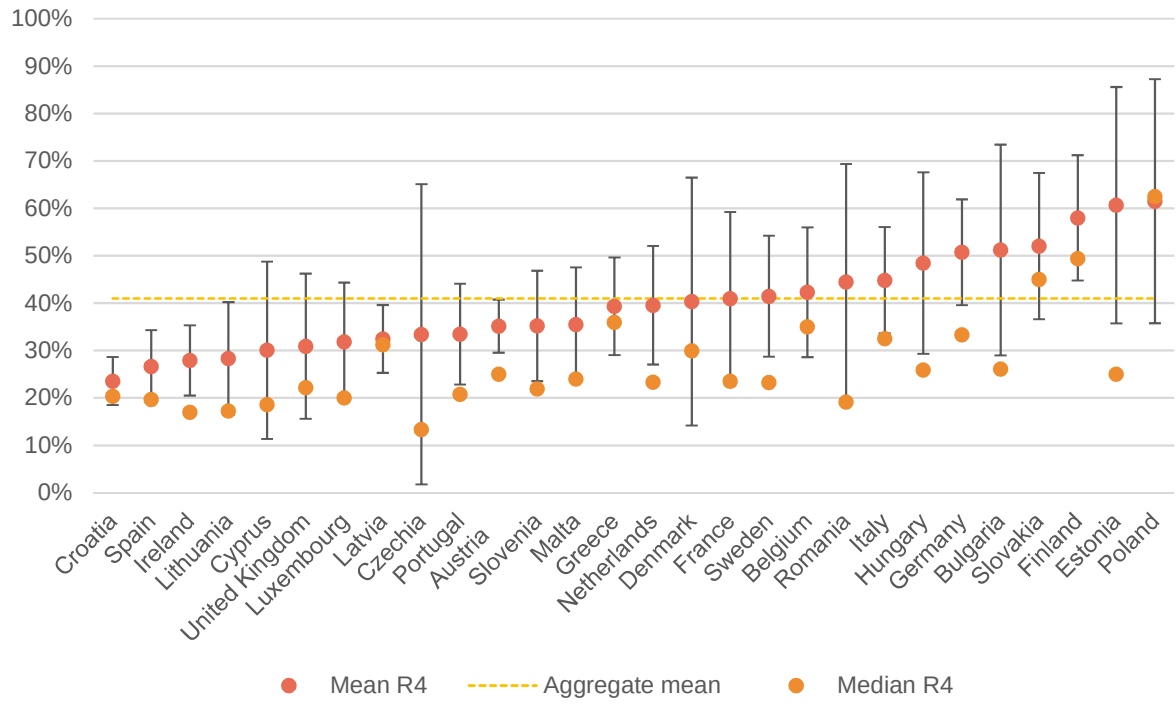
N=2 201. Confidence intervals (95%) indicated by brackets. Estimation average for the 28 countries indicated by the dashed line i.e. 29%.
Source: VVA / KPMG (2021).

Based on the estimations, the cost of tax collection may be smaller than the EU average in Bulgaria, Malta, Slovakia, Finland, Greece, Sweden and higher in Poland, Ireland and Denmark. Again, the estimates need to be treated with caution, as the confidence intervals of the estimates are high, and the number of observations in some countries, e.g. in Bulgaria, Czechia, Denmark, Ireland, Poland and United Kingdom are among the lowest.

5.3.4. DET to gross profit ratio

Figure 33 presents the estimated average DET to gross profit ratio[16] by countries.

Figure 33: Estimated average and median DET to gross profit ratio (R4) by countries



N=2 130. Confidence intervals (95%) indicated by brackets. Estimation average for the 28 countries indicated by the dashed line i.e. 41%.
Source: VVA / KPMG (2021).

Although the confidence intervals of the estimates are wide (at least partly due to the smaller number of respondents answering the questions enquiring about their gross profit and tax obligations and also partly due to the high year-on-year variability of the gross profit of enterprises), the results indicate that enterprises in Croatia, Spain and Ireland may pay a smaller amount of taxes compared to their gross profit than the EU average. Medians are most often included in the lower end of the confidence intervals.

16 We take note that some additional data cleaning measures were taken for this ratio due to the presence of extreme values. This meant dropping an additional 24 observations for the calculation of the direct enterprise tax to gross profit ratio.

6. The outcomes of the regression analysis

6.1. Introduction

The evidence presented in the previous sections of the Study shows higher TETCC but lower relative tax compliance burden for larger enterprises than for smaller enterprises. To further investigate TETCC and the relative burden of compliance, the descriptive analysis of the previous section is complemented with a regression analysis outlined in this chapter.

The regression analysis allows us to jointly analyse the impact of enterprise characteristics on TETCC instead of simply focusing on a single characteristic of enterprises. With the regression analysis, one can investigate the impact of enterprise characteristics on different measures of the absolute and relative burden, while controlling for the other enterprise characteristics that simultaneously determine these measures.

By taking into account only the outcomes of the descriptive analysis, one cannot for example say with certainty that the relative burden of enterprise tax compliance decreases as an impact of size. The reason is that it is possible that larger enterprises systematically differ from smaller ones in characteristics other than size, for instance they often engage in cross-border trade and those differences are the reasons behind the lower relative burden of LSEs rather than the size of the enterprises. The regression analysis can show, therefore, whether enterprise size has a statistically significant impact on the different measures of the compliance burden when considering the other characteristics of the enterprises.

We present below the outcomes of the regression analysis by outcome variables. First, we assessed the estimations for the TETCC, then the TETCC to turnover ratio and, finally, the IETCC to turnover ratio. The outcome variables are explained in the estimation models by enterprise characteristics that are expected to have an influence on the TETCC and the two ratios. These enterprise characteristics are the size, country, sector, cross-border trade, enterprise age, dependence structure, digitalisation of tax compliance and whether the enterprise outsources some or all elements of its tax compliance activities.

Details on the estimation approach are presented in Annex IV.

In summary, the results of the regression analysis indicate that the main conclusions of the ratio analysis remain largely unchanged:

- The TETCC is smaller but the relative burden of compliance is higher for micro-sized enterprises, even after controlling for relevant enterprise characteristics. This indicates that the tax compliance burden has a significant fixed cost element.
- There is no clear evidence for a higher relative burden for enterprises trading across borders.[17]
- The categorical country variables have a statistically significant joint impact on the relative burden of compliance after controlling for the differences across the countries in the key characteristics of the enterprises. This can most likely be explained by differences in the national tax systems, tax administrations and, in general, differences in the broader public administration of the countries. At the

[17] Although in this study our sample does not allow for the identification of statistically significant cross border additional compliance costs, there are some ongoing European initiatives aimed at alleviating this burden such as the programme to support small and medium enterprises in their cross-border activities in the European Union (EU).

It is recognized that SMEs can face intricate processes to establish a company or branch abroad and those processes often vary to a great extent from one Member State to another. These disparities can generate higher compliance costs and require more time and resources from enterprises.

same time it remains difficult to make inference on differences between countries due to low sample sizes at the country level.

- TETCC does not seem to have statistically significant differences across sectors, even after controlling for other enterprise characteristics.
- Digitalisation seems to have a statistically significant impact on TETCC and on the relative burden of compliance for indirect taxation. Statistical significance is only present in case of enterprises, which have a digitalised internal reporting process.
- Enterprise age and dependence structure does not seem to have a statistically significant impact overall, which could mean that these characteristics are less relevant in determining TETCC or the relative tax compliance burden.

In the sections below, we present in more detail the key outcomes of the analysis. Detailed regression output tables are included in annexes V-VI.

6.2. European level estimations

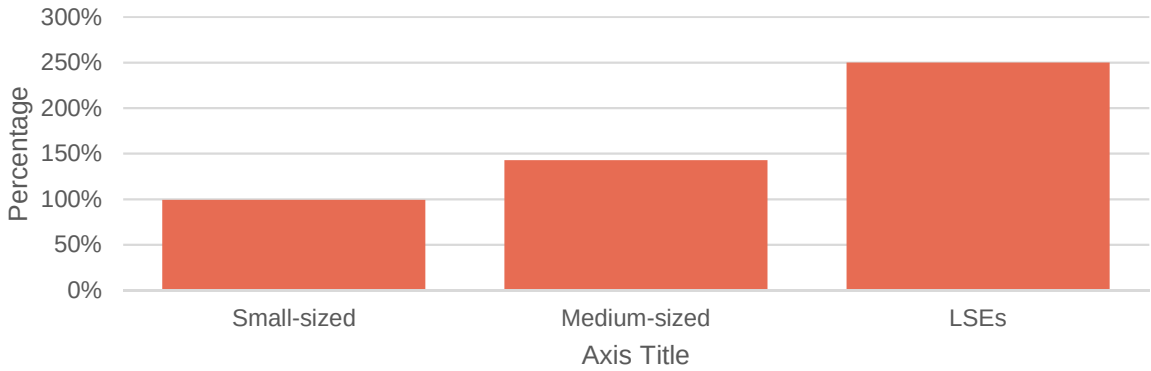
6.2.1. TETCC

In the sections below we explain the impact of the different enterprise characteristics on the TETCC in more detail.

Enterprise size

The table below presents, the differences in TETCC by enterprise size controlling for other enterprise characteristics, country and sector effects.

Figure 34: Estimated relative size differences in the TETCC (WOLS regression)



N=2 907, source: VVA / KPMG (2021). Base category: micro-sized enterprises.

Larger enterprises face higher TETCC compared to smaller enterprises even after controlling for other enterprise characteristics. A small-sized enterprise faces TETCC 99% higher than a micro-sized enterprise. The same figure is 143% for medium-sized enterprises and 250% for LSEs.

Sectoral differences

The categorical variables regarding industry sectors are included in the model to control for unobserved factors influencing TETCC that have a similar impact on all enterprises operating in a certain sector. These unobserved factors could be either sector-specific tax obligations, sector-specific tax rules or other factors affecting only enterprises in some sectors and not in other sectors.

Figure 35 below presents the differences in TETCC by sector controlling for other enterprise characteristics and unobserved country and size effects.

Figure 35: Estimated relative sector differences in the TETCC (WOLS regression)

N=2 907, source: VVA / KPMG (2021). Base category: manufacturing sector.

The regression analysis again confirms that the sector the enterprise operates in is not a key driver of compliance costs. The magnitude of the estimated sectoral differences are small and they are not statistically significant either at any usual level of significance.

Cross-border activities

According to the estimates, enterprises engaging in cross-border trade face a TETCC that is 9% higher than for enterprises active only in their home country, even after controlling for other enterprise characteristics. However, this difference is not statistically significant.

A 2SLS regression model with the instrumental variable of distance from border was also conducted in order to estimate the effect of cross-border activities more precisely. The usage of the instrumental variable does not change the results on the effect of cross-border activities.

Additional enterprise characteristics

At a first look, outsourcing tax compliance seems to increase the TETCC by an average of 92%. However, it seems plausible that enterprises that find tax compliance especially burdensome (e.g. micro-sized enterprises or LSE with more complex compliance burdens that they do not wish to fully resource in-house) are more likely to use external service providers to help support them in meeting their complex tax compliance obligations in the first place. Thus, the increased cost associated with outsourcing may be a function of the compliance burden rather than a cause of it.

Whether or not an enterprise has a digitalised internal process also seems to have some effect on costs. Compared to enterprises without digitalised tax reporting processes, those companies which have digitalised internal processes that are not linked to the tax reporting process reported 30% smaller TETCC. At the same time, enterprises with digitalised internal processes that are in support of the tax reporting process only reported 15% smaller TETCC. This could be due to the fact that enterprises with higher compliance costs would be more willing to digitalise their tax reporting process.

Enterprise know-how, which is proxied by enterprise age, also seems to have limited to no impact on TETCC. Whilst experience could have an impact on efficiency, compliance costs are determined by the local regulatory framework and is generally independent of enterprise age.

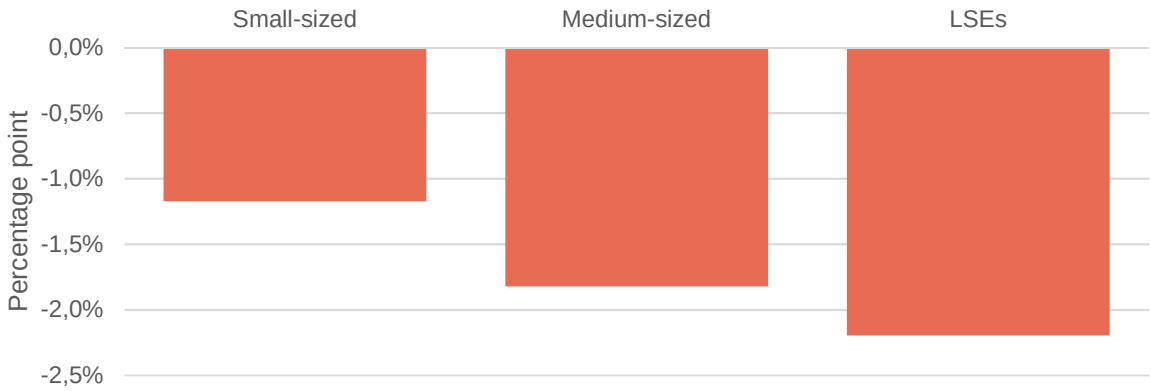
6.2.2. TETCC to turnover ratio

In the section below, we present the results on the impact of the relevant enterprise characteristics on the relative burden of tax compliance in more detail.

Enterprise size

Larger enterprises face a lower relative compliance burden compared to smaller enterprises as shown by Figure 36 below. These results could either mean that at least part of TETCC can be considered to be fixed costs and/or that economies of scale are present when dealing with tax obligations.

Figure 36: Estimated relative size differences in the TETCC to turnover ratio (WOLS regression)



N=2 475, source: VVA / KPMG (2021). Base category: micro-sized enterprises.

Compared to their turnover, small-sized enterprises spend 1.17 percentage point less than micro-sized enterprises to comply with tax obligations. This figure is 1.82 percentage point for medium-sized enterprises and 2.2 percentage point for LSEs

Cross-border activities

According to the regression analysis, controlling for other enterprise characteristics, enterprises engaging in cross-border trade face a TETCC to turnover ratio 0.6 percentage point higher than those active only in their home country, and the result is significant at the 1% level. This indicates that cross-border activities lead to additional compliance burden for enterprises of any size.

A 2SLS regression model with the instrumental variable of distance from border was also conducted in order to estimate the effect of cross-border activities more precisely. The usage of the instrumental variable makes the previously statistically significant variable's effect diminish.

Additional enterprise characteristics

According to the regression analysis, enterprises with subsidiaries/branches/establishments in countries other than the home country face a TETCC to turnover ratio 1.06 percentage point higher than standalone enterprises, who are not part of a group. Other enterprise characteristics, such as digitalisation, sector characteristics, enterprise structure and age do not seem to have a statistically significant impact on relative compliance burden.

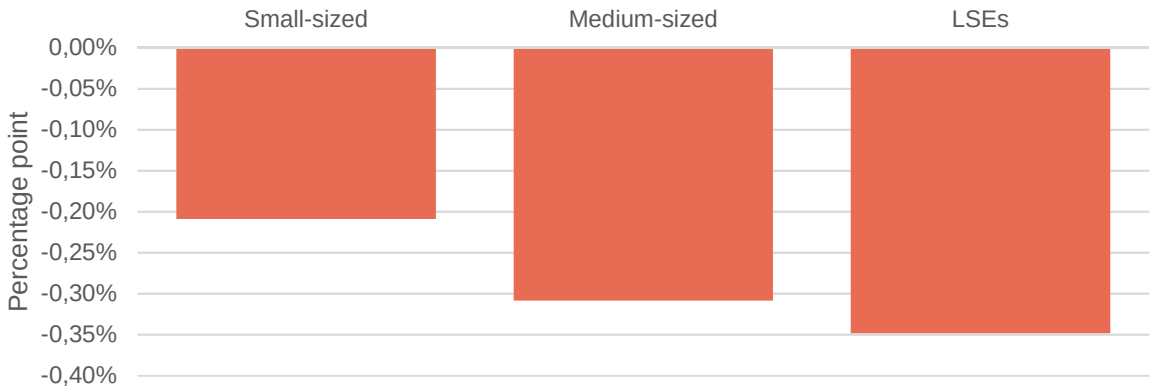
6.2.3. IETCC to turnover

In the sections below, we explain the impact of the enterprise characteristics on the IETCC in more detail.

Enterprise size

Figure 37 presents the estimated impact of the size, controlling for the characteristics of the enterprises. It shows the difference in the IETCC to turnover ratio by size compared to the micro-sized enterprises.

Figure 37: Estimated relative size differences in the IETCC to turnover ratio (WOLS regression)



N=2 473, source: VVA / KPMG (2021). Base category: micro-sized enterprises.

Compared to their turnover, small-sized enterprises spend 0.21 percentage point less than micro-sized enterprises to comply with indirect tax obligations. This figure is 0.31 percentage point for medium-sized enterprises and 0.35 percentage point for LSEs.

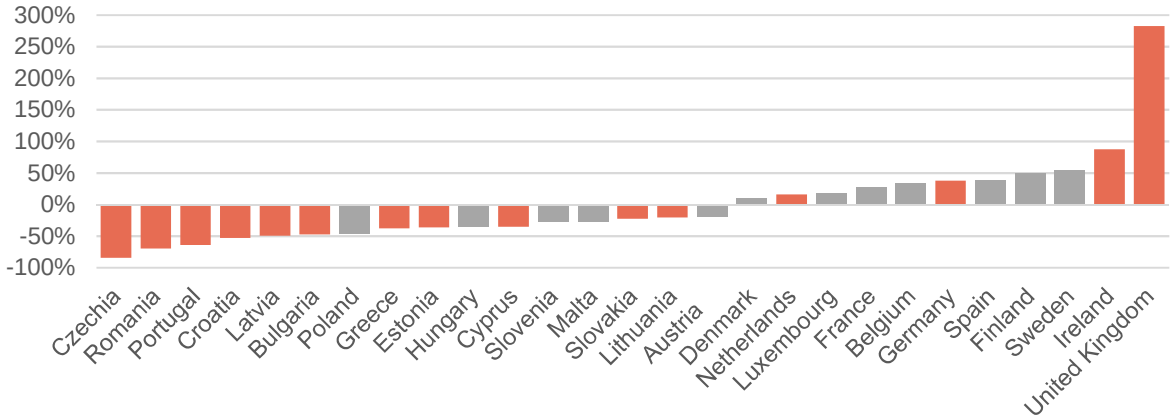
6.3. Country comparisons

In the sections below, we present results on the impact of the country characteristics on the TETCC, the TETCC to turnover ratio and the IETCC to turnover ratio. The base category was selected based on proximity to the variable's EU average. Italy is close to the average of TETCC, TETCC to turnover ratio and IETCC to turnover ratio as well, therefore it was used as the baseline in all estimations.

6.3.1. TETCC

Figure 38 below presents the estimated impact of the unobserved effects of the different countries on the TETCC faced by enterprises, controlling for the characteristics of the enterprises.

Figure 38: The estimated impact of country-specific unobservable factors on TETCC



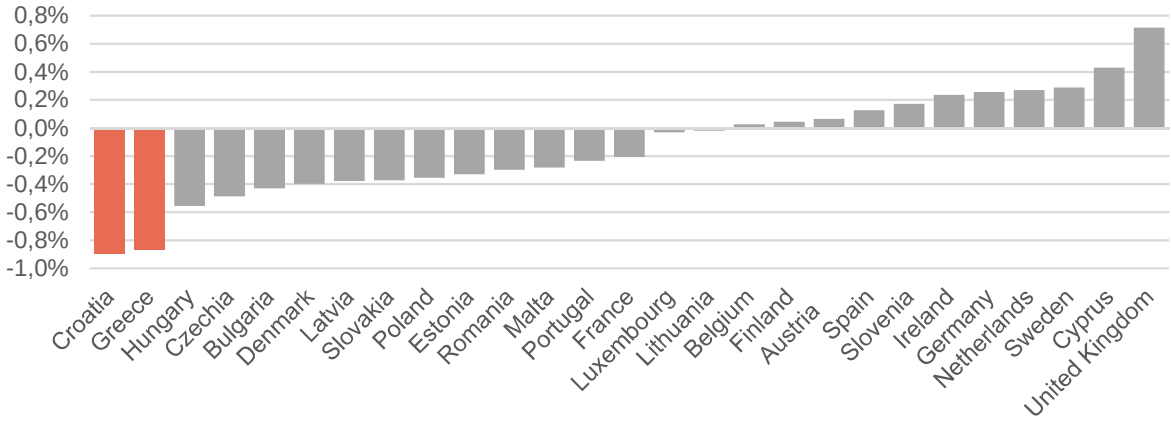
N=2 907, source: VVA / KPMG (2021)
Non-significant values indicated by grey bars. Base category: Italy.

Controlling for the relevant enterprise characteristics, compared to Italy, TETCC is estimated to be lower in Czechia, Romania and Portugal and higher in Ireland and the United Kingdom, while 12 of the 27 countries are not statistically significantly different. We take note that the impact of wage differentials is not eliminated by the regression approach.

6.3.2. TETCC to turnover ratio

Figure 39 below present the estimated impact of the country characteristics on the TETCC to turnover ratio.

Figure 39: The estimated impact of country-specific unobservables on the TETCC to turnover ratio



N=2 475, source: VVA / KPMG (2021)
Non-significant values indicated by grey bars. Base category: Italy.

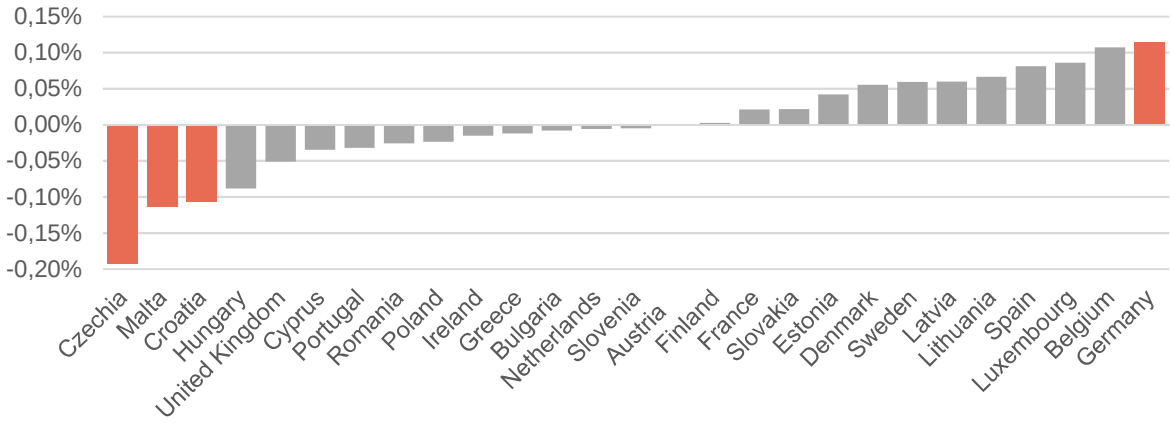
After controlling for differences in the characteristics of enterprises in the 28 countries, very few significant differences remain in the relative compliance burden as measured by this ratio.

Enterprises in Croatia and Greece bear a relative burden of TETCC 0.9 percentage point smaller compared to enterprises operating in Italy. The difference between the average enterprise of any other country and Italy is not statistically significant.

6.3.3. IETCC to turnover

Figure 40 below presents the estimated impact of country-specific unobservables on the IETCC to turnover ratio.

Figure 40: The estimated impact of country-specific unobservables on the IETCC to turnover ratio



N=2 473, source: VVA / KPMG (2021)
Non-significant values indicated by grey bars. Base category: Italy.

After controlling for differences in the characteristics of enterprises in the 28 countries, very few significant differences remain in the relative compliance burden of indirect taxation of countries. Twenty-three countries do not seem to bear significantly higher or lower IETCC due to the characteristics of the national tax systems compared to enterprises operating in Italy.

Enterprises in Germany are estimated to bear a relative compliance burden of IETCC 0.12 percentage point higher compared to enterprises operating in Italy, while the average enterprise in Czechia, Malta and Croatia is estimated to bear a relative burden of IETCC 0.11 to 0.19 percentage point smaller than the average enterprise in Italy.

6.4. Robustness of results across estimation approaches

The effects of the different enterprise characteristics on the various measures of the compliance burden were also estimated through repeated cross sectional regression analysis and 2SLS models. The year of data collection (2014 or 2019) was also included in the model as a dummy variable, while the countries that did not participate in the previous round of the study were omitted from this step of the analysis.

The results of these estimations can be considered as a test of robustness of the results to the choice of estimation approaches. Based on this analysis, we found the results of WOLS regressions robust. The main conclusions were the following:

- The only variable that is significant throughout our analysis is enterprise size. We can confidently accept the result that enterprise size has a significant effect on TETCC, TETCC to turnover ratio (R1) and IETCC to turnover ratio (R2) after controlling for differences in the characteristics of enterprises in the 19 countries.
- The effect of cross-border trade and outsourcing have varying results. Outsourcing has a significant positive effect on TETCC, and the repeated cross sectional regression confirmed those results but only on a 10% significance level instead of the original 1%.
- Cross-border trade originally seemed to have a significant effect on TETCC to turnover (R1) ratio, but its significance vanished in the repeated cross sectional

regression. On the other hand, cross-border trade became significant for the TETCC and IETCC to turnover ratio (R2) regressions.

The detailed results can be found in Annex VI.

7. Comparison of key results with similar studies

This is not the first study that analyses tax compliance costs and obligations in European countries. A similar study was carried out in 2018, the survey data of which was available to the study team for analysis. There are also other regularly implemented studies of mention, most notably the Paying Taxes study of the World Bank. This section presents a comparison of results in this study to the previous study with the aim of shedding some light on the evolution of tax compliance costs in 19 countries between 2014 and 2019 and to the Paying Taxes study.

7.1. The evolution of tax compliance costs between 2014 and 2019

7.1.1. EU-level findings

Based on the repeated cross-sectional regressions where time of data collection was included as a variable, we have the following conclusions on the evolution of tax compliance costs:

- after controlling for differences of enterprises in the 19 countries, the year of data collection proved to be a significant variable in all three models
- while TETCC significantly increased from 2014 to 2019, TETCC to turnover ratio (R1) and IETCC to turnover ratio (R2) significantly decreased based on our estimations.
- we estimate TETCC to be on average 114% higher in 2019 than it was in 2014, while TETCC to turnover ratio (R1) is on average 0.64 percentage point smaller and IETCC to turnover ratio (R2) is on average 0.29 percentage point smaller than it was in 2014, after controlling for other enterprise characteristics.

7.1.2. Country comparisons

The table below presents a comparison of the results of the standard cost model and the ratios analysis by country for the 19 countries that participated in both studies. We compared the confidence intervals of the point estimates[18] for the different ratios to conclude if the observed changes are significant in the statistical sense. The table below presents an overview of the outcomes of this analysis.

[18] We take note that this method fails to reject the null hypothesis of no differences more frequently than a corresponding hypothesis test (t-test), i.e. this test can be considered “stricter” than a usual test for differences.

Table 4: Comparing the results of the SCM and ratios analysis with the previous study[19]

	TETCC	VAT	CIT	R1	R2	R3	R4
Austria	▭	▭	▼	▭	▼	▭	▼
Belgium	▲	▲	▭	▭	▭	▭	▭
Czechia	▭	▭	▭	▭	▼	▼	▭
Estonia	▲	▲	▲	▭	▲	▭	▭
Finland	▲	▭	▲	▭	▼	▭	▭
France	▭	▭	▭	▭	▭	▭	▭
Germany	▭	▭	▭	▭	▼	▭	▼
Greece	▲	▲	▭	▭	▭	▭	▭
Ireland	▲	▲	▲	▲	▲	▭	▼
Italy	▲	▭	▭	▭	▭	▼	▼
Luxembourg	▲	▲	▲	▲	▲	▭	▼
Poland	▲	▭	▭	▭	▼	▭	▭
Romania	▭	▭	▭	▭	▭	▭	▼
Slovakia	▭	▭	▭	▼	▭	▼	▭
Slovenia	▲	▲	▲	▭	▲	▭	▼
Spain	▲	▭	▭	▭	▲	▭	▼
Sweden	▭	▭	▭	▭	▭	▼	▭
Netherlands	▲		▲	▭	▭	▭	▭
United Kingdom	▲	▭	▭	▭	▭	▭	▭

Source: VVA / KPMG (2021). Green triangles signal a reduction in compliance cost, yellow rectangles signal stagnation or no significant difference from the previous period, while red triangles signal a significant decrease in compliance burdens of that type in the given country.

As the table shows, observed changes are not significant in a statistical sense in most countries, i.e. they may simply be attributed to differences in sample compositions across measurement times) larger sample sizes would be required at the country level (as opposed to the 75-120 observations depending on the country we have in this study)..

While it is difficult to identify clear trends based on these results (especially on the relative measures of compliance, which are more important from a policy perspective), the statistical evidence seems to indicate:

- that the overall relative burden of compliance increased in Luxemburg and Ireland and decreased in Slovakia;
- VAT compliance has become less burdensome in Austria, Czechia, Finland, Germany and Poland but more burdensome in Estonia, Ireland, Luxemburg, Slovenia and Spain.

[19] R1 – total enterprise tax compliance cost to turnover ratio. R2 – indirect enterprise tax compliance cost to turnover ratio, R3 – total enterprise tax compliance cost to tax revenue ratio, R4 – direct enterprise tax to gross profit ratio

Making inference on the magnitude of these changes is not feasible with the data at hand. To shed more light on the evolution of compliance costs at the country level, much (in the case of large countries with a large enterprise population several times) larger sample sizes would be required at the country level (as opposed to the 75-120 observations depending on the country we have in this study).

7.2. Comparing the outcomes of the analysis to the "Paying Taxes" study

Paying Taxes is probably the most frequently cited source of quantitative information on the burden of tax compliance. It records the taxes and mandatory contributions that an approximately medium-sized model enterprise must pay in a given year, the administrative burden of paying taxes and contributions and the burden of complying with post-filing procedures. The burden of compliance is measured by the number of hours required to comply with tax obligations. The study assesses multiple aspects of the compliance burden under a certain set of assumptions regarding the characteristics of the model enterprise and regarding the taxes and contributions themselves. Under this set of assumptions, in each country tax experts estimate the taxes and mandatory contributions, filing frequencies, time required to comply with tax obligations, etc. This can be called a top-down approach.

This study took a fundamentally different, bottom-up approach. In order to get data on the perception of taxpayers of the costs and burdens they experience, a large-scale survey was implemented. Key differences between the approaches of the two studies are presented in the table below.

Table 5: Comparing the results of the SCM and ratios analysis with the previous study

Paying taxes study	This study
• provides an "expert" based view of the compliance costs faced by a model enterprise; • study designed to facilitate international comparisons.	• provides information from the perspective of the taxpayer; • outcomes refer to the perceived burden of compliance; • provides a broader picture regarding the compliance burden by enabling comparisons across size, category, industry, sector, etc.; • limitations on the depth of international comparisons due to small sample sizes per country.

Source: VVA / KPMG (2021).

These differences impose certain limitations on the extent to which comparing the outcomes of the two studies is feasible.

With these caveats in mind, we still attempted a comparison of the results by estimating the internal hours required to comply for enterprises in the survey sample which are sufficiently similar to the model enterprise of the Paying Taxes study in the different countries. This approach was implemented through the following steps:

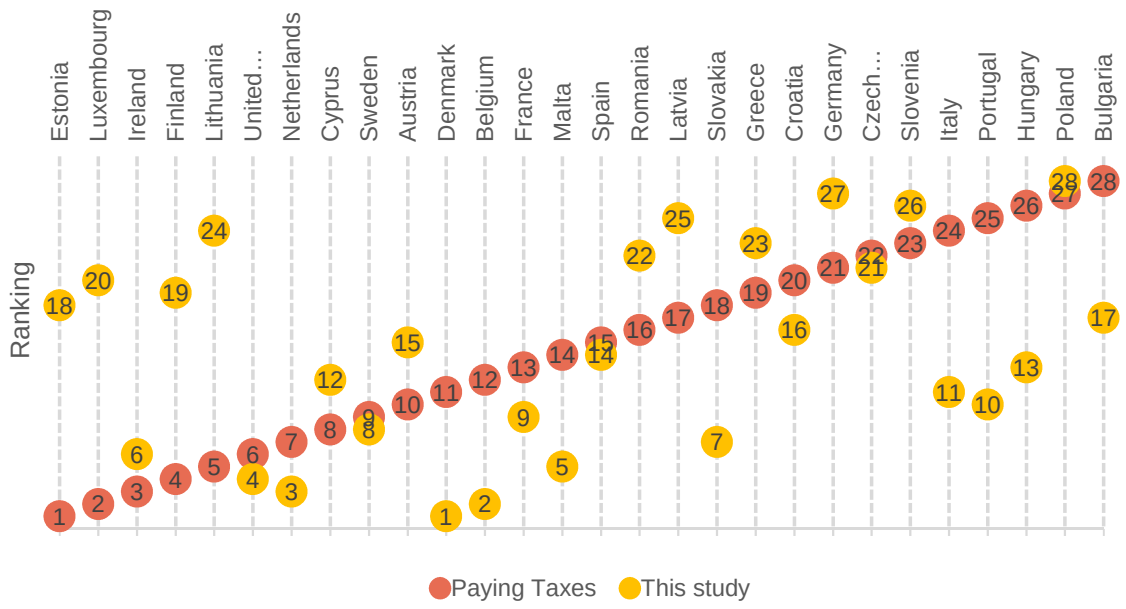
1) We identified the characteristics of the Paying Taxes model enterprise that can be translated to the survey data. These were the number of full-time equivalent employees (60), sector (manufacturing) and turnover of the enterprise (1050 times income per capita). Naturally though, none the observations similar in these respects to the Paying Taxes model enterprise matches exactly its description.

2) We compared the internal hours required to comply estimated for these 2-5 companies per country whit the estimations included in the 2020 issues of the Paying Taxes study.

As the perceptions on hours spent with compliance of the company representatives can hardly be directly compared to the figures in the paying taxes study and they may also refer to a different set of taxes it would be misleading to compare the figures directly. We compared therefore the ranking of countries instead.

A comparison of the ranking of the 28 countries is presented in the figure below. We take note that the results presenting in the figure should be interpreted carefully, with the low number of companies in the estimation samples in mind.

Figure 41: Comparison of the ranking of countries in the Paying Taxes study and this study



Source: VVA / KPMG (2021)

While most of the countries have at least similar positions in the two analyses, there are some notable exceptions: Estonia, Luxembourg, Finland, Lithuania have a lower position in our ranking, while countries like Italy, Portugal, Hungary and Bulgaria have a better relative position in our analysis compared to Paying Taxes.

8. Qualitative analysis

8.1. Introduction

The qualitative analysis aims to investigate the problems that SMEs have in complying with both domestic and cross-border activities as regards tax compliance requirements. The qualitative analysis hereby builds on insights gained from the survey and the quantitative analysis: following the quantification of tax compliance costs, it aims to highlight the extent to which these costs weigh on their economic activities and affect decision-making.

8.2. Interviews

Following the quantitative analysis, and in parallel to the country fiches, semi-structured interviews were organized and completed in order to triangulate findings and to gather further qualitiative insights. Following the elaboration of the questionnaire and the review of the stakeholder mapping, the interview process was carried out between May and July 2021.

The table below reports the final list of stakholders reached.

Figure 42: Final interview outreach

Organisation Name	Short description
Accountancy Europe	Accountancy Europe unites 50 professional organisations from 35 countries that represent 1 million qualified accountants, auditors and advisors.
BUSINESSEUROPE	BUSINESSEUROPE is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, it purports to speak for all-sized enterprises in 34 European countries whose national business federations are direct members.
BVMW	The German Association for Small and Medium-sized Businesses (BVMW) is a politically independent association representing the interests of German small and medium-sizzed enterprises.
Confédération des Petites et Moyennes Entreprises	The Confédération des petites et moyennes entreprises (CPME) represents the interests of small and medium business in France.
EUROCHAMBRES	EUROCHAMBRES represents over 20 million businesses in Europe through 45 members (43 national associations of chambers of commerce and industry and two transnational chamber organisations) and a European network of 1700 regional and local chambers. More than 93% of these businesses are SMEs.
EUROCOMMERCE	EuroCommerce is the voice for six million retail, wholesale, and other trading companies. Members include national commerce federations in 31 countries, Europe's 27 leading retail and wholesale companies, and federations representing specific sectors of commerce.
European Tax Adviser Federation	The European Tax Adviser Federation – ETAF is a European umbrella organisation for 280,000 tax professionals from France, Germany, Italy, Belgium, Romania and Hungary.

Organisation Name	Short description
SME Connect	SME Connect is one of the largest networks advocating for mid-sized sector at the EU level. It is non-political but it benefits from the advice of a non-profit board of cross-spectrum politicians.
Swedish Taxpayers' Association	The Swedish Taxpayers' Association is a member of the World Taxpayers Associations (WTA) representing the interests of both individual and corporate taxpayers.
Taxpayers Association of Europe	Taxpayers Association of Europe is a federation of 29 national taxpayers associations throughout Europe with more than one million members. It works towards a society with lower taxes and more individual freedom and aims to stimulate efficiency and economy in the public sector. TAE supports legislation to limit tax burden, prevent unjust harassment by tax collectors, and provides information about government taxation and expenditure.

The semi-structured interviews followed a standard interview template, provided in Annex. Each interview then followed the specific expertise, interest, and knowledge of the specific interviewee, thereby allowing for flexibility within a common framework. This allowed to maximise the effectiveness of each interview session.

The rest of this section summarises the key findings emerging from the interviews, dealing seperately with each of the four questionnaire sections. In order to preserve the anonimity of the respondents, the findings are presented as an aggregate and should not be associated with any particular organisation or individual.

8.2.1. Fiscal regimes

The fiscal regimes of each Member State have different requirements for documentation. The interviewees identified burdensome administrative practices, such as lengthy tax return procedures, which were mentioned in reference to countries where tax returns may include many, often unnecessary questions. On the other hand, practices, such as the electronic filing of taxes and the possibility of filing simplified tax returns were praised. A simplified tax regime for entrepreneurs also exists in several, but not all Member States, which is quite welcome. Additionally, Estonia was mentioned as a good practice, as it has a fundamentally different system for CIT, where the tax is only paid when money is withdrawn from the company by a shareholder: companies do financial reporting only, and they do not have to file taxes each year. Latvia and Poland have adopted similar rules in recent years.

Applying for and getting refunds can also be burdensome for companies, according to multiple organisations, as it can take a long time with many steps to be completed, therefore companies often opt for not receiving refunds. If a tax system has extensive possibilities for deductions and fiscal design options (e.g., in Germany, Belgium), it can also create additional burden for companies. Conflicts can also have high costs: for instance, litigation procedures go through the judicial system, which results in a lengthy and therefore more costly process. These burdens generally affect SMEs more than large companies, for instance, because of their smaller (administrative) staff.

Reportedly, the obligation to comply with national tax rules that have not been aligned is a cost for companies, which disproportionally affects SMEs. In fact, the burden of complying with CIT rules can be substantially higher for SMEs than for large companies. Another interviewee also argued that administrative burden affects small businesses more due to the costs of managing finances through a fiduciary or accountant, and for instance, e-declarations are generally difficult to manage alone for micro-enterprises.

One of the respondents argued that big international companies are more likely to be able to provide the organizational and financial structure to pursue strategies with the intention to reduce fiscal expenditures, therefore, fiscal regimes with lower fulfilment costs and less burdens related to bureaucracy disproportionately affect SMEs in terms of fiscal fairness and attractiveness.

Regarding cross-country activities, SMEs deal with different requirements and pace of change of rules, and sometimes even with cross-country competition. Companies favour Member States where the fiscal requirements are stable through years, where they can calculate the expected tax, and where the rules will most likely stay the same in the next 5-10 years, therefore there are several aspects of the national tax systems companies take into account before establishing their business in another country. This is especially true for VAT. According to the inputs gathered, although VAT is harmonised at EU level, the remaining challenges still result in outsourcing, while another interviewee shared that SMEs are discouraged from doing business cross-border as this can trigger the requirement for a local VAT registration.

In terms of VAT registration, practices differ throughout the EU. For instance, a respondent mentioned that registration may take as little as 45 days on average (Czech Republic) or over 150 days (France)[20]. The registration process itself may be fully digital with limited requirements for hard copy documents or in-person representation. Despite the One-Stop Shop regime and the E-commerce VAT Package, VAT registration can be mandatory in multiple countries in some cases and it may require a variety of documents and application forms. In fact, language and availability of information from tax authorities were pointed out as a key challenge when operating cross-country, especially for SMEs. Few countries provide help and translations, while this good practice occurs in some countries such as Portugal. In some cases, limited documents and only copies, not the original documents, may be enough, such as in the Czech Republic. On top of it, some countries require documents with a certified translation, as it happens for the Spanish fiscal administration.

8.2.2. Perception and recommendations

There was little consensus between the organisations interviewed regarding the level of complexity to comply with for companies from each tax obligation, although VAT and wage taxes were deemed to be the most complex ones by most interviewees, while fewer of them found property or local taxes as being complex to comply with.

Due to the lack of harmonisation in the registration process across Member States and time-consuming registration processes, a lot of experience is required to complete all the necessary steps for VAT. As such it was identified as one of the most burdensome taxes by the respondents. In order to mitigate this issue, it was raised that having a single VAT registration requirement would be beneficial for governments, for the competitiveness of businesses, and for consumers. Raising the turnover threshold and the possibility to file VAT statements quarterly or annually were also mentioned as solutions that would alleviate some of the burden VAT causes, according to the interviews.

An organisation pointed out that to determine the level of burden VAT can cause, it is important to determine the type of business in question: because of the reverse charge and if registration is not mandatory, VAT is less burdensome for B2B operations, whereas B2C operations may deal with more inconveniences. Nevertheless, due to changes in broader e-commerce and one-stop-shop rules as of 1 July across the EU, businesses will have fewer, although not zero, problems.

CIT was also identified as a burdensome tax, as the rules are entirely different between Member States which results in higher compliance costs for SMEs. Additionally, according

[20] This figures remain to be confirmed by other studies and are reported here as provided by the interviewee solely for indicative purposes.

to one of the organisations interviewed, amongst the causes of the administrative burden for CIT are mainly the complexity of the regulations/rules and the post-tax filing processes.

Regarding administrative procedures in general, one of the interviewees indicated that the most burdensome procedures are sharing information between administrations and multiplication of declarations with repetitive data, and the length of processes in the context of occasional provision of services. On the other hand, they argued that the least burdensome procedures are accessibility of both direct and indirect tax authorities and open-mindedness of local players and availability of practical support, for instance, providing concrete and personalised information for free.

The organisations also shared their recommendations to fiscal authorities to reduce the administrative burden in tax compliance obligations with a focus on SMEs. These include the availability of translations and information in general, digitalisation, transparency, and simplicity, including in the digital interfaces or the automatic sharing of information. A need for cross-border dialogue was also indicated, as well as further expanding the one-stop shop regime. The idea of single-time submission of declaration with a unique identifier for taxes was also raised. In general, it was pointed out that minimising the administrative burden on SMEs could be achieved by either more of higher allowances, a simplification of the tax law, or reform in the obligations for maintaining documents (e.g., the obligation to keep physical records when they are filed electronically).

8.2.3. Time trends

Following the quantitative analysis, there appears to be a generally moderate increase in total tax compliance costs across the EU. Respondents were asked to comment on this, discussing plausibility and possible explanations. In general, most intervieewes agreed that an overall increase may well have happened, but they then provide different and potentially compatible explanations.

The most popular explanation across the interviews was that several countries implemented systemic reforms in the last 5 years. This may have caused a temporary rise in compliance costs driven by the transition and the need to adapt. Among the examples mentioned, e-invoicing and real time reporting requirements, which can variate from mandatory e-invoicing such as in Italy to transaction-based reporting such as in France, were the most frequent. The specific issue with these seems to be both regulatory, with different VAT reporting and anti-fraud rules in different countries, and technical, with increased payments to tech service providers.

A second explanation mentioned by several respondents was the internationalisation of firms, which according to respondents has increased in particular for SMEs within the EU and might drive up compliance costs[21]. This is not only due to the actual presence of enterprises in multiple countries, but also to the rise of online sellings and the related cross-border costs. Additional factors mentioned included a potentially biased perception due to the effects of COVID-19.

Respondents also mentioned factors contributing to a possible increase of tax compliance costs in specific countries. For instance, a respondent mentioned that in some northern European countries the cost for professional advisors (externalisation) helping with tax filling has boomed in recent years, which has a big impact on SMEs. Another possible element common to multiple legislations is the fight between tax enforcers in different countries, often between small and large ones, such as for the definition of permanent establishment and therefore the country applying taxation.

Possible factors actually contributing to a reduction of cost compliance costs in recent years were also mentioned. In terms of VAT, more than one interviewees akcowledge an

[21] Although data from this study in section 6.2 do not show conclusive statistically significant differences.

improvement. According to them, there has been a push to simplify procedures especially regarding e-invoicing (particulalry appreciated in Italy), one-stop shop, and refund platforms.

8.2.4. COVID-19 relief measures

In many countries, the COVID-19 outbreak fell within the study scope time period. During this time, most if not all European countries adopted a series of measures to sustain the private sector, ranging from deferrals on tax return deadlines to the suspension or full cancellation of specific tax duties. This is why the research team had originally included COVID-related questions in the CATI interviews. However, following the survey adjustment described in the Interim Report, these questions were adapted and moved to the semi-structured questionnaires. In particular, respondents were asked to assess the impact of COVID-19 relief measures, underlining specific shortcomings or best practices, and to comments on their actual effects.

Despite the great differentiation between different countries, especially regarding the timing of the measures adopted by the most effecient public administrations, respondents generally agree that the government internvention in reaction to COVID-19 was effective and fast across Europe. This is not only true for overall policies, but more importantly on the alleviation of tax compliance burdens, where speed and accuracy had to be balanced. Overall, despite a lack of similar previous experience, the measures achieved their main goal of preventing businesses from going bankrupt and limiting job loss.

Regarding specific measures, the most mentioned ones were temporary VAT reductions and deferrals and the suspension of litigation procedures, which showed mixed effects. On the one hand, this seems to have supported effectively companies' cash-flow and to have relieved businesses from administrative burdens. On the other hand, companies had to adjust the prices and adapt to new complex procedures which, according to stakeholders, led to an increase in internal time costs which overwhengily affected SMEs.

Interviewees struggled to estimate the effects of the relief mesures due to prolungued uncertainty. In fact, the end of the pandemic is still not in sight. According to repondents, this kind of temporal uncertainty affected everyone possibly even more than the crisis itself. Companies did not have information about future demand or the continuity of incentives, while governments had no means to predict the exact future and had to rely on temporary and ever-changing measures. Neverthless, respondents do recognise that business continuity, for SMEs in particular, was partly due to tax measures.

Regarding long-term effects, the interviews showed three main results. First, there is a hope that short-term reductions will be phased out carefully in order to avoid liquidity crises. Second, companies are afraid to have unwillingly committed small violations when applying for fast-paced COVID schemes, so they now hope that backwards checks and subsequent fines by governments be proportional and avoid targeting weaker SMEs. Third, stakeholders expect that the crisis experience will somehow create a path for long-term reforms capable of addressing higher compliance costs.

8.3. Country fiches

8.3.1. Austria

CIT Framework

Tax compliance obligations and processes

The CIT rate in Austria is fixed at 25%, with an annual minimum tax set at EUR 1 750 for GmbHs (limited liability companies) and EUR 3 500 for AGs (stock companies). New companies pay a low minimum tax of EUR 1 092 for the first year. The minimum part is due in advance, and it can be set off against the final amount payment for the CIT.

Tax returns must be filed before the last day of April of the following year if made on a paper-based format, but can also by filled until 30 June if filled electronically.

Companies assess their CIT liability based on the total income derived during the tax year. Authorities might request additional data or statements from the company or other parties should they regard the information provided as either insufficient or not necessarily truthful.

Tax accounting and documentation requirements

Companies must fill financial statements following the instructions given by tax authorities

Alongside the tax return, companies must submit the balance sheet for the fiscal year and the profit and loss account if the tax office requests it. Other books only have to be provided if tax authorities demand them. As a general rule, books must be kept for at last seven years.

As mentioned above, returns might be filled electronically, in which case the company is granted two additional months to submit the documents

VAT Framework

Tax compliance obligations and processes

VAT is paid in Austria at all levels following the supply of goods or services, including the supply of goods and services in Austria for consideration by entrepreneurs, self-supply, intra-Community acquisitions and importation of goods. Exemptions apply to transfers subject to the acquisition of real estate, letting of immovable property for living, the provision of accommodation in the hotel sector, payments subject to specific insurance tax and financial transactions, most notably.

There are three VAT rates in Austria: The general rate is set at 20%. There are two duty exclusion zones (Jungholz and Mittelberg), where the general rate is set at 19%. A reduced rate of 10% applies to accommodation services, passenger transportation, supply of food and beverages in the course of a service and waste disposal services, among others. A zero rate applies in certain circumstances, including the export of goods, cross-border transport services with non-EU states and intra-Community supplies.

Tax accounting and documentation requirements

Austrian companies must register for VAT purpose in their local tax office. Non-residents with VAT liabilities must appoint a tax representative.

Companies file preliminary VAT returns pay them on monthly basis returns on a monthly basis 1 month and 15 days following each calendar month. A different system discussed in Section 4.4. applies to small companies. Final VAT annual returns must be filed by 31st March of the following year. Verification and Identification Exchange Systems (VIES)

statements must compulsorily be submitted on a monthly basis one month after the month they relate to, indicating intra-Community supplies. An official form is provided to entrepreneurs, who must use it if they submit their returns on paper. It is possible to submit returns both in paper and electronically.

Companies must keep records for a period of seven years, and for twenty-two years in the case of VAT records regarding real estate property.

Simplification measures and exemption thresholds

Companies whose turnover was below EUR 100 000 in the previous fiscal year are exempt from the obligation to pay VAT monthly, having to file preliminary returns and pay the corresponding amount of VAT only on a quarterly basis. Small businesses are exempt from the obligation to file a final annual VAT return if their transactions liable to VAT do not exceed EUR 35 000.

Other taxes

Local taxes on income of companies are not levied in Austria, but local authorities set a municipal tax and a real estate tax.

Companies pay on a quarterly basis a real estate tax to local authorities, which amounts to a rate paid per year between 0.2% and 1% of the value of the property. Additionally, companies pay a 3% tax on the total salaries paid to employees, which is deductible for CIT purposes.

In 2016, the scheme of social security contributions was simplified as the rates of contributions by employers and employees were aligned for blue- and white-collar workers.

The VAT rate for sectors including the food service industry, accommodation services and the media and cultural sectors among others was reduced to 5% from 1 July 2020 to 21 December 2021.

COVID-19 relief measures

Both VAT and CIT deadlines for the 2019 fiscal year have been extended to 31st August as consequence of the COVID pandemic.

- Reduction or waiver of late payment penalties upon request
- Ease of requirements for requests for deferred tax collection and for reducing tax prepayments
- Reduced threshold requirement for applying a simplified cash method

Legislation referenced

- Bunderabgabenordnung. Available at: https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=10003940
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8.3.2. Belgium

CIT Framework

Tax compliance obligations and processes

Belgian enterprises must file electronically their CIT returns, based on the approved accounting records of the company (balance sheet and profit and loss statement). The deadline for filing the CIT returns is indicated on the official return form.

In addition, Belgian enterprises must also send a self-assessment no later than 6 months after the end of the assessment year (the year following the accounting year), and within 6 months following the filling of the CIT return.

Regarding payments, companies in Belgium have to make, electronically, equal quarterly advance payments for the entire annual CIT (based on an estimated total amount of tax due on the earnings of the year concerned). Then, according to the information provided later in the CIT, tax authorities check if the amount of the prepayments were sufficient to cover the actual amount of tax due. Any excess can be claim as a refund or a credit for the next accounting year, and any deficiency gives rise to a surcharge.

Since the last study in 2018, two changes have been identified concerning the administrative burden of Belgian companies when filing their CIT return. First of all, since 2019, tax authorities abolished the option allowing companies to file their CIT on paper, and therefore, all CIT must only be filed electronically.

Since the 2019 accounting year, among the TP documentation the country-by-country report only need to be file if there are changes compared to the previous country-by-country report filed.

Tax accounting and documentation requirements

When filling their CIT, companies must provide several documents alongside the return: the approved balance sheet of the year concerned by the tax, as well as the profit and loss account, the explanatory notes of the board of directors and supervisory board, and the minutes of the general meeting of the shareholders.

Under some circumstances, Belgian GAAP annual accounts can be published in another currency than euro. However, those companies, for CIT purposes, have to convert the documents mentioned above in euro when filing their tax return.

Special measures on tax compliance for SMEs

Under Belgian legislation, a few measures have been designed to alleviate the administrative of SMEs concerning the CIT. First of all, during the first 3 years of their establishment, SMEs are not concerned by the surcharge in case of insufficient advance payments of CIT.

Secondly, SMES are exempted of transfer pricing documentation if they do not meet any of the following thresholds: a combined income of EUR 50 million, a balance sheet of EUR 1 billion, or an annual average number of 100 full-time employees.

VAT Framework

Tax compliance obligations and processes

The process Belgian companies must follow to file VAT return depend on whether or not those companies are allowed to deduct input VAT. Companies entitled to such deduction must issue, in an electronic or a paper format, VAT invoices including various information.

VAT returns can either be filed on a monthly basis (if the annual turnover exceed EUR 2,5 million), or on a quarterly basis (if the annual turnover is below EUR 2,5 million). It must be noted that this threshold is only of EUR 250 000 for companies operating in trading in mineral oils, mobile telephones and computers, as well as land vehicles. Payments must be made at the same time than the VAT return.

In addition, within the same timeframe, Belgium companies are also required to electronically file recapitulative statements (EC Sales Lists) on a quarterly basis. Finally, Intrastat returns must also be filed by companies meeting certain thresholds if intra-Community transactions (on a monthly or quarterly basis, depending on the frequency of filing of VAT returns).

Tax accounting and documentation requirements

If VAT returns must list all transactions and events giving rise to VAT, no supporting documents must be attached. However, the companies must keep records of their transactions, including the invoices, as well as any other supporting document, for seven years, either in electronic or paper format.

Simplification measures and exemption thresholds

Two measures regarding VAT return can be identified as alleviating the administrative burden on SMEs. First of all, if their turnover does not exceed EUR 25 000, SMEs do not have to register for VAT purposes (only on a voluntary basis).

Secondly, as explained in Section 4.1, VAT return can be filed on a quarterly basis (less burdensome than the monthly basis) for SMEs whose turnover is below EUR 2,5 million (or EUR 250 000 for companies in specific sectors).

Other taxes

Property and real estate tax

In addition to the CIT and the VAT, Belgian companies are also subject to a tax on income perceived from immovable property located in Belgium, based on its estimated annual rental value (cadastral income), and composed of a federal, a regional and a municipal portion (with different rates). This tax on real property is deductible for CIT purposes.

Wages related taxes and contributions

Belgian companies with employees must also pay general and special social security contributions, on a quarterly basis, based on the employment income. General contributions are composed of the pension and health insurances, the sickness payments, unemployment insurance, employers basic contribution, vocational diseases and labour accidents. On the other hand, special contributions refer to salary moderation contribution, an additional unemployment contribution, a temporary unemployment/elderly unemployed contribution, as well as a supplementary pension insurance contributions. All those contributions are then deductible for CIT purposes.

COVID-19 relief measures

In order to mitigate the impact of the COVID-19 pandemic on businesses, Belgian authorities took several measures to alleviate obligations concerning the CIT return. First of all, the deadline to file the CIT return was extended to 29 October 2020. Secondly, Belgian companies have the possibility to benefit from a temporary loss carry-back regime, according to which profits from the year preceding the COVID-19 tax year could be exempt of taxes, to compensate for the losses incurred during the crisis.

Regarding social security contributions, companies have had the option to delay their payments until March 2021 and to pay in instalments, in order to mitigate the effects of the COVID-19 crisis.

Reduced VAT penalty for non or late payment third quarter 2021 and no advance VAT declaration for December 2021.

Legislation referenced

- Code de la taxe sur la valeur ajoutée.
- Code des impôts sur les revenus 1992
- Code des Sociétés.

8.3.3. Bulgaria

CIT Framework

Tax compliance obligations and processes

In Bulgaria, resident companies pay corporate income tax on income and capital gains, and shareholders are subject to withholding tax on the distributed profits, unless they are resident corporate shareholders or residents in a different EU/EEA country. Non-resident companies are subject to taxation only on their Bulgarian-source income and profits made through a permanent establishment in Bulgaria. The tax period is the calendar year, that is, 1 January to 31 December. As such, tax returns are submitted by companies on a yearly basis – unless they did not perform any relevant activities – with the deadline being 30 June the year following the taxable period.

Furthermore, corporate taxpayers pay corporate income tax in advance on a monthly or quarterly basis based on their estimated income for the year, which is calculated based on the CIT liability from the previous year.

Tax accounting and documentation requirements

Annual tax returns can only be filed electronically. Companies must keep accounting books as per the Bulgarian Accounting Law, in Bulgarian, using Bulgarian currency. The income and the amount of taxes to be paid are determined based on these books. The period for which documents must be kept is 10 years for accounting records, primary documents and financial statements, and 50 years for payroll ledgers.

When filing their tax return, companies must also submit an annual activity report on a standard form containing statistical data.

Recent changes of tax legislation

As of 1 January 2021, a new form of declaration exists for advance tax payments to be submitted between 1 March to 15 April. Corporate taxpayers whose net sales income was higher than BGN 3 million (EUR 1 533 060) in the previous year must make advance payments on a monthly basis, while those with a lower income can opt for quarterly payments. Furthermore, if a company reported less than BGN 300 000 (EUR 153 300) in net sales revenue the previous year, it is not obligated to make payments in advance.

Similarly, from the 1 January 2021 onwards, companies who wish to file a tax return to decrease or increase advance payments must do so by 15 November, providing the necessary documents.

VAT Framework

Tax compliance obligations and processes

In Bulgaria, the invoice deduction method is used for VAT. A company must register for VAT purposes with the National Revenue Agency once their taxable income is above EUR 25 565 (BGN 50 000) in a year. Companies below this threshold can opt for registering as well. Registration can be done electronically. Non-resident companies also have to register through an appointed tax representative.

Companies registered under the Mini One-Stop Shop system file VAT returns quarterly and they pay their taxes due within 20 days of the applicable quarter's end.

VAT returns are filed monthly with the final day of filing being the 14th of the next month. VAT returns, along with sales and purchases ledgers are submitted only electronically.

EC listings and Intrastat returns are also filed on a monthly basis and electronically. Only under exceptional circumstances it is allowed to submit Intrastat returns on paper.

Tax accounting and documentation requirements

Invoices must be issued by suppliers within 5 days unless it is an intra-Community supply, in which case the invoice must be issued by the 15th of the next month. VAT invoices can be electronic if they meet certain technical standards (e.g., electronic signature, Electronic Data Interchange, etc.).

Invoices originally issued in paper format cannot be retained only electronically, and all VAT records, including invoices, shall be kept for 10 years. In case of exceptional circumstances, this period can be extended to a maximum of 17 years altogether.

Recent changes of tax legislation

As of January 2018, it is mandatory to file VAT returns and ledgers electronically. Furthermore, it is mandatory to register within 7 days for a successor inheriting a company, and for unincorporated companies if one partner is VAT-registered.

As of January 2019, companies who wish to register for VAT purposes voluntarily may do so when registering with the Registry Agency. Similarly, from 2019 onwards, shops must register on a public list. Furthermore, the tax obligations also changed for electronically supplied services, radio and television broadcasting services and telecommunications services in 2019: in case the company is established in one EU country and the value of these services is less than EUR 10 000 for the current and previous years, the country where the company is established is considered the place of supply. From 1 July 2021, the same rules are applicable to distance sales.

Additionally, since 2019, if importing goods under certain conditions (their customs value is higher than BGN 50 000 (EUR 25 550), the company importing the goods has been registered for VAT purposes for over 6 months, there are no pending public liabilities of the company), VAT charging may be postponed.

From 1 January 2020, the "call-off stock of goods" was added to the Bulgarian VAT law, allowing the supply of products into another EU country by keeping them in the call-off warehouse.

Other taxes

From 1 January 2020, resident companies are also liable to a one-off tax on certain expenses, due by 30 June. These expenses include a tax on representative and entertainment expenses, tax on social benefits to employees and tax on expenses related to private use of company assets.

Although Bulgarian companies are not subject to payroll tax, they must pay social security contributions, together with their employees and withhold their social security contributions. Companies may also be liable to real estate tax depending on the type of building(s) they use. If a company is subject to real estate tax, they must pay the rate established by the local municipality in two instalments, by 30 June and by 31 October. In case a company acquires a new building, a tax declaration form must be filed, which may be done electronically.

COVID-19 relief measures

Under normal circumstances, hotels and similar facilities are subject to a reduced rate (9%), but due to the Covid-19 pandemic, the rate also applies to other goods and services – such as the supply of books, baby diapers and similar products, the use of sports facilities and tourist services – until 31 December 2021. Furthermore, between 1 January 2021 and 31 December 2022, a zero VAT rate applies to the supplies of Covid-19 vaccines and certain intra-Community acquired goods.

Amongst the relief measures aimed at reducing the administrative burden for businesses:

- Extension of deadline for publication of annual financial accounts and for filing corporate income tax return.
- Deferral of DAC2 and DAC6 filing deadline
- Deferral of payment of corporate income tax and of local taxes and fees.
- Suspension of enforcement procedure for tax and social security during state of emergency
- Suspension of administrative deadline to comply with instructions and requests of administrative bodies

Legislation referenced

- Accounting law. Available at: https://lex.bg/bg/laws/ldoc/2136697598
- Corporate Income Tax Law. Available at: http://trudipravo.bg/znanie-za-vas/928-zakon-za-korporativnoto-podohodno-oblagane
- Value Added Tax Law. Available at: https://www.damtn.government.bg/wp-content/uploads/2019/06/zakon-za-danak-varhu-dobavenata-stoinost.pdf

8.3.4. Cyprus

CIT Framework

Tax compliance obligations and processes

A company resident in Cyprus is subject to corporate income tax on its worldwide income, whereas a non-resident company is only taxed on its Cyprus-sourced income. Companies with their management and control based in Cyprus are considered residents in the country. A company has 60 days for registering with the tax authorities after its establishment.

The taxable period is the calendar year. The current corporate income tax rate is 12.5%. A provisional tax must be paid twice in equal amounts on 31 July and 31 December.

Tax accounting and documentation requirements

The electronic submission of the tax return is mandatory. The due date for the annual tax return submission is 15 months following the end of the tax year. All documentation must be kept for 6 years. Although corporate tax is self-assessed, an assessment by the Commissioner may be issued within 6 years, or in case of fraud, 12 years.

Companies use a self-assessment system for CIT

Any accounts of chargeable income and any return of income submitted to the Commissioner must be signed by an auditor.

A statutory audit is applicable to all companies in Cyprus. Every company is expected to file an income tax return including the amounts from financial statements, signed by auditors.

VAT Framework

Tax compliance obligations and processes

Value added tax is applicable at all stages of production and distribution for any company, resident or non-resident, which performs economic activities in Cyprus and is obliged to register for VAT purposes if their VAT liability in a period of 12 months. Electronic registration is not possible in Cyprus.

Nevertheless, there are exceptions, such as farmers or urban taxis to whom special schemes are applicable. Group registration is also available for two or more companies established in Cyprus. Within a group, no VAT is applicable to transactions. The divisions of corporate entities may apply

The standard VAT rate in Cyprus is 19%, although a reduced rate of either 9% or 5% applies to certain goods and services (e.g., hotel accommodation services, medicines, or water), while others are zero-rated (e.g., intra-EU supply of goods).

From 2/5/2017 and onwards the tax return must be submitted electronically (except for farmers) by the tenth days of the second month after each tax period. VAT returns must be filled on a quarterly basis, with the first submission being due on either January, February or March, and the subsequent ones 3 calendar months following the first filing. It is compulsory to submit VAT returns electronically.

Non-EU companies that are non-resident traders need to appoint a VAT representative who must submit VAT Form 104 by the 30th day after their appointment. Companies resident in a different EU Member State may appoint an agent, who only need to send a letter to confirm their role.

Tax accounting and documentation requirements

Registration is mandatory within 30 days if a company's taxable supplies are over EUR 15 600 in a 12-month period. In case of intra-Community acquisition of goods, the threshold is EUR 10 251.61. Once an obligation arises or if a company decides to register voluntarily, an application must be submitted to the local VAT office. Similarly, cancelling a registration is done through the submission of an application for cancellation.

The VAT invoices can be submitted manually or in electronic form. The VAT invoice issued must also include all taxable, exempt, and zero-rated supplies as well as the gross amount to be paid. Invoices, books, and records must be kept for a period of six years. Invoices originally issued in electronic form can be maintained electronically as long as online access is granted to those invoices.

A receipt must be issued after any transaction where taxable persons supply to non-taxable persons. These receipts must be kept for six years.

A VIES return (EU sales list) must be submitted monthly by companies making intra-Community supplies. These can only be filed electronically and by the 15th of the next month.

Intrastat return must also be submitted by companies making intra-Community dispatches or arrivals if the annual value (for the year 2021) is over EUR 55 000 for dispatches, or over EUR 180 000 for arrivals. Unless the former is over EUR 5.8 million or the latter is over EUR 2.7 million, not all requested details have to be provided on the returns. These returns are submitted electronically and monthly, by the 15th of the next month.

Simplification measures and exemption thresholds

A legal receipt (instead of invoice) may be issued by retailers for supplies below EUR 85.

A cash accounting scheme is possible for a company with a lower turnover than EUR 25 000 in the previous 12-month period.

Other taxes

The employer contributions paid by Cypriot companies include contributions to the Social Cohesion Fund, the Social Insurance Fund, Redundancy Fund and Training Development Fund. The contribution is 8.3%.Furthermore, a General Healthcare System contribution is also applicable to companies in Cyprus.

Companies resident and domiciled in Cyprus must also pay a Special defence contribution.

There are not local income taxes or local business tax in Cyprus

COVID-19 relief measures

Due to the pandemic, a tax relief can be applied to rental income for 2020 and 2021. The amount can be equivalent to a 50% rent reduction provided that the conditions, referred in the legislation, are met. In 2021, a similar incentive is available for rented immovable property of companies included in the Infectious Diseases Decree (No. 2.) of 2021 who had to suspend their business activities.

Instead of 31 March 2021, the deadline for filing the electronic annual tax returns or the tax year 2019 is extended until 30 November 2021.

A reduced VAT rate (5% instead of 9%) is applicable to hotel accommodation, local transport and catering between 1 July 2020 and 10 January 2021.

Specific changes were made for the administration and payment of the value added tax for certain companies due to the pandemic. This included the option to pay the tax in six parts.

Legislation referenced

- Companies Law, last amended on 7 April 2021
- Income Tax Law of 2002, Law 118(I)/2002, published in the Official Gazette No. 4621 of 15 July 2002, last amended on 19 March 2021
- Immovable Property Tax (Amendment) Law of 2002, published in the Official Gazette No. 4621 of 15 July 2002, last amended on 15 November 2019
- Social Insurance Law of 2010, Law 59(I)/2010, last amended on 18 December 2020
- Value Added Tax (Amendment) Law 95(I)/2000, published in the Official Gazette No. 4621 of 15 July 2002, last amended on 27 June 2018

8.3.5. Croatia

CIT Framework

Tax compliance obligations and processes

Resident companies engaged in business activities are liable to corporate income tax on their worldwide income in Croatia. Individual entrepreneurs may opt for the CIT as opposed to the individual income tax. If an individual entrepreneur's total gross income exceeds HRK 7 500 000 (EUR 997 261) in the previous year, they become liable to CIT. A company is resident in Croatia if its legal seat or place of effective management is in Croatia.

Corporate income tax base is the corporate income that is determined according to the accounting regulations as the difference between revenues and expenditures before calculating the corporate income tax, increased and decreased according the provisions of the Corporate Income Tax Law. Taxpayers who in the preceding tax period did not generate revenues exceeding HRK 7 500 000 may determine the tax base pursuant to the cash principle (paid−charged).

The taxable period is the calendar year, however, an agreement can be made to use a different period which must not be longer than 12 months.

The tax rate is 18%, although if the annual income of a company does not exceed HRK 7 500 000 (EUR 997 261), the rate is reduced to 10%.

Advance payments are made monthly by the end of the next month, calculated based on the previous tax year's financial information.

Audits can be started in the three years following the relevant tax period.

Tax accounting and documentation requirements

Accounting books and documents must be kept in the Croatian language and currency. All documents must be maintained for a period of 10 years.

Companies using cash transactions are subject to additional administrative responsibilities related to monitoring the transactions and maintaining records.

Taxpayer who determines the tax base according to the monetary principle, after the profit determined according to accounting regulations before the prescribed additional increases or decreases for certain non-monetary transactions and unrealized gains / losses and certain monetary transactions and realized gains / losses.

The CIT return must be filed within 4 months after the end of the taxable period. The following documents must be attached: balance sheet, income statement (balance sheets and profit and loss account are submitted with the tax return only when they have not already been submitted to the Financial Agency), statement on the use of the excess CIT paid, report on transactions with linked parties. The following must be attached if applicable: summary of any tax losses carried forward, calculation of tax reliefs, incentives and exemptions, summary of any payments subject to withholding tax, according to a special regulation (Point 4. Others taxes) tax returns for monument tax or tourist tax.

Large or medium-sized companies as well as VAT taxpayers must file the annual CIT return electronically.

VAT Framework

Tax compliance obligations and processes

The Croatian VAT system uses the invoice deduction method. In general, VAT liability arises after the supply of goods and services, although there are some exceptions, e.g., in

the case of the (domestic) reverse charge mechanism which applies to certain transactions, such as the supply of construction work, select real estate or scrap materials.

Group registration is not possible in Croatia.

The time of taxation can be the date of issuing the invoice, when the goods or services are delivered or provided, or when an advance payment is received, whichever occurred first. VAT can be assessed on a cash basis if a company's supplies did not exceed HRK 15,000,000 (EUR 1 998 293) in the previous calendar year.

In case of intra-Community acquisition or supply of goods, VAT is payable when the invoice is issued or by the 15th day of the next month if the invoice is not issued up to that point. After the importation of goods, VAT must be paid within the time limit for the payment of import charges in accordance with customs regulations.

The standard rate of VAT in Croatia is 25%, although a reduced rate of 13% or 5% may apply to certain goods and services, while some supplies are completely exempt from VAT in accordance with Directive 2006/112/EC.

It is mandatory for resident companies to register for VAT purposes if their taxable supplies are above HRK 300 000 (EUR 39 966). The same rules apply to a non-resident company if it is required to register for VAT purposes, although the threshold of HRK 300 000 (EUR 39 966) is not applicable. The appointment of a tax representative is mandatory for third country companies. The third country companies shall not be obliged to appoint a tax representative in the event when those companies apply special scheme for services supplied by taxable persons not established within the Community and when they perform exclusively occasional international road transport of passengers on the territory of the Republic of Croatia.

Tax accounting and documentation requirements

VAT registration must be done in paper form by submitting a P-PDV form.

Invoices must be issued in Croatian currency (HRK). In the case of cash invoices, fewer information is required, and they must be registered via cash registers. Furthermore, for supplies not exceeding HRK 700 (EUR 93), a simplified invoice can be used. An invoice may be issued electronically if the recipient agrees to it, however, these require electronic data interchange or an advanced electronic signature or any other business control method that allows the connection of invoices with the supply of goods and services. All VAT records (e.g., invoices, amendments to invoices, export and import documents) must be maintained in paper or electronic form for 10 years following the assessment period, which may be a month or a quarter. Quarterly periods may be applicable if the taxable supplies are below HRK 800 000 (EUR 106 576, VAT included), while monthly periods apply in case of transactions in other EU countries. Moreover, non-resident companies must also submit tax returns on a monthly basis.

Tax returns must be filed within 20 days after the assessment period. European sales and purchase lists must be filed on a monthly basis, if applicable. A PPO form for supplies subject to the domestic reverse charge mechanism must be filed within 20 days after the end of the quarter. All forms must be filed in electronic form. Taxable persons who do not have headquarters, a permanent establishment, a permanent or habitual residence on the home territory and who perform exclusively occasional international road transport of passengers on the territory of the Republic of Croatia may submit their VAT return in paper form. VAT return in paper form may also be submitted by small taxable persons who exclusively receive and supply services to taxable persons from third countries and when they are liable to pay VAT.

If a non-resident company from outside the EU is charged VAT but it does not have to register for VAT, a refund can be requested by filing a ZP-PDV form, strictly in paper form,

as well as invoices, power of attorney for a VAT representative in Croatia, and a certificate declaring its VAT status.

Recent changes of tax legislation

From 1 January 2021, postponed accounting in respect of VAT on the importation of goods applies to all imported goods as long as the company applies for it and is registered for VAT purposes and has the right to full input tax deduction.

Simplification measures and exemption thresholds

If the taxable supplies of a resident entrepreneur are below HRK 300 000 (EUR 39 966), VAT registration is not required.

Other taxes and charges

A surtax on income tax is introduced by local self-government units according to special laws (law on local taxes). All companies are subject to membership fees to the Croatian Chamber of Commerce (CCC). The fees are paid monthly, the amount depends on the size and revenue of the company, but there are three tiers based on this information. No forms are required to be filed. The forestry fee applies to companies whose annual income exceed HRK 7,500,000 (EUR 997 261). The tax rate is 0.024% and quarterly advance payments are paid. Croatia also has a tourist membership fee, paid on a monthly basis at the end of each month (or exceptionally once per year), the rate of which is calculated based on the nature of the company's business activities. The annual tourist tax return, or TZ form, is filed with the annual CIT return. There are two types of municipal monument tax: depending on the types of business activities, the rate can be calculated either based on income or the size of the protected property. The first calculation of the tax applies to companies dealing with the wholesale or retail sale of tobacco products, the wholesale of cosmetics, or gambling, amongst others. The rate is 0.05% of the income from the previous tax year. Advance payments, based on the annual monument tax return of the previous tax period, are paid monthly. In case of a protected property, the amount is around HRK 1-4 (EUR 0.13 - 0.53) per square metre, to be paid annually.

Employers must withhold individual income tax and are also liable to social security contributions after each employee: the employer pays health insurance contributions and withholds pension insurance contributions.

Additionally, a company may be liable to real estate tax (tax on holiday houses or tax on the use of public land). The rate is determined by the municipality or town.

COVID-19 relief measures

Relief measures adopted include mainly the possibility for taxpayers for a deferral of payments with no interests for example the extension of the deadline for the submission of the 2020 CIT return as per Ordinance on the amendments to the Ordinance on the Implementation of the General Tax Act (OG 144/20) and the Act on Amendments to the General Tax Act (OG 42/20). In addition, special deduction rules for corporate tax have been introduced to support businesses that needed to face a poor tourist season.

Legislation referenced

- Corporate Income Tax Law (Zakon o porezu na dobit)
- Corporate Income Tax Regulations (Pravilnik o porezu na dobit)
- General Tax Law (Opći porezni zakon)

- Law on Fiscalization in Cash Transactions (Zakon o fiskalizaciji u prometu gotovinom)
- VAT law (Zakon o porezu na dodanu vrijednost)
- VAT Regulations (Pravilnik o porezu na dodanu vrijednost)

8.3.6. Czechia

CIT Framework

Tax compliance obligations and processes

For the enterprises, taxable profit in Czech Republic is based on the adjustments from accounting profits in the Czech statutory financial statements. Corporate profits are taxed bilaterally at the company and shareholder levels. Forms for the CIT returns must be declared annually. There are no differences between the types of forms for SMEs and LSEs.

In the cases when the taxpayer exceeds the annual EUR 1 150 (Kč 30 000) tax liability limit, taxpayer has to pay advance tax biannually at 40% of its previous annual tax liability. When the taxpayer exceeds the Kč 150 000 limit for the tax liability, the taxpayer needs to make advance payments on a quarterly basis in an amount of one quarter of its previous annual tax liability.

Normally, the deadline for submitting annual tax returns is 1st of April. If tax returns are filed by a registered tax adviser or if the taxpayer is subject to a financial audit, deadline for submitting annual tax returns is 1st of July. However, due to Covid this period has been extended by one month (see section 6.1). As mentioned above, tax returns can be filed electronically or on a paper-based format. In addition to submitting tax returns, the taxpayer has also to provide accounting statements for the relevant tax period. Taxpayers are obliged to keep the books and records on tax evidence for at least 10 years.

When it comes to a tax audit, the tax authorities are responsible for specifying the scope and the subject of an audit. Tax authorities have a legal right to analyse all of the contracts, invoices and other documentation.

Tax accounting and documentation requirements

In Czechia, taxpayer's taxable base is adjusted with respect to an accrual basis. Companies are obliged to provide a substantial list of documentation only during a tax audit.

Czech taxpayers who meet at least one of the certain thresholds: 1) have net turnover which is larger than EUR 3 million (Kč 80 million), or have more than 50 employees, 2) possess assets that are larger than EUR 1.5 million (Kč 40 million) and also perform transactions with parties abroad (foreign enterprises) or made transactions with the related parties registered in Czech Republic during the given tax period, are recipients of investment incentives or incur tax losses, are obliged to file an appendix to the income tax return. In these files, taxpayers have to describe all the transaction with the afore mentioned parties including the types and the volumes of these transactions. If taxpayers fail to submit this appendix, they might be audited and face fines or penalties.

Recent changes of tax legislation

In terms of the advance payments for the Czech taxpayers whose tax liabilities for the last year exceeded the EUR 1 150 (Kč 30 000) limit, enterprises can apply to tax authorities to postpone their payments if they can provide the documents that would prove that the payment can seriously harm the continuation of their business. Other reasons for postpone:

- it would not be possible to collect the entire arrears from the taxable person at once for other reasons;
- delay may also be allowed if it can be assumed that the obligation to pay the tax will partially or completely cease.
- Tax authorities have 30 days to respond to the application.

From the tax years that start on 1st of April 2019 directive ATAD was implemented.

In response to the Covid-19, all entities will be able to claim back a carry-back of the loss and reduce the tax base of previous two years (see Section 5.1).

Special measures on tax compliance for SMEs

Newly established enterprises in Czechia receive an income tax relief for 10 years that equals the amount of their tax liability. Conditions and criteria for the recipients of this tax relief are defined by governmental decrees and depend on the type of the investments as well as the region where the investment has been made.

SMEs performing research and development activities are able to deduct their taxable base by additional 100% or 110% if they can prove their research and development costs. Taxpayers must inform their local tax authorities if they wish to claim a deduction for their research and development costs. Taxpayer must include their Research and Development project(s) in their tax files if they want to be qualified. If entity suffers tax loss or has taxable base that is lower than the amount of costs for R&D projects, the entity is able to deduct these costs in the nearest taxable period.

VAT Framework

Tax compliance obligations and processes

VAT Act of 2004 states that taxable subjects are persons that perform economic activities either individually or collectively. Any legal subject which does not carry out any business activities but is involved in economic activities can also be taxed. Liability to account VAT begins at the date when the taxable supply provided or at the date of the payment.

In Czech Republic, if the person's generated turnover of EUR 385 000 or more, then the monthly taxable period applies. If the estimated turnover is lower than EUR 385 000, then the tax period will be a quarter. Companies have to calculate the VAT themselves and it is not possible to make advance payments of the VAT. In response to financial difficulties caused by Covid-19, Czech Authorities have introduced alleviating measures for late payments (see section 5.2).

In total, four tax rates operate for VAT in Czech Republic: the standard rate, two reduced rates and a zero rate. The standard rate is 21% at it is applicable to all services and goods that are not exempt from any deductions of tax rates. In response to Covid-19, legislative measures were introduced to apply reduced VAT rates to certain products and services that were applicable to the standard VAT rate previously (see section 6.2). The taxable amount should include any consideration which taxpayers has received or will receive from a person/entity. Taxable amount should include custom duties, excise duties and price subsidies, if applicable.

Tax accounting and documentation requirements

Persons (individuals and legal entities) registered in the Czech Republic and who conduct economic activities that generate more than EUR 38 500 in the past 12 months are obliged to register with local tax authorities for VAT purposes withing 15 days after this limit has been exceeded.

Invoices are generally issued by taxpayers providing taxable supplies and services within 15 days after the date of the start of taxable supply or the date of a payment receipt. Taxpayers are obliged to state taxable amount in the Czech national currency – the koruna. Invoices should include general information such as name and address of the supplier, tax code, taxable amount, the date of issuance of the document and other details.

Taxpayer is obliged to keep VAT records for at least 10 years. It is also possible to keep the records abroad, however, taxpayer needs to notify tax authorities in advance in such circumstances.

Recent changes of tax legislation

In 2020, provisions were laid down in the law in order to expand the list of services and products to whom a reduced 10% rate is applicable. From May 2020, the second reduced rate of 10% is applied now to certain services such catering, including the supply of draft beer and non-alcoholic drinks, water sewage and supply, repairs of shoes, bicycles and textiles as well as housekeeping and hairdressing. Reduced 10% rate is also applied to electronic and audio books. From July 2020, the reduced rate of 10% is also applied to hotel accommodation, cultural and sport events as well as to the use of sporting facilities

Simplification measures and exemption thresholds

Under certain conditions, in general, services and products related to the post, finances, insurance, TV and radio broadcasting, healthcare, training and education, social welfare, lottery, transfer of real estate are exempt from the VAT.

Other taxes

Next to VAT and CIT, the most burdensome taxes in Czechia are property and real estate taxes (most followed by vehicle related taxes and wage related taxes and contributions.

Companies in Czech Republic do not have to pay any local and regional taxes. Besides VAT and CIT, companies are obliged to pay real estate and wage related taxes and contributions.

In general, the owner of the land is subject to real estate tax unless the land is owned by the state or organizations which defend public interest and newly (re)cultivated land. There are two rates for agricultural land (0.25% and 0.75% of the purchase price). Rates for other type of land depend on the square area and the place the land is located (smaller rates in small towns and villages and higher rates in larger towns). The assessment period of the real estate tax is the calendar year.

In regards to wage related taxes and contributions, the employer has to pay, in total, 33.8% rate for their employees. This rate includes health insurance, pension contributions, unemployment contributions and disability insurance.

COVID-19 relief measures

Normally, the deadline for submitting annual corporate income tax returns is 31st of March (30th of June in special cases), however, due to Covid this period has been extended by one month. There are plans to extend this deadline to 2 months in 2021.

In regards to the late payments, as a response to Covid-19 crisis, recently in 2021, the interest rate for the postponed payments have been decreased by 3% (from 7% to 4%) by the Czech National Bank. Similarly, in 2021, the interest rate on late payments of the taxes has also been decreased. It has decreased by 6% (from 14% to 8%). In cases when the debtor was directly affected by Covid-19, the late payment penalties would be waived until 31st of March 2021.

Both of these adaptions can be described as a positive impact for the SME's with larger than EUR 1 150 tax liabilities as well as LSEs with the tax liabilities that are larger than EUR 5 800.

Furthermore, those taxpayers that are recording a tax loss in 2020 are now able to claim a carry-back of the loss and apply for reducing their 2019 and 2018 tax base. The total amount of tax loss for two previous tax periods cannot extend the EUR 1 160 675 limit.

In regards to the donations, Czech authorities have increased the limit of the total amount of deductible donation from 10% to 30%. This is a temporary increase that would only be applied for calendar years of 2020 and 2021.

A waiver of VAT is applied certain gratuitous supplies in connection with the Covid-19 crisis until 30th of April. VAT waiver applies to the institutions, organizations and clients that are involved with providing or acquiring certain services (i.e. health services) and products (i.e. respirators and filter half-masks) to counter Covid-19 pandemics

In response to financial difficulties caused by Covid-19, taxable persons will not face penalties for late filing when approved by local tax authorities. Late-payment interest will then stop being waived automatically for a period of time.

Legislation referenced

- Income Tax Law, 586/1992 (Zákon o daních z příjmů), as amended
- Property Tax Law, 338/1992 (Zákon o dani z nemovitostí), as amended
- Real Estate Tax Law, 338/1992 (Zákon o dani z nemovitostí), as amended
- Social Security Law (Law on Social Security and State Employment Policy Premiums), 589/1992 (Zákon o pojistném na sociální zabezpečení a prispěvku na státní politiku zaměstnanosti), as amended.

8.3.7. Denmark

CIT Framework

Tax compliance obligations and processes

Companies resident in Denmark are liable to CIT on their worldwide income, and non-resident businesses are liable to CIT on specific income sourced in Denmark. A company is resident in Denmark if it is registered with the Danish Business Authority or if its place of management is in the country.

The taxable period is the calendar year in general, although a company can choose a different tax year.

The rate of the CIT is 22%. The basis is that companies must pay ordinary advanced payments, and the amount of the ordinary advanced payments must be correspondent to 50 per cent of the average income tax over the last three income years. The ordinary advanced payments must be paid in two equal instalments during the income year.

If companies have been liable to pay tax for two income years or less, the advanced payments can be made – the first must not be paid later than the 20th of March, and the second must not be paid later than the 20th of November. Companies are not obligated to make ordinary advanced payments until the third income year.

Tax returns must be submitted within 6 months after the end of the taxable period, although if a company's tax period ends between 1st of February and 31st of March, the deadline is 1st of September of the same year.

Tax accounting and documentation requirements

In general, tax returns are filed electronically via the online e-filing platform of Denmark, TastSelv Erhverv. When a company's net turnover exceeds DKK 100 000 000 (approx. EUR 13 500 000), the tax return must be accompanied by tax accounts. All books must be maintained for 5 years, although retail companies must only maintain the cash register strips for one year after the signature of the annual accounts. Paper documents can be scanned and stored.

VAT Framework

Tax compliance obligations and processes

Companies must register for VAT purposes if the value of their taxable transactions is over DKK 50 000 (EUR 6 724). Resident companies can register as a group, and a joint registration is mandatory for a taxable person with more than one company in the country.

The standard rate of VAT in Denmark is 25%, although certain supplies are zero-rated. Furthermore, some supplies are exempt, such as hospital treatment, certain financial services, and passenger transport.

The taxable period depends on the value of the supplies on an annual basis: above DKK 50 000 000 (EUR 6 725 536), it is the calendar month, between DKK 5 000 000 (EUR 672 554) and DKK 50 000 000 (EUR 6 725 536), it is the quarter, and below DKK 5 000 000 (EUR 672 554), the taxable period is the first and the last 6 months of the year. Similarly, the deadline for filing VAT returns depends on the amount: above DKK 50 000 000 (EUR 6 725 536), the deadline is the 25th of the following month, between DKK 5 000 000 (EUR 672 554) and DKK 50 000 000 (EUR 6 725 536) as well as below DKK 5 000 000 (EUR 672 554), it is the first of the third month following the tax period.

Tax accounting and documentation requirements

In order to register for VAT purposes, the company must send an application to the Danish Business Authority either in paper or electronic form. Afterwards, the company will receive a PIN code with which declaring and paying VAT electronically is possible.

Invoices can be issued in electronic form. The tax authorities must be granted full online access to invoices upon request. All records must be maintained for 5 years, although documents related to immovable property must be maintained for 10 years.

EC Sales lists must be filed after intra-Community supplies each month either in paper or electronic form. Intrastat reports must also be submitted.

Other taxes

Companies do not pay business tax on income or local income tax, although a part of the national CIT goes to the municipalities. Certain companies are also liable to payroll tax, paid quarterly. These include those providing health care service, some educational or cultural activities, or the transportation of passengers. Furthermore, employers are subject to social security contributions after each employee. Companies also pay municipal real estate taxes.

COVID-19 relief measures

- The possibility for SMEs to apply for a refund as interest-free loan for VAT remitted to tax authorities and withholding tax to be paid in certain months
- Extension of payment deadline for certain income taxes, VAT and payroll tax

- Temporarily, no ceiling applies to amounts deposited in tax accounts
- Extension of filing deadlines for corporate and individual income tax returns
- Earlier refund of R&D tax credits to qualifying companies

Legislation referenced

- Corporate Income Tax Law: Selskabsskatteloven; Law 251 of 2 February 2021
- Bookkeeping Law: Bogføringsloven; Law 648 of 15 June 2006, amended by Law 55 of 27 January 2015
- VAT Law: Momsloven; Law 1021 of 26 September 2019 and following amendments.
- Decleration and Payment Deferral Law: Angivelses- og betlaingsfristudskydelsesloven; Law 211 of 17 September 2020 and following amendments.
- VAT and payroll tax loans law: Moms og lønsumsafgiftslåneloven; Law 572 of 5 May 2020 and following amendments.
- Withholding tax loans law: A-skattelåneloven; Law 122 of 30 January 2021 and following amendments.

8.3.8. Estonia

CIT Framework

Tax compliance obligations and processes

In Estonia, corporate taxpayers are subject to corporate income tax on distributed profits, which include hidden profit distributions (including fringe benefits, gifts and donations, dividends, and non-business expenses), but not on income retained in the company. There is a distinction between resident and non-resident taxpayers. A company founded under Estonian law is resident in Estonia. In this case, the company has unlimited tax liability, while a non-resident taxpayer has only limited tax liability.

The taxable period is the calendar month. The tax return must be filed, and the distribution tax must be paid by the tenth day of the month following the month in question. Unless the company is registered for VAT purposes, it only has to file a tax return if any tax is due for the period.

Tax accounting and documentation requirements

In general, companies file tax returns electronically, and the books along with the supporting documents must be kept for a minimum of seven years. Companies declare their tax obligations on a combined form (TSD) which includes information on distribution tax, withholding tax, unemployment insurance contributions and social security contributions.

Companies assess their own tax liability, but the tax authority may verify the amount calculated. In case of an audit, the tax authority does the assessment and sends a tax notice to the company of the amount of tax due.

Recent changes of tax legislation

As of 1 July 2020, resident shipping companies can opt for the tonnage tax regime for income gained from international shipping activities.

VAT Framework

Tax compliance obligations and processes

Companies with a turnover from taxable supplies exceeding EUR 40 000 in a calendar year must be registered for VAT purposes. Corporate groups, such as a parent company and its subsidiaries may register as a VAT group and then must file a single VAT return. If the place of supply is in Estonia, Estonian VAT is applicable.

The standard rate of VAT in Estonia is 20%, although certain goods and services enjoy a reduced rate or are completely exempt. but a reduced rate of 9% applies to select goods and services, such as books, press publications, certain medicines and medical equipment and accommodation services, while certain goods and services are exempt with the right to deduct input tax, such as export of goods or intra-Community supplies of goods. Goods and services of a social nature are exempt without the right to deduct input tax as well as other goods and services such as insurance transaction or lottery and gambling.

Tax accounting and documentation requirements

VAT invoices must be issued to the customers in paper or electronic form (provided that the customer agrees to it), containing information specified in the VAT Law. VAT invoices both from suppliers and issued to customers must be maintained chronologically for a period of 7 years. Furthermore, daily records of taxable and exempt supplies, output and input VAT must be kept in compliance with Regulation No. 40 of 30 March 2004. Companies must also keep records of goods dispatched or transported to another EU country unless they are considered to be intra-Community acquired goods.

The tax period for VAT is the calendar month, and taxes due must be paid and tax returns must be filed by the 20th of the next month. Similarly, the 20th of the following month is also the deadline for submitting the EU sales lists for companies supplying customers in another EU country and intermediate suppliers. In case a company has been registered for at least 12 months, the tax returns must be filed electronically.

Companies that make intra-Community supplies or affect acquisitions of goods must also complete supplementary statistical declarations if the annual value of their supplies exceeds EUR 90 000 or the annual value of their acquisitions of goods exceeds EUR 130 000. These declarations can be filed electronically and they must be declared by the 10th business day of the next month.

Other taxes

There is no local income tax, business tax or any other income taxes in Estonia. However, companies do pay social security and unemployment insurance contributions as well as taxes on fringe benefits. The employer pays monthly with the deadline being the tenth day of the following month. Similarly, the employers must pay taxes on fringe benefits monthly, with the rate being the general distribution tax rate.

Unemployment insurance contributions are paid by both the employers, whose share is paid on the gross salary of the employee, and employees, whose part is withheld from the salary. The rates of the contribution are determined by the government each year. Employers must issue a certificate if requested by the employee stating the amount withheld as contribution.

Real estate tax is also payable by the owners or sometimes the users of the land. The tax rate is between 0.1% and 2.5% and is set by the municipality. The tax must be paid by 31 March and 1 October.

COVID-19 relief measures

In light of the Covid-19 pandemic, authorities suspended the calculation and payment of the late payment interests from 1 March 2020 until 17 May 2020, the end of the emergency period. From 17 May 2020 until 31 December 2021, tax authorities reduced the late payment interest from 0.06% to 0.03%. In case the taxpayer pays tax arrears in instalments, the late payment interest may be reduced by 100% between 1 May 2020 and 31 December 2020.

Legislation referenced

- Income Tax Law (Tulumaksuseadus) of 15 December , as amended
- Law on Social Tax (Sotsiaalmaksuseadus) – 13 December 2000, as amended
- Law on Taxation (Maksukorralduse seadus) – 20 February 2002, as amended
- Law on Value Added Tax (Käibemaksuseadus) – 10 December 2003, as amended

8.3.9. Finland

CIT Framework

Tax compliance obligations and processes

A company is liable to CIT on its worldwide income, unless the company is not resident in Finland, in which case it is only liable to taxation on its Finland-sourced income. In general, dividends are exempt from taxation after shareholders receive them.

The taxable period is generally of 12 months and coincides with the calendar year, although the first or last year of a company can differ. A change in the taxable period can be reported up to two months before the end of the tax year.

Advance payments are made during the tax year. The rate of the CIT in Finland is 20%. The tax authority makes an assessment of the final taxes at the end of the year, and it is issued within 10 months after the tax year. The statute of limitations is usually 3 years after the assessment, although it may be extended to up to 6 years.

Tax accounting and documentation requirements

All audited income statements and balance sheets must be attached as an annex to the tax returns. Tax returns are submitted annually, within 4 months after the tax year. Companies submit them in electronic form through the online filing system called MyTax service, the 'Tyvi service', or electronic data interchange. Accounting records must be kept for 6 years following the tax year.

Recent changes of tax legislation

As of 1 January 2021, a resident company is defined as one registered or incorporated in Finland or one whose management is in the country.

From 1 January 2020, there are no longer three categories of income based on its source (business, farming, other income). Rather, most income is categorised as business income, with some being income from agriculture.

VAT Framework

Tax compliance obligations and processes

The supply of goods and services is, in general, liable to VAT in Finland. Exporting goods is zero-rated in Finland, while importing them is liable to VAT, including imports made from the region of Åland. However, there are different rules for supplies made to Member States and acquisitions from Member States. Companies engaged in relevant activities must register for VAT, including non-resident companies with a fixed establishment in the country. Other non-resident companies can opt for VAT registration.

Companies must issue invoices, which can be in electronic form if the supplier and customer agree. Simplified invoices are available, inter alia, to retail companies, restaurants and passenger transportation (excluding reselling purposes), as well as on amounts below EUR 400. VAT is payable when the supply is made, or when advance payments are made, or when invoices are issued, except in the last month of the tax period when the company must pay the VAT even if invoices have not been issued yet.

Farmers and certain other businesses, including small businesses, can opt for cash accounting.

The rate of VAT is 24% in Finland, although a reduced rate (10%) is applicable to certain supplies, such as books, passenger transport services, or medicines. The supply and import of food and animal feed as well as restaurant services are liable to a 14% VAT charge. Furthermore, there are also supplies that are exempt from VAT with or without the right to deduct input tax.

A new electronic tax reporting portal called OMAVERO was introduced in 2017. If a company's turnover is below EUR 100 000, it can report and pay the taxes due quarterly, and if a company's turnover is below EUR 30 000, it can do so annually. Also farmers and persons making works of arts are allowed to report and pay the taxes annually.

Tax accounting and documentation requirements

VAT returns must be submitted by the 12 of the second month after the tax period. Annual VAT returns or annual lists of customers and suppliers are not required. Corrections to submitted returns can be done through submitting a revised VAT return, explaining the change, unless the amount of outstanding tax is below EUR 500, the correction can be done in the next VAT return. VAT returns must be submitted in electronic form, although a paper form might be permitted for special reasons. Intra-Community sales lists, including supplies on which the reverse charge mechanism is applicable, must be submitted, electronically and monthly by the 20th of the following month. Furthermore, Intrastat returns have to be submitted as well. In case the annual acquisitions and the annual supplies are over EUR 600 000 each, monthly returns must be filed by the 10th of the following month. Intrastat returns have to be filed electronically.

Relevant changes of tax legislation

Before 2021, the threshold for small businesses was EUR 10 000 on yearly turnover, which changed to EUR 15 000. Under this threshold, companies are not liable to paying VAT.

On 1 January 2020, the call-off stock simplification rules were introduced.

From 1 April 2019, performances can be liable to VAT at the rate of 10% if the performing artists or athletes choose it.

As of 1 January 2019, social welfare services that are exempt from VAT without the right to deduct input tax were expanded. They now include primary education and interpreting services for people with disabilities affecting their hearing, sight, or speech, that are state-subsidised or offered by law.

As of 1 January 2018, VAT on imported goods, payable by registered businesses is overseen by the Tax Administration as opposed to customs authorities. Furthermore, from this date onward, the postponed accounting regime is applicable on importation.

Simplification measures and exemption thresholds

Small businesses with a turnover under EUR 15 000 are not liable to VAT, although they can opt to be liable to it, in which case they can deduct input VAT. The threshold is not applicable to non-resident businesses.

Companies with a turnover below EUR 500 000 can opt for cash accounting, as long as the place of supply is within the country.

Other taxes

There are no local taxes or business taxes on income in Finland, although municipalities and the state churches receive a part of the CIT paid by businesses. There are also no payroll taxes in Finland, however, employers are liable to social security contributions after their employees, including health, pension, unemployment, and accidental insurance contributions.

Finland has a TV tax, payable by most companies, as well as a real estate tax, the rate of which depends on the type of real estate.

COVID-19 relief measures

Because of the pandemic, the deadline to file corporate tax returns was extended by a month for the year 2020.

The companies could apply for eased payment arrangements concerning taxes falling due between 1 March 2020 and 31 August 2021. The amounts have to be paid with an interest of 2.5% within 2 years

Certain supplies and imports related to testing and fighting the Covid-19 pandemic are zero-rated until 31 December 2021.

The companies could apply for eased payment arrangements concerning taxes falling due between 1 March 2020 and 31 August 2021. Between 26 June 2020 and 31 August 2020, companies could also apply for the refund of VAT paid in the first quarter of the year 2020. The amounts have to be paid with an interest of 2.5% within 2 years.

Legislation referenced

- Business Income Tax Law - Laki elinkeinotulon verottamisesta ; Lag om beskattning av inkomst av näringsverksamhet; (EVL)
- Income Tax Law (TVL)
- Law on Tax Procedure - Laki verotusmenettelystä / Lag om beskattningsförfarande , VML)
- Law on Tax Procedure for Self-Assessed Taxes (Laki oma-aloitteisten verojen verotusmenettelystä / Lag om beskattningförfarandet beträffande skatter som betalas på egen initiative , OVML)
- Tax Collection Law (Veronkantolaki, VKantoL)
- VAT Law (AVL)
- EU Directive 2018/1910

- Directive 2001/115/EC on invoicing

8.3.10. France

CIT Framework

Tax compliance obligations and processes

In France, CIT return must be filed by 30th April of the following year, or within three months after the end of the concerned accounting year, and is based on the total income of that year. Companies must assess themselves the tax due based on the last closed accounting year, and pay the corresponding amount in four advance payments. However, the last of those four advance payments is based on the assessment of CIT due for the current taxable period, and must be made at the same time than the annual CIT return.

Tax accounting and documentation requirements

In France, various information are to be included with the annual CIT return, within specific forms (such as the balance sheet, the trading accounts and the profit and loss accounts, as well as several statements). Moreover, companies must also provide the minutes of the shareholder's meetings and board meetings in which they approved the companies' accounts, as well as a document concerning the distribution of profits, and certificates for the tax credit on any dividend income. Finally, some specific situations also require other documents to be provided.

In addition to those documents being provided with the annual CIT return, the accounts and supporting ledgers or journals must also be kept by companies in case the tax inspector request it. It has to be provided in French, with a certified translation in case those documents were kept in a foreign language.

Furthermore, tax authorities can also request in certain cases transfer pricing (TP) documentation. These requests can only concern companies established in France that have a turnover or gross assets threshold of EUR 400 million (or that own, or are owned by, directly and indirectly, more than a half of a corporate entity's capital or voting shares that exceeds that threshold). Therefore, those companies must keep TP documentation and be able to make it available to tax authorities 30 days of a formal request, or at the beginning of a tax audit.

It must also be noted that a company can be subjected to specific disclosure requirements, and therefore be required to submit annually a TP declaration within 6 months after sending its CIT return. This annual TP declaration must be filed electronically.

Finally, if a company belongs to a multinational group (and fulfils specific criteria), then it must also submit electronically a country-by-country (CbC) report, within 12 months after the end of the financial year.

Recent changes of tax legislation

CIT is currently being reduced in France. In 2017, the tax rate was 33.33%. In 2018, it was 28% to profits up to EUR 500 000, and the rate will be reduced by 2022 to 25%. In 2021, the rate is at 26.5%, with companies with a turnover higher than EUR 250 million having a rate of 27.5 and companies with a turnover below EUR 10 million paying 15% CIT for their first EUR 38 120 of profits.

Special measures on tax compliance for SMEs

In France, several measures have been taken to alleviate the administrative burden of SMEs regarding CIT return and payments.

First, when a company is created, the obligation to make advance payments for the CIT does not apply the first year (for the first four advance payments).

Second, when a company's turnover is below a certain threshold (EUR 789 000 or EUR 238 000 depending on the activity), then the CIT self-assessment can be done with simplified accounting rules, simplified balance sheet, and simplified income statement.

Third, another regime can apply for innovative companies meeting special criteria: created less than 8 years ago, having less than 250 employees and a turnover below EUR 50 million, and allowing 15% of their costs to research and development activities. According to this special regime, those companies are exempted of CIT the first year, receive a 50% allowance the second year, and are exempted from local business tax ad social security contributions. This special regime also apply for new academic enterprises.

VAT Framework

Tax compliance obligations and processes

In France, when a company start a business, it must file within 15 days a file to declare the beginning of its activity and register for VAT purposes. Then, depending on where the business is located and the type of activity carried out, a company must file VAT return at different dates, but usually on a monthly basis (VAT return must be filed and paid the month following the one for which VAT is due). In some cases, it may be possible for companies to opt for a system allowing them to file VAT return only every two months, but payments must always be made every month.

Tax accounting and documentation requirements

Regarding documentation supporting VAT return, companies must keep a copy of their invoices (including specific information on the transaction), either issued on paper or electronically, but always in French (with a certified translation if originally in another language). Moreover, a record of all transactions made by the companies must also be kept by the companies for at least 6 years, with all the details supporting the information contained in the VAT return.

Simplification measures and exemption thresholds

Regarding simplification measures to alleviate the administrative burden for SMEs concerning VAT return and payment, it must first be noted that if a company's VAT liability is below EUR 4 000, then the VAT return can be filed only every three months (instead of every months).

Moreover, two different regimes can apply to SMEs regarding VAT: the exemption regime and the simplified regime. Firstly, if the companies' turnover does not exceed certain thresholds (EUR 85 800 or EUR 34 400 depending on the activities carried out), then they are exempted altogether from filing and paying VAT. Secondly, if the companies' turnover does not exceed certain thresholds (EUR 818 000 or EUR 247 000 depending on the activities carried out), then they are exempted from filing periodic VAT return. However, they must make four advance payments and only one annual VAT declaration.

Other taxes

Property and real estate tax

In France, the real estate tax (called the 'land contribution for enterprises', *cotisation foncière des entreprises* (CFE) in French), is part of the territorial economic contribution (CET), together with the contribution on added value of enterprises (*cotisation sur la valeur ajoutée des entreprises*, CVAE).

Companies engaging in a business activity in France must assess themselves the amount of both taxes based on the previous accounting year (like for the CIT), and must paid them with a prepayment equal to 50% of the previous year's amount during the year of assessment (by 15 June), and with a final payment during year following the year of assessment (by 1 December, after notification by the authorities of the tax due). In some cases, companies are able to opt for monthly payments.

To assess the CFE, a company must take into account the rental value of its immovable assets (determined by the tax authorities and voted by each municipality which therefore create different rates and taxable bases according to where the assets are located).

Wages related taxes and contributions

In France, companies are subjected to various taxes related to wages (social security contributions): health benefits, pension contributions, unemployment benefits, family allowance, housing aid, trade unions, old-age solidarity, salaries of bankrupt companies, accident insurance, transportation contributions, but also, for executives, life insurance and job search contribution.

Depending on the tax, the process to file and pay is different, either electronically or on paper. Moreover, their bases and rates are subject to changes every year.

COVID-19 relief measures

In order to mitigate the effects of the COVID-19 pandemic, French authorities have taken a measure to alleviate the administrative burden on companies concerning the CIT payments. Indeed, companies have been able to defer the CIT payment due in March, April and May 2020 (provided that no distribution of dividend was made for large companies).

In light of the COVID-19 pandemic, and particularly between 24 March 2020 to 23 July 2020, products such as masks, hand sanitizers, protective clothes, or ventilators, were exempted of input VAT adjustment when given to care facilities.

Legislation referenced

- Code de la Sécurité Sociale
- Livre des Procédures Fiscales:
- Code Général des Impôts

8.3.11. Germany

CIT Framework

Tax compliance obligations and processes

Stock companies (AG), limited liability companies (GmbH) and limited partnerships (KGaA) are subject to corporate income tax as well as the solidarity surcharge if they have their legal seat or their place of management is in Germany. Tax returns filled by companies must be presented alongside financial statements.

CIT applies both to retained benefits and distributed benefits. It is set at a 15% rate, which is increased to 15.825% to include the solidarity surcharge

In Germany, the corporate income tax must be filled once a year, as the taxable period coincides with the natural year -unless the company's financial year is different from the calendar years. Companies must make quarterly advance payments of corporate income tax on the 10th of March, June, September and December.

If companies -or any taxable person- are represented by a tax advisor, they might be granted an extension of the period to present income tax return from to 30th September. Otherwise, the filing of tax returns is due on 30th July.

Tax accounting and documentation requirements

Companies have to provide a financial statement alongside their financial results. If audited, companies do not only have to provide documents to tax authorities, but also to grant them access to their electronic systems. Within sixty days of receiving notice, companies must procure the relevant documentation. Extensions to the sixty days period are exceptional.

Recent changes of tax legislation

Recent changes to the legislation are related to the COVID-19 pandemic and discussed under Section 5.1.

VAT Framework

Tax compliance obligations and processes

Resident companies must register with a tax office competent for the area where their activity mainly takes place. Non-resident companies in Germany must register for VAT purposes if certain conditions are made, i.e. that their supplies are deems to be made in Germany and that these supplies are not subject to the reserve charge mechanism, under which non-resident supplier cannot charge the VAT due on the supply to their customer, and, instead, the customer needs to account for VAT through the use of a period VAT return on the value of the received services.

There are only two rates of VAT in Germany – in addition to the zero rate: a standard rate of 19% that applies to most products and a reduced rate of 7% that applies to essential goods and services, such as food, beverages, pharmaceuticals, or newspapers. A COVID-19 related measure included reducing the VAT rate of 19% to 16% and the 7% rate to 5% between 1 July 2020 and 31 December 2020, hence not adding more complexity to the obligations and processes.

Tax accounting and documentation requirements

Electronic invoices with electronic signatures are accepted as invoices for all VAT purposes, as long as they meet certain purposes. Invoices that are ither duplicates or invoices received

from other companies must be stored either in digital or on paper for a period of 10 years. It is required that if the invoices are kept on paper, they must be stored in Germany, whereas they can be stored in the EU if they are kept on electronic format.

Companies must also maintain accounting records so that their tax liability can be determined. These records must include the agreed consideration for supplies made to and by them, details of payments on account, and the taxable amount relating to imported goods among others.

Simplification measures and exemption thresholds

Small enterprises are not subject to VAT if their turnover did not exceed EUR 22 000 (EUR 17 500 until 1 January 2020) in the preceding fiscal and calendar years and if the expected turnover in the current years is above EUR 50 000.

Interim returns for VAT must be filled on a monthly basis, but there is an exemption for enterprises whose payable VAT for the previous year did not exceed EUR 7 500. These companies muay only fill interim VAT returns quarterly

Other taxes

For wage related taxes and contributions, environmental related taxes and property and real estate taxes (local tax) a tax returns have to be filed by companies. Real estate tax is assessed annually and paid in four instalments.

Changes in the real estate tax are expected after the Federal Constitutional Court ruled in April 2018 that outdates fiscal values were being used for real estate tax.

The employer must withhold from the salary of employees 50% of the social security contributions.

COVID-19 relief measures

Tax authorities have granted an additional extension (see Section 2.1) on the deadline to present the tax return for CIT from 31st May 2020 to 31st March 2021, as long the return is prepared by a tax advisor or consultant. There are plans to further extend this deadline until 31st August 2021 according to the Ministry of Finance. The Ministry of Finance also issued official guidelines according to which enforcement measures such as late payment penalties would be waived until 31st December 2020 if the debtor was directly affected by the COVID-19 pandemic. This measure was eventually extended until 31st March 2021.

Legislation referenced

- Business Tax Law: Gewerbesteuergesetz, version dated 15 October 2002, BGBl. I 2002 at 4167, last amended 21 December 2020
- Corporate Income Tax Law: Körperschaftsteuergesetz, version dated 15 October 2002, BGBl. I 2002 at 4144, last amended 21 December 2020, BGBl. I 2019 at 3096
- General Tax Code: Abgabenordnung, version dated 1 October 2002, BGBl. I 2002 at 3866 and BGBl. I 2003 at 61, last amended 21 December 2020, BGBl. I 2020 at 3096
- VAT Act 2005, as amended: Umsatzsteuergesetz 2005, version dated 21 February 2005, BGBl. I 2005 at 386, last amended 21 December 2020, BGBl. I 2020 at 3096

8.3.12. Greece

CIT Framework

Tax compliance obligations and processes

In Greece, CIT tax returns must be filed electronically, based on the company's financial statements. The deadline for companies to file their CIT return is 6 months from the end of the year.

Since 2017, regarding payments, companies must pay their CIT in several equal monthly advance payments (up to six), all of them equal to 95% of the amount of CIT due for the previous tax year. Finally, companies have to pay the final amount of their CIT in the same year in which they have filed their CIT return.

Tax accounting and documentation requirements

In Greece, companies must follow very strict accounting rules when preparing their annual financial statements on which CIT returns are based, such as sufficient clarity, accrual principle, and business continuity. The deadline to prepare those annual financial statements (with notes), together with a balance sheet, a profit and loss account, as well as the table of appropriation of profit or treatment of loss is 4 months from the end of the financial year.

In addition, companies must kept the relevant documents to support their CIT return (accounting books and records) for 5 years from the end of the year in which they filed their CIT (duration of the statute of limitations).

Furthermore, separately from the CIT return filing, transfer pricing documentation must also be prepared. This includes documentation about transactions between resident associated companies must also be prepared by Greek companies, providing that the amount of these transactions exceed the amount of EUR 100 000 or 200 000 (if the company's gross revenue exceed EUR 5 million). Documentation related to transfer pricing must be submitted within the same time than the CIT return (or upon 30 days on request of the authorities in the case of an audit), together with a summary information table (to be submitted electronically).

Finally, Greek companies must also prepare and submit a country-by-country (CbC) report (including tax information for each jurisdiction in which they operate), if they are the parent entities of a multinational group and that the consolidated revenue of the group exceed EUR 750 million.

Recent changes of tax legislation

In order to incentivize the use of electronic systems for invoices, from 1 January 2020, if a Greek company choose to work with an electronic invoicing system to issue, transmit and receive sales invoices, they can benefit from three tax-related advantages: the cost of installation of the electronic systems can be fully amortized during the first year (fully deductible, as well as costs of functioning); the statute of limitations is reduced from 5 years to 3 years; and tax refunds will take place within 45 days instead of 90.

Another recent change in tax legislation concerns advance pricing agreements (APAs): indeed, from July 2020, they can have a retroactive effect and apply on previous fiscal years, except if the statute of limitations is already exceeded, or if a tax audit was already concluded.

Special measures on tax compliance for SMEs

Documentation requirements may not applied, or be simplified, for small businesses, after a decision of the Greek authorities (Secretary General of Public Revenues). Additionally, transfer pricing obligations do not apply for businesses if they are exempt of the New Income Tax Code (NITC).

VAT Framework

Tax compliance obligations and processes

First of all, in order to comply with their VAT obligations, Greek companies must register for VAT purposes with the tax office where they are registered. All VAT returns must be filled and submitted electronically. The frequency with which companies must file their VAT returns depends on the way they keep their accounting books: on a monthly basis for books with double-entry; and on a quarterly basis for the others.

Moreover, Greek companies must also submit (electronically) an annual VAT return, for which the deadline also vary according to the type of accounting books: within 5 months of the end of the financial year (on the 10 of the fifth month) for the double-entry books; and within two months for others (on the 25 of the second month).

In some cases, the frequency with which Greek companies have to file periodic and annual VAT returns may be changed by Ministerial decisions, but the authorities cannot make this period shorter than 1 month.

Concerning VAT payments, if the VAT return has been submitted on time, Greek companies can pay the amount due to Greek authorities in two separate payments (except if the amount is inferior to EUR 100): the first 50% by the end of the month in which the return was filed; and the second 50% (increased by 2%) by the end of the following months).

Tax accounting and documentation requirements

The Greek Code of Tax Recordings of Transactions (CTRT) require companies to issue invoices when they supply goods and provision of services and these records (invoices, dispatch notes etc.) must be kept during the entire period for which the statute of limitations applies (which is usually 5 years, but may be reduced to 3 years is the company use an electronic invoicing system).

Moreover, Greek companies must also file monthly recapitulative statements or EU sales lists, including information of goods and services supplied and received within the European Community, to feed the VAT Information Exchange System (VIES). Finally, if the amount of the value of goods supplied exceed EUR 75 000 per year, or EUR 100 000 for goods acquired, then the company must submit Intrastat returns, including information and statistics on the transactions.

Recent changes of tax legislation

Since 1 January 2019, newly created companies can apply to the special scheme for small enterprises, in which no VAT returns need to be filed nor VAT to be paid during their first year (or until they reach the threshold of EUR 10 000 of gross revenue from taxable goods.

Concerning non-resident companies having a fixed establishment in Greece, although in theory they must file their VAT returns electronically from abroad without the need to have an Greek representative, in practice the periodic VAT returns are only available in Greek and therefore the authorities still require those companies to register with an appointed representative.

Simplification measures and exemption thresholds

Since 1 January 2019, newly created companies can apply for the special scheme for small enterprises, which exempts them from filing VAT returns and paying for VAT during their first year. This scheme applies until companies reach the threshold of EUR 10 000 per year of gross revenue from taxable goods. However, this special scheme for small enterprises does not apply to farmers, companies not established in Greece, and supplies of new means of transport from and to EU Member States.

Other taxes

Local and regional taxes

In Greece, companies are subject to no local income tax, to the exception of the entertainment and food catering businesses, subject to a municipal tax on gross revenues.

Wages related taxes and contributions

Since 1 January 2017, all Greek social security funds are integrated in the Unified Social Security Fund (EFKA), from which all employees working in the private sector must be covered. In addition, Greek companies and employees must also be covered by a supplementary social security fund to cover pensions, all integrated in the Unified Supplementary and One-Off Benefits Fund (ETEAEP).

Those two contributions, due by both the employers and employees, are based on the employee's gross salary and are paid every months (due at the end of the following month).

Real estate tax

In Greece, companies are subject to three different real estate taxes: the unified annual real estate tax (EN.F.I.A); the local real estate duty (TAP); and the special tax on immovable property.

Firstly, the unified annual real estate tax is based on a company's real estate property in Greece on 1 January of every year (it also applied to individuals), and can be paid either in lump sum, or in monthly payments.

Secondly, companies also need to pay a real estate duty (TAP), which can be then deducted for CIT purposes. The TAP is based on the value of the land and buildings they own, and determined by the Greek local authorities.

Thirdly, companies must also pay annually a special tax on immovable property, equal in most of the cases to 15% of the value of immovable property they own. Multiple exemptions apply to the special tax on immovable property.

COVID-19 relief measures

In order to mitigate the effects of the COVID-19 pandemic on businesses, the Greek authorities have taken several measures in relation to the filing of CIT return, and payments:

- First of all, the deadline to submit CIT return in 2020 (for the tax year 2019) was extended to 7 October 2020 (or 26 October 2020 is the state of emergency was still declared in the region);
- Secondly, concerning payments, instead of 6 equal monthly instalments, Greek companies are able to pay their CIT in 8 payments. In addition, the tax payment deadlines have been extended for businesses financially affected by the pandemic (until 30 April 2021 for taxes due between March and June 2020).

- Thirdly, those same tax liabilities (due between 30 March 2020 and 30 June 2020) have also been eligible to a 25% reduction, if they were paid on time by companies;
- Finally, depending on the revenue loss they sustained during the first 6 months of 2020, companies can benefit from a reduction of the CIT advance payment (reduction correlated to the loss suffered);

In addition to those measures related to the payment and submission of CIT, Greek authorities also created a deduction for advertising expenses (under some conditions), allowing businesses to deduct the expenses they made in advertising during 2020 (at 100%) and 2021 (at 60%). Companies wanting to benefit from this scheme must claim it during their CIT return and keep documentation about these advertising expenses.

Regarding VAT, In order to mitigate the effects of the COVID-19 pandemic on businesses, the Greek authorities have taken several measures in relation to the VAT payment and calculation:

- First of all, they have suspended the payment of debts certified by VAT returns for 4 months;
- Secondly, they have reduced the rate of VAT for products needed during the pandemic (masks, gloves etc.) from 24% to 6%, and fixed a 0% rate for Covid-19 vaccines and diagnostic devices until the end of 2022.
- Thirdly, concerning transport services, as well as café, restaurants, and sports game tickets, the rate of VAT was also reduced from 24% to 13% (as well as to 6% for the cinema tickets).
- Finally, enterprises have been allowed to deduct input VAT for the production of antiseptic items, as well as for the donation of hospital equipment to the Greek state.

In order to mitigate the effects of the COVID-19 pandemic on businesses, the Greek authorities have taken several measures regarding the payments of the unified annual real estate tax (EN.F.I.A):

- Firstly, companies are allowed to pay their annual ENFIA due for 2020 in six equal payments, due by the end of October 2020 for the first two payments, and by the end of the following months for the four later payments.
- Secondly, companies can be exempt to pay the EN.F.I.A if they have suffered a loss of at least 30% of their gross revenues compared to the previous year; and if those revenues do not amount to ten times the EN.F.I.A due.
- Finally, since 2020, companies having properties on islands with a population of less than

In addition to those measures regarding the payment of the EN.F.I.A, Greek authorities have also extended the deadline for filing the return for the special property tax w to 31 January 2021 (of the year 2020).

Finally, the Greek authorities have decided to extend the deadline of the social security contributions due by freelancers, self-employed persons and individual business owners between February-May 2020 to 30 April 2021.

Legislation referenced

- Corporate Income Tax Law (codified by Law 2238/1994)
- Income Tax Code, amended by Laws 2386/1996, 2459/1997, 2579/1998, 2753/1999, 2873/2000, 2940/2001, 2992/2002, 3091/2002, 3220/2004, 3259/2004, 3296/2004 and 3312/2005

- Law on corporations – now Law 4548/2018 of 1 January 2019 (see below)
- Law 2859/2000 (VAT Law)
- Law 2873/2000 Law on tax reliefs and simplifications and other issues

8.3.13. Hungary

CIT Framework

Tax compliance obligations and processes

Companies in Hungary are subject to corporate income tax on their worldwide income, which includes capital gains, if they are a resident company, i.e., if they are established under the law in Hungary or if they have their place of management there, while non-resident companies are only liable to taxation on income gained via a permanent establishment in Hungary.

The taxable period is the calendar year, although a different financial year is possible, for instance, in case the parent company operates under a different tax period.

The rate of CIT is 9% in Hungary. Advance payments are made quarterly, unless the tax is over HUF 5,000,000 (EUR 14 436), in which case they are due on a monthly basis. The payments are due within 20 days after the end of the quarter or month.

Tax accounting and documentation requirements

The deadline for submitting the annual CIT return is the end of the fifth month after the end of the taxable period. If a company makes no profits, it is still liable to CIT, unless a form stating its cost structure is included during the submission of its tax returns. A company's CIT obligation is self-assessed, and it must be in Hungarian and calculated in Hungarian currency (HUF).

Communication with tax authorities can only be done electronically.

Recent changes of tax legislation

Since 1 January 2019, a group taxation system is available for companies.

Special measures on tax compliance for SMEs

There are two optional alternative tax regimes of CIT to enhance the situation of SMEs.

The lump sum tax for small taxpayers (KATA) is an option built on its extreme simplicity and targeted at private entrepreneurs, or very small enterprises, while Small Business Tax (KIVA) was designed to cater for micro and small enterprises with higher number of employees and investment activities.

KATA is for micro enterprises with annual revenues below HUF 12 million and it replaces all the taxes on business income and personal income related to business activity (CIT, PIT, SSC). The tax is a fix amount per month which is beneficial compared to the regular taxation. If a taxpayer reaches higher revenue than HUF 12 million, it does not lose its right for KATA, but the revenue above the limit is subject to a 40% tax rate. In addition, there are some special rules against using the financial advantage of this tax form for tax optimisation.

KIVA is available for businesses up to 50 employees and with revenues and a balance sheet below HUF 3 billion. Firms are entitled to be KIVA-payers as long as their revenues do not exceed HUF 6 billion or their number of employees do not exceed 100. The main aim of its introduction was to ensure an environment which is neutral on economic decisions

and fosters investments and growth. Besides corporate income tax KIVA replaces also employers' contributions. The tax base is the sum of the firm's wage bill and its shareholder-based cash-flow profit (i.e. cash-flow between the company and its owners). The tax rate is 11%, which is higher than the normal CIT rate (9%) but lower than employers' contributions (17%) which makes the rate preferential for those firms which have higher wage bills than profits. The S-based cash-flow definition of profit is also beneficial: profits are tax-free as long as they are not extracted from the company, and incomes reinvested in the development of the business are never taxed. In addition, the administration of KIVA is much simpler.

VAT Framework

Tax compliance obligations and processes

The Hungarian system is aligned with the EU VAT Directive. VAT is applicable on supplies of goods and services, imported goods and intra-EU acquisition of goods, unless the reverse charge mechanism is applicable. VAT groups can be established, who then will only need to submit one VAT return.

The rate of VAT in Hungary is 27%, although reduced rates (5% and 18%) are applicable to selected goods and services, such as books and newspapers, chemicals for medical use, internet access services, or hotel services, whereas certain supplies are zero-rated, such as supplying gold to the central bank. Certain services are exempt from VAT, including, but not limited to, medical, cultural, sporting, and educational services provided as public services. VAT exemption is also available for financial and insurance services. The intra-Community supplies of goods, services, and exports are also treated as exempt transactions.

A domestic reverse charge applies to several activites, such as construction and maintenance services, sales of certain agricultural products, steel products, waste materials and carbon quotas.

Registration usually takes place automatically as the relevant tax authority forwards the necessary information to the tax authorities, electronically. Non-resident companies liable to VAT in Hungary must register as well, albeit in paper form.

VAT returns are generally submitted on a quarterly basis, although a monthly or annual submission is possible, depending on the amount of VAT payable. The deadline for monthly and quarterly returns is the 20th of the next month after the end of the period, while the deadline for the annual returns is 25 February. EU sales lists must also be filed with the VAT returns.

Tax accounting and documentation requirements

Regarding invoices, the Hungarian system is aligned with the EU Invoicing Directive. In case of cash payments, the invoice must be issued as soon as the supply is completed, otherwise the deadline for issuing the invoice is the 8th day afterwards. In case of intra-EU supplies that are tax exempt, or if the reverse charge mechanism is applicable, the deadline is the 15th of the next month. Invoices can be issued in print form or electronically, and they must be maintained until the statute of limitations period expires. Invoices originally issued in paper format can also be kept electronically.

All types of intra-Community transactions have to be reported in the periodic Intra-Community List in Hungary.

All documentation, including invoices, returns, accounting books and records must be maintained to prove the payment of VAT.

Recent changes of tax legislation

Since 2020 it is possible to reclaim VAT on bad debts, although conditions apply.

The real-time invoice reporting (RTIR) regime was introduced in 2018 and it was gradually expanded until it reached its full scope in 2021. Under this system, all invoices, electronic and paper, are filed to the tax authorities in real time and in electronic form. It also covers transactions under the reverse charge mechanism and those exempt from VAT, as well as invoices for foreign and non-taxpayer entities.

From 1 July 2022, the reverse charge mechanism will no longer be applicable to emission quotas and some agricultural and steel products.

Simplification measures and exemption thresholds

The VAT exemption threshold is HUF 12 annual million turnover.

Companies with an annual turnover below HUF 125 000 000 (EUR 360 894) can opt for the cash accounting system.

Employment taxes and contributions framework

Tax compliance obligations related to employment

Employers have monthly filing obligations on employers' and employees' social security contributions, vocational training contribution, personal income tax advancements (including the child tax allowance, one of the largest tax expenditures) and withholdings (on fringe benefits). Electronic filing is mandatory via the eGovernment portal.[22]

In addition to filings on tax and social insurance contributions, employers also have to register when employees enter, leave, or their contracts change in any way that might influence individuals' eligibility for social security payments (e.g. form of employment, number of hours worked). Registrations might be filed electronically via the regular eGoverment channel, or in certain cases (e.g. temporary work in the simplified employment scheme) via phone, mobile app, or on paper forms.[23]

Employers with a headcount of over 100 also deal with social security payments to their employees (e.g. sick pay, payment during parental leave). Administrative obligations in this area for smaller employers are limited to HR and payroll functions.[24]

Recent changes of tax legislation

The only significant change – apart from some temporary Covid-related measures – affecting compliance obligation for employment taxes and contributions is the abolition of the vocational training contribution since 1 January 2022.

Other taxes

Municipalities can subject companies to a local business tax (LBT). The LBT base is the total net sales revenue reduced by the cost of goods sold (COGS), subcontractors' work, material costs, mediated services, and research and development (R&D) costs. LBT rate is

[22] EY (2021): Worldwide Doing Payroll Guide 2021, https://www.ey.com/en_gl/tax-guides/worldwide-doing-payroll-guide

[23] https://nav.gov.hu/nav/letoltesek/nyomtatvanykitolto_programok/nyomtatvanykitolto_programok_nav/adatbejelentok_adatmodositok/21T1041.html

[24] https://egbiztpenzbeli.tcs.allamkincstar.gov.hu/szakm%C3%A1nak/kifizet%C5%91helyeknek/ell%C3%A1t%C3%A1sok-elsz%C3%A1mol%C3%A1sa.html

set by the local municipality, but may not exceed 2% of the tax base. Local business tax returns can be filed in electronic form. This tax is deductible for CIT purposes.

An innovation tax is also applicable to resident companies, unless they are SMEs. The tax base of the innovation contribution is, in general, the same as their LBT base. The tax rate is 0.3%.

Municipalities can levy taxes on real estates in either of the following ways. Either the net floor space of the building expressed in square metres, with a maximum tax rate of HUF 2,018 per square metre in 2021). Or the adjusted fair market value of the building, with a maximum tax rate of 3.6% of the adjusted market value. In practice, the net floor space method is more commonly used

Furthermore, based on the nature of the business activities, a company may be liable to surtaxes (financial institutions, companies in the financial sector), a telecommunication tax, a financial transaction tax, insurance premium tax, digital services tax, or retail sales tax. The retail sales tax was originally introduced in May 2020 as a response to the Covid-19 pandemic, however it became a permanent feature of the Hungarian tax system in 2021.

COVID-19 relief measures

Several relief measures have been introduced in 2020 and 2021. Below we report only those which have an impact on the tax filing procedures, and thus alleviate the administrative burden.

Some sectors that were severely hit by the pandemic (e.g. tourism. restaurants. entertainment venues. sports. cultural services. transportation. agriculture) were exempted from paying social security contributions and payroll taxes. Employees' contributions are reduced to level equivalent to the basic health insurance contribution (HUF 7710 Ft) payable.

Payroll cost shall not be taken into account in the tax base of small business tax in certain sectors from March to June 2020.

Suspension of tourism development contribution concerning the period from 1 March 2020 until the end of the state of emergency and the fiscal impact of the coronvirus pandemic on the revenue from tourism development contribution

The tourism tax – a levy charged on accommodation providers based on the number of guest-nights – is temporarily cancelled.

Businesses in certain sectors (e.g.: catering. leisure and sports activities) are exempted from paying employers' contributions from November 2020. Small businesses (in these sectors) under the KIVA regime may deduct personnel costs from their tax base.

Micro and small business under the simplified tax regime. i.e. the lump sum tax of small enterprises are exempted from all taxes in affected by the lockdown (e.g. personal transport services. beauty services. dental services. accommodation etc.).

Legislation referenced

- Law on Tax Administration (LTA)
- Law on Rules of Taxation (LRT)
- Law on Tax Enforcement Procedure
- Law on Local Taxes
- Law on Value Added Tax (2007/CXXVII, VAT Law),
- EU Invoicing Directive (Directive 2010/45/EU)

8.3.14. Ireland

CIT Framework

Tax compliance obligations and processes

In Ireland, CIT tax returns must be filed and paid electronically with few exceptions, based on the company's self-assessment of its profits during the accounting year. Companies must submit their CIT return by the 23rd of the 9th month (or 21st if they do not file their return online), following the end of the period concerned by the CIT return (usually every 12 months from the start of the company's activity).

Regarding payments, companies are allowed to pay their estimated CIT tax in two separate advance payments. The first payment has to be made within 6 months following the start of the accounting period and be equal to either 45% of the self-assessed tax or 50% of the tax due in the preceding accounting period. The second payment has to be made within 11 months following the start of the accounting period. Similarly to the deadline to submit their CIT return, companies must pay their CIT by the 23rd of the month (6th month for first payment, and 11th for second payment), or by the 21st if they do not make the payment online. Finally, companies must pay the remaining amount of CIT (the last 10%) by the same deadline as they are required to file their CIT return (the end of the 9th month after the end of accounting period).

In some cases, if the company has not yet provided a CIT return, it can also happen that the Irish authorities issue a notice with a specific amount to be paid by the company as preliminary tax. The company can then choose to pay either this amount as required by the authorities, or to do its own payment according to the rules described above.

Tax accounting and documentation requirements

Companies must keep the documents supporting their CIT return for at least 6 years, including their entire accounting books. Companies do not have to attach those documents to their CIT return, but must be ready in case of an audit to provide them to the Irish authorities (the "Revenue Commissioners").

In some cases, the financial statements must be filed in a specific format: iXBRL, a version of "eXtensible Business Reporting Language" which is readable by both computers and machine thanks to a label being tagged to each piece of information as a specific accounting or tax concept. This requirement do not apply if a company fulfils 3 criteria: a balance sheet equal or under EUR 4.4 million; a turnover equal or under 8.8 million; and have a maximum or 50 employees. However, when companies do not meet all these criteria, they have 3 months after the filing of their CIT return (Form CT1) to provide their financial statements in iXBRL (but are not required to fine the "Extracts from Accounts" section of the CIT return).

In addition, since 2019, companies are subject to transfer pricing documentation requirements, and more specifically, to the obligation to prepare a Master file (if the group revenues are equal to or exceed EUR 250 million), and a Local file (if the group revenues are equal to or exceed EUR 50 million). Documentation related to transfer pricing must be submitted within the same time than the CIT return (or upon 30 days on request of the authorities).

Recent changes of tax legislation

If country-by-country reporting obligations had already been introduced in 2016 in Ireland, the Finance Act 2019 introduced wider transfer pricing rules for Irish companies, to be applied from 1 January 2020. In particular, these rules have been extended to non-trading

companies and to transactions involving SMEs, and have implemented the 2017 OECD Guidelines on transfer pricing documentation (including the requirements about the preparation the Master and Local files).

Special measures on tax compliance for SMEs

In Ireland, SMEs – when their tax liability is equal or inferior to EUR 200 000 – can benefit from several measures to alleviate the administrative burden related to CIT:

- First of all, they can make their CIT payment based on 100% of the amount of CIT paid during the preceding accounting year (instead of 90% of the ongoing year);
- Secondly, they can pay their CIT in one payment (instead of two), within 11 months from the beginning of the accounting year;
- Thirdly, during their first year of activity, they do not have to make advance payments during the accounting year, but instead can pay the total amount of CIT due by the same time they are required to file their CIT return (9 months after the end of the accounting year).

Furthermore, a SME do not have to provide its financial statements in the iXBRL format in the CIT return if it can fulfil the three following criteria: a balance sheet equal or under EUR 4.4 million; a turnover equal or under 8.8 million; and a maximum or 50 employees.

VAT Framework

Tax compliance obligations and processes

First of all, in order to comply with their VAT obligations, Irish companies must register with the VAT branch of the national tax authority (the “Revenue Commissioners”). All VAT returns must be filled, submitted, and paid electronically. Companies must file and paid VAT every two months (starting with January/February). Both the filling and payment must be made between the 10th and the 19th days of the following month (or 23rd day if it is made online).

Tax accounting and documentation requirements

In Ireland, the VAT regulations (VATCA 2010) require companies to issue invoices when they make a supply (within 15 days of the month following the one in which the supply was made). According to the regulations, the invoices must provide some mandatory information such as (but not limited to) the amount of taxable supplies, the VAT rate applied, the amount of VAT included in the price, as well as the name and address of the supplier and customer, and the date of the transactions. Companies must keep the records of all its business transactions during at least 6 years (to be made available to the authorities in case of request). Companies are allowed to use electronic invoicing, provided that they use a secure system.

When goods are supplied in another EU Member State, companies must also file a VIES (Verification and Identification Exchange System). It must be filed every month, or every 3 months if the company supplies less than EUR 50 000 of goods per quarter. Companies must also file VIES if they supply taxable reverse charge services in other EU Member States (usually on a quarterly basis, but a company can voluntarily opt to file it on a monthly basis).

Finally, if the amount of the value of goods supplied to other EU Member States exceed EUR 635 000 per year, or EUR 191 000 for goods acquired from other EU Member States, then the company must also submit Intrastat returns, including information and statistics on the transactions.

Recent changes of tax legislation

Since VATCA and VATR 2010, there has been no changes of legislation concerning the VAT regulatory framework in Ireland (apart from the changes due to the COVID-19 pandemic, developed in section 6.2 below).

In Ireland, non-EU established persons can opt for the Mini One-Stop Shop (MOSS) scheme, and if they do not apply for this option, the Irish authorities can require them to have an EU tax representative liable to file and pay VAT for them in Ireland.

Simplification measures and exemption thresholds

First of all, some companies with a low turnover might be exempted to register for VAT purposes. More precisely, to benefit from such an exemption, companies must either:

- have an annual turnover inferior or equal to EUR 75 000 (EUR 37 500 in case of goods made with zero rated materials), and from which at least 90% related to the supply of goods; or
- do not supply services and goods for more than EUR 37 500 per year.

Secondly, the frequency with which companies must make VAT returns and payments may be longer for small companies, such as:

- small-scale traders can be authorized to make returns and payments on an annual basis;
- entrepreneurs can be authorized to make returns and payments every 6 months (if the sum of their annual VAT payment is inferior to EUR 3 000);
- entrepreneurs can be authorized to make returns and payments every 4 months (if the sum of their annual VAT payment is inferior to EUR 14 400).

Other taxes

Wages related taxes and contributions

In Ireland, several taxes on employees' remuneration are calculated with the PAYE system:

- the income tax;
- the social insurance contributions: different for proprietary directors because they shall pay self-employed contributions;
- the universal social charge (USC): a supplementary income tax based on the aggregate income tax earned from an Irish employment equal or superior to EUR 13 000.

The employer shall pay these taxes on behalf of its employees to the Revenue Commissioners every month.

However, concerning self-employed people, their social insurance contributions and USC must be paid with the CIT (on the self-assessment basis).

COVID-19 relief measures

During the Covid-19 pandemic, companies were still required to submit their CIT return on time (even though late filling penalties were suspended). However, measures have been taken in Ireland to alleviate the processing of CIT payments:

- First of all, companies have had the possibility to opt for phased payment arrangements (PPA), to flexibly manage their tax payments schedule according to their current financial situations;
- Secondly, if a company was in a situation where they could not pay their tax or to comply with the PPA scheme, then the deadline for PPA payments could be extended by one month.
- Thirdly, companies could also choose to pay only a partial amount of their tax due, and delay the payment of the remaining part by one month (upon contact and agreement by the Collector-General's Division).

In addition, companies could ask the Irish fiscal authority (before September 30th 2020) to reduce the interest rate for late payments of tax debts to 3% per year.

Because of the Covid-19 pandemic, the Irish authorities have also suspended their compliance activities, and debt enforcement activities on SMEs.

In order to mitigate the effects of the COVID-19 pandemic, companies have been able to extend their VAT liabilities without any penalties. The applicability of this exception to VAT obligations depend on every businesses: when it was affected by the pandemic and when it was able to carry again its activities.

In addition, during the pandemic (between January 2020 and until December 2021), some goods used to fight the virus imported were exempted of import duties and VAT. Similarly, medical equipment used for the treatment of Covid-19 infected patients and purchased by health care facilities were exempted of VAT during the same period.

Finally, restaurant, catering, accommodations and entertainment services have also seen a reduction of the VAT rates from 13,5% to 9%.

For businesses heavily affected by the COVID-19 pandemic (at least 30% reduction of turnover or customer orders between July and December 2020 compared to the preceding year), the Irish authorities put in place a financial support for employers allowing them to receive EUR 203 per employee and per week: the Employment Wage Subsidy Scheme (EWSS) (initially the Temporary Wage Subsidy Scheme, TWSS), has been extended into 2022.

Then, SMEs falling under the competence or the tax authority's Business Division or Personal Division qualify automatically to the tax warehousing scheme, to help employers reimburse the TWSS funds they were loaned during the pandemic. Other companies can also contact the authorities to be part of this scheme.

Legislation referenced

- Companies Act 2014
- Income Tax (Consolidated) Regulations 2001
- Value Added Tax Consolidation Act 2010

8.3.15. Italy

CIT Framework

Tax compliance obligations and processes

The Italian CIT (*imposta sul reddito delle societá*, IRES) is based on the total net income derived by companies that carry on commercial activities, as shown in their financial

statements and adjusted according to the specific tax rules (such as deduction of income subjected to final withholding tax or substitute tax).

In Italy, CIT returns must be filed electronically by companies within eleven months following the end of the financial year.

Regarding payments, companies subjected to IRES must pay two advance payments, calculated based on the amount of CIT paid in the previous year: 40% of the tax due for the previous fiscal year is due within 6 months and the remaining 60% is due by the end of the eleventh month. Then, the final balance must be paid within six months following the end of the tax year.

Tax accounting and documentation requirements

Companies do not have to attach any documentation when electronically filing their CIT tax return. However, they must keep the relevant documentation until the statute of limitations has expired. In addition to keeping regular accounting records pursuant to the Civil Code and the generally accepted accounting principles, companies are also required to keep a journal and general ledger, an inventory book, a balance sheet book, VAT books and a book of depreciable assets, as well as payroll and employee registers for companies that have employees.

From 2016 and for the following fiscal years, the statute of limitations is 5 years. In other words, the tax office can send a notice of deficiency within the 5 years from the end of the tax year in which a CIT tax return was filed. The statute of limitations is 7 years if not CIT return was filed, and is doubled in the case of criminal offences.

Furthermore, companies have to keep transfer pricing (TP) documentation explaining how the transfer prices were set. TP documentation encompasses two files: a Master file with information on the multinational group drafted in Italian or in English; and a Local file with information on the intra-group transactions drafted in Italian. Should the Italian tax authorities ask for this TP documentation, the submission of the proper documentation to the tax authorities must be executed within twenty days. Then, even in the case of transfer pricing adjustments, if the companies have provided duly kept and prepared transfer pricing documentation, no penalty will be charged.

In addition, multinational enterprises (MNEs) with global third-party revenues higher than EUR 750 million, also have to comply with Country-by-Country (CbC) reporting obligations. According to these rules, which are a part of the OECD – Inclusive Framework minimum standards, MNEs have to report, by country, the amounts of gross profit, taxes paid and accrued, and other indicators of effective economic activities. The CbC report must be electronically submitted in both the Italian and English languages, through the tax authorities' portal, within 12 months after the last day of the relevant tax year.

Recent changes of tax legislation

A ministerial decree of 14 May 2018 has implemented in Italy the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (commonly called the OECD TP Guidelines), therefore replacing the previous circular letters on this matter. This new guidance provides five different transfer pricing methods that companies can apply.

Special measures on tax compliance for SMEs

Regarding documentation requirements, simplified rules apply concerning transfer pricing documentation for small and medium-sized enterprises (with a turnover not exceeding EUR 50 million in the relevant tax year).

Furthermore, to support the creation of businesses, the Law Decree n°3 of 24 March 2015 extended the tax incentives for start-up companies to innovative SMEs (Article 4).

VAT Framework

Tax compliance obligations and processes

Any person must register with the Italian tax authorities within 30 days of starting a business or a professional activity in Italy, and will be provided with a VAT registration number to file annual VAT return. The VAT return must be filed between 1 February and 30 April of the calendar year following the one to which the VAT return relates, and have until the end of the statute of limitations to file amended VAT return if necessary.

Furthermore, in certain conditions, Sales Listing (Verification and Identification Exchange System, VIES) and monthly Intrastat returns also have to be filed.

Tax accounting and documentation requirements

The companies must keep records of their VAT return for 10 years minimum, or if a record has started, until the end of the audit, even if it exceeds 10 years.

Recent changes of tax legislation

From 1 January 2018, the implementation of EU Directive 2006/112 entered into force in Italy. It has created a VAT group regime in which taxpayers can ask to be considered as one single taxpayer for VAT purpose, provided that they can demonstrate financial, economic and organizational links.

Concerning the VAT framework, the regulation L 205/2017 (which entered into effects from 1 January 2019) established the SDL system (*sistema di interscambio*) in which invoices and related corrections for supplies of goods and services between parties that are established in Italy are to be issued electronically. Electronic invoicing is the prerequisite to implement the pre-filled VAT tax returns that the Government has included as a target in the National Plan for Recovery and Resilience.

Simplification measures and exemption thresholds

A simplified regime operates for self-employed workers with a turnover up to EUR 65 000, applying a substitute taxation encompassing both direct taxes and VAT.

Furthermore, self-employed workers and SMEs with an annual turnover below certain thresholds (EUR 400 000 for service firms, EUR 700 000 for other economic sectors) are exempted from the ordinary accounting requirements and can opt for a simplified accounting regime ("regime di contabilità semplificata"). They are subject to a cash-basis fiscal regime, instead of the ordinary accrual-basis regime. The simplified regime applies to both direct taxes and VAT.

Other taxes

Local and regional tax

The regional tax on productive activities (*imposta regionale sulle attività produttive*, IRAP) is based on the net value of production derived in each Italian region. There are different computation methods of the IRAP taxable basis depending on the type of taxpayer and on the type of activity carried out: there are specific rules for different type of companies (commercial, manufacturing, banks, insurance etc.). Part of IRAP tax liability is deductible from IRES tax base

Two advance payments must be made during the fiscal year: 40% of the tax due in the previous fiscal year must be paid by 30 June, and the remaining 60% by 30 November. Then, the balance must be paid by the 16th day of the 6th month following the end of the fiscal year.

Property and real estate tax

The municipal tax (*imposta municipale propria*, IMU) is based on the possession of real estate assets. (e.g. buildings, zoning, rural land) located in Italy.

For construction companies, starting from 2022, buildings that are inventory (i.e. meant to be sold) will be exempt from IMU (as they were in the past), unless they are leased to third parties. Of the IMU paid on real estate business assets (other than inventory), 60% can be deducted from the IRES base (100% from fiscal year 2022), but nothing can be deducted for IRAP purposes.

Wages related taxes and contributions

Employers must withhold directly part of the social security contributions due by the employee, and whose amount depends on the rank of the employee, as well as the type and size of the business.

COVID-19 relief measures

Local taxes

To mitigate the negative financial effects of the COVID-19 pandemic, certain temporary exemptions from IMU or deferments of IMU advance payments have been enacted in 2020 and 2021. Moreover, in response to the economic crisis generated by the spread of the pandemic, the payment of balance of regional tax on productive activities (IRAP) referred to the tax year 2019 and the 40% prepayment due for 2020 are cancelled for firms and self-employed workers with a turnover up to EUR 250 million.

Social security contributions

In 2020 and 2021, some enterprises have benefited from a temporary exemption from, or a reduction of, certain social security payments to mitigate the negative financial effects of the COVID-19 pandemic.

Non-repayable grants

Non-repayable grants were awarded in several instalments in 2020 and 2021 to businesses, agricultural enterprises and self-employed workers, suffering huge turnover drops due to containment measures introduced to face the pandemic and to the resulting economic crisis. Grants were proportional to their size and revenue drops. Grants do not contribute to the tax base.

Job protection measures

Considerable resources were allocated to strengthen social safety net, in particular temporary unemployment benefits for employees in every productive sector, including businesses with less than five employees and allowances for self-employed workers and seasonal workers.

The wage supplementation scheme in all its variations (ordinary, extraordinary and in derogation) has also been streamlined and extended all over the country to cover any possible class dimension and productive sector.

Tax deferrals

In 2020 and 2021 firms have benefitted from several deferrals of tax payments. Deferrals concerned IRES, IRAP, VAT and withholding taxes on employees' income. The period of deferral was longer for self-employed workers and SMEs mostly affected by sanitary containment measures. As for VAT, payments due by November 2020 were deferred to March 2021 for taxpayers affected by containment measures introduced in November and December 2020. Stamp duties on e-invoices were postponed.

8.3.16. Latvia

CIT Framework

Tax compliance obligations and processes

Companies resident in Latvia and Latvian permanent establishments of foreign companies pay taxes on their profits upon distribution or deemed distribution. Tax is paid on a monthly basis. Non-resident companies may be taxed for income sourced in Latvia.

The effective tax rate after 31 December 2017 is 25% as the CIT.

Before 1 January 2021, the payment of the tax due was the 20th of the next month. The due date was moved from the 20th day following the established of the unified tax account.

Tax accounting and documentation requirements

Tax returns are filed electronically via the Electronic Declaration System following an agreement with the State Revenue Service ("On the Electronic Signature of Electronic Documents Using the State Revenue Service's Electronic Declaration System") on a monthly basis, by the 23rd of each month. Supporting documents must be preserved for at least 5 years and as long as they may have to be used as proof for tax returns and financial statements.

Tax authorities can conduct an audit within 3 years after the submission of the tax assessment, unless it is proven that criminal offences were committed, such as forgery or fraud. Following an audit, any outstanding amounts or penalties are due within 30 days.

Recent changes of tax legislation

The current form of the Corporate Income Tax Law of Latvia came into effect on 1 January 2018. During the transitioning period, companies could file a tax return for the first six months of the year, with the deadline being the 20 July 2018. Furthermore, in this case, companies were liable to advance payments on the 20th of each month between February and July. The monthly amount due was one twelfth of the amount applicable for the period beginning in 2016. In case the amount paid in advance was more than the total amount of corporate income tax due in 2018, the excess amount can be paid back to the company or be set off against upcoming corporate income taxes due.

During the transitioning period, the previous Business Income Tax Law remained in effect for companies whose accounting period had begun in 2017. Companies in this exceptional situation were required to submit interim financial statements up to 31 December 2017 and subsequently submit a tax return by 30 April 2018 according to the previous Business Income Tax Law. These companies were then supposed to submit financial statements for 2018 and file tax returns as per the Corporate Income Tax Law by the end of April 2019. Distributions from income retained before 1 January 2018 are not subject to CIT, although if they are received by individuals, an income tax of 10% must be paid.

Changes introduced in 2018 also included a change to the taxable period: while previously, it had been the accounting year which could have corresponded with the calendar year, from 2018 onwards, it is the calendar month.

VAT Framework

Tax compliance obligations and processes

VAT registration is only necessary if the total taxable amount of supplied goods and/or services was more than EUR 40 000 in the previous 12 months. Non-resident taxable persons must also register for VAT purposes in Latvia in certain cases, for instance, if they conduct taxable supplies in Latvia.

The Latvian VAT law allows group taxation if at least one company in the group had a turnover exceeding EUR 350 000 in the 12 months before the application is submitted. The group appoints one member who files the single tax return required.

Taxable events include the supply of goods or services for consideration in Latvia, and intra-EU acquisition of goods for consideration. The rate of VAT is 21%, although a reduced rate (12%) is applicable to certain goods and services, such as special medical supplies, newspapers, or tourist accommodation, while some supplies are exempt with credit and some are exempt without credit.

The time of taxation depends on a variety of factors. For instance, for the supply of goods it is either the date of the supply or when the goods are acquired by the customer, whichever is earlier. If the supply takes place continuously over a longer period, with invoices being issued repeatedly, the time of taxation is at the end of the period specified in the invoices or payments, or at least every 6 months. But in case of continuous intra-Community supply, the time of taxation is the end of the calendar month.

Companies registered for the Mini One-Stop Shop system in Latvia are obligated to file tax returns in electronic forms within 20 days following the relevant taxable period.

VAT returns shall be submitted before the 20th day following the taxable period, even when no taxable supplies took place. VAT must be paid before the 23rd of the month after the taxable period.

Tax accounting and documentation requirements

Invoices must be issued by the 15th day following any and all supply of goods or services, or after any advance payments received unless the supply is intra-EU. In case of an intra-EU supply, the deadline for issuing an invoice is the 15th day of the next month. A VAT invoice is not mandatory in case the supply is received by a non-taxable person.

The invoice can be in electronic or paper form containing all relevant information, although only if the customer accepts the invoice in electronic form, it can also be used. It is possible, but not necessary, to use electronic data interchange and advanced e-signature.

VAT invoices must be maintained for at least 5 years. They can be stored in electronic form alongside invoices originally issued in electronic form. Invoice in paper form must be kept in Latvia, whilst electronic invoices must be fully accessible online.

VAT returns must generally be submitted in electronic form, following an agreement with the State Revenue Service ("On the Electronic Signature of Electronic Documents Using the State Revenue Service's Electronic Declaration System"). The VAT return includes annexes which need to be added if applicable. These annexes include, for instance, the return of input and output taxes, of supplies within the EU, amended returns of supplies within the EU and annual returns. Additionally, the annexes need to be submitted for each member in case of a VAT group, except for the annual returns.

An annual VAT return must be submitted only in certain cases. For instance, if taxes are only partially applicable and the ratio of taxable to exempt supplies changed over the course of the tax period, or if there has been a correction of input or output tax in the returns already filed. The deadline for submission of 1 May of the next year.

The refund of overpaid VAT must be claimed within 3 years after the VAT was due.

In case a company registered in another Member State wishes to receive VAT refunds and is applicable, an electronic form must be submitted in their own Member State, who will then forward it to the Latvian tax authority by 30 September after the relevant period.

Recent changes of tax legislation

Latvia is part of the Mini One-Stop Shop regime, although as of 1 January 2019, if the value of applicable services from a supplier in another Member State is under EUR 10 000 in the current or previous year, the country where the supplier is based is the place of supply. In this case, VAT registration is not mandatory in Latvia for such a company.

A super-reduced rate of VAT (5%) is applicable to certain fruits and vegetables between 1 January 2018 and 31 December 2023.

Before 1 January 2018, the threshold for mandatory registration for VAT purposes was EUR 50 000, which was lowered to EUR 40 000.

Companies registered in another Member State shall also register for VAT purposes in Latvia within 30 days if they carry out distance sales from an EU country to Latvia valued at over EUR 10 000 in a calendar year as of 1 July 2021. Before this date, the threshold was EUR 35 000.

Simplification measures and exemption thresholds

If a company's taxable turnover was below EUR 100 000 in the year before or newly registered companies whose expected turnover will be below EUR 100 000 can choose to use cash accounting, instead of invoices. Additionally, certain other businesses, such as fishing or agriculture can opt for this method if their turnover was below EUR 500 000.

The threshold of EUR 40 000 to register for VAT purposes is applicable to small business up until 31 December 2024.

Other taxes

Micro-enterprises, that is, certain taxpayers under the VAT-registration threshold, such as self-employed individuals or owners of sole proprietorships are liable to the micro-enterprise tax from 1 January 2021. Before this date, limited liability companies were also considered micro-enterprises. Micro-enterprises submit tax returns quarterly by the 15th day after the end of each quarter. Those registered before 31 December 2020 with employees must include employees' information and income in the first two quarters of 2021. Taxes are due by the 23rd day after the end of each quarter.

Companies pay social security contributions, which are no longer deductible for CIT purposes as of 31 December 2017. On 1 July 2021, minimum mandatory contributions are introduced on social security contributions.

From the tax year 2016 onwards, employers pay a solidarity tax after employees whose annual wages liable to social security contributions surpass the social security contribution ceiling.

COVID-19 relief measures

In case they were affected by the Covid-19 crisis, companies can request an extension on tax payments by the 15th day after the original deadline to file taxes. If accepted, taxes

overdue may be paid in instalments or deferred for a maximum of 3 years. Late payment interests do not apply.

Between 25 December 2020 and 31 December 2022, a 0% tax rate is applicable to supplies related to the Covid-19 vaccines and certain medical equipment related to the pandemic.

In light of the pandemic, excess input VAT was returned quicker (within 30 days) after submitting the tax return.

Legislation referenced

- Annual Financial Statements and Consolidated Annual Financial Statements Law (Gada pārskatu un konsolidēto gada pārskatu likums) of 22 October 2015, last amended 7 December 2017
- Business Income Tax Law (Likums par uzņēmumu ienākuma nodokli) of 9 February 1995, last amended 23 November 2016, repealed with effect from 1 January 2018
- Corporate Income Tax Law (Uzņēmumu ienākuma nodokļa likums) of 28 July 2017, last amended 30 January 2020
- Immovable Property Tax Law (Likums par Nekustāmā īpašuma nodokli) of 4 June 1997, last amended 22 June 2017
- Micro-enterprise Tax Law (Mikrouzņēmumu nodokļa likums) of 9 August 2010, 26 November 2020
- Value Added Tax Law (Pievienotās vērtības nodokļa likums) of 29 November 2012, last amended 7 January 2021

8.3.17. Lithuania

CIT Framework

Tax compliance obligations and processes

A company established in Lithuania is subject to corporate income tax on their worldwide income, whereas a foreign company, established in another country, is taxed only on income sourced in Lithuania.

The tax year is generally the calendar year, although a company may agree with the local tax administrator to use a different tax period as long as it is a 12-month period.

The corporate income tax rate in Lithuania is 15%, but incentives exist in this regard, such as on companies dealing with agricultural activities or on those hiring people with disabilities.

Companies also pay advance payments each quarter unless their income was below EUR 300 000 in the previous period.

Tax accounting and documentation requirements

Annual and advance CIT returns must be filed to the local tax administration. The deadline for submitting the annual tax return is the 15th of the sixth month of the next tax period. If a company stops doing business activities, a return must be filed by the 30th day after the cessation of activities. The advance CIT return forms have different deadlines based on the method for calculating profits. The deadline for submitting dividend returns is the 15th day of the next month after receiving the dividends.

Tax returns are generally filed in electronic form unless it would be an administrative burden or if it is not possible to do so for objective reasons. All documents must be maintained for 10 years in either electronic or paper form, depending on how they were originally issued.

Recent changes of tax legislation

A new system for limitation periods came into effect on 1 January 2020 for calculating and recalculating taxes.

Special measures on tax compliance for SMEs

Certain small businesses are subject to a 5% corporate income tax as opposed to 15%.

VAT Framework

Tax compliance obligations and processes

The threshold for registering for VAT purposes for a resident company is EUR 45 000 over a 12-month period. It is possible to register if a company is below the threshold on a voluntary basis. Non-resident companies are required to register prior to their first Lithuanian transaction. In case of acquiring goods from another country in the EU, the threshold is only EUR 14 000, while the threshold for distance selling is EUR 35 000 for non-resident companies. Furthermore, farmers and public bodies enjoy special rules. In order to register, the company first must be registered in the Taxpayers Register, and then an application for VAT registration can be submitted to the local taxation office. If a company wishes to do this electronically, an agreement must be signed first to be able to use the electronic declaring system (EDS).

The standard VAT rate in Lithuania is 21%, although a reduced rate is applicable to certain goods and services.

Tax accounting and documentation requirements

Invoices should be issued after a transaction has taken place. Invoices do not require a signature from the suppliers, and they can be issued in electronic form if the customer accepts it. Invoices must be kept for 10 years. Companies must use the Smart Tax Administration System, and the registers of VAT invoices must be available to the State Tax Inspectorate.

The time of taxation is the calendar month. The deadline for submitting VAT returns and paying VAT is the 25th day of the following month, unless a company's turnover was below EUR 300 000 (as of 1 July 2019), the tax period may be changed to a calendar quarter, upon request. VAT returns are generally submitted in electronic form after signing an agreement with the State Tax Inspectorate, although some companies can opt for a paper version. In case the deductible input tax is adjusted, an annual VAT return must be submitted by 1 October of the next year.

For non-resident companies established in another EU country, it is possible to apply for a VAT refund electronically by 30 September of the next year. They must submit an electronic copy of each of their invoices.

If VAT registration is cancelled, the company must submit a special VAT return within 20 days.

In case of intra-EU supplies, EU sales lists must be filed by the 25th of the next month. A company involved in intra-Community supplies or acquisitions must also complete supplementary statistical declarations (SSDs) above a threshold set every year.

Recent changes of tax legislation

From 17 November 2020 onwards, Intrastat declarations, such as the SSDs, must be submitted in electronic form.

As of 1 January 2021, invoices originally issued in paper form can be kept electronically.

Other taxes

There are no other income taxes in Lithuania, such as a business or a local income tax. However, employers pay social security contributions after their employees, including unemployment insurance and insurance for work accidents and occupational illnesses.

Taxes are also due on immovable property and land. The former is paid quarterly, whereas the latter is due by 15 November each tax year.

COVID-19 relief measures

Covid-19 vaccines and certain medical equipment related to diagnosing the infection are zero rated until 31 December 2022.

Legislation referenced

- Business Accounting Standards (in force from 1 January 2004)
- Company Law of 5 July 1994, last amended 15 December 2020
- Law on Corporate Income Tax of 20 December 2001, last amended 3 December 2020
- Law on Value Added Tax of 5 March 2002, last amended 22 December 2020

8.3.18. Luxembourg

CIT Framework

Tax compliance obligations and processes

From 1 January 2017, resident companies in Luxembourg must fill their CIT return electronically with the tax office (*Administration des Contributions Directes, Section des sociétés*) before May 31st of the following tax year for which taxes are due. Companies must attach to their CIT return both the commercial and tax balance sheets, as well as the minutes of the shareholders' meeting relating thereto.

Advance payments of CIT are paid quarterly (on 10 March, 10 June, 10 September and 10 December), and the amount is based on the company's income for the previous year (every advance payments being equal to one fourth on the tax assessment of the preceding year). Finally, within 1 month of delivery of the assessment notice, companies must have paid the amount of the final assessment of their CIT. However, in order to mitigate the effect of the COVID-19 pandemic, temporary measures have been taken by the tax authorities concerning the payment of the CIT in 2020 (Section 6.1).

Alternatively, since February 2010, tax authorities may decide discretionarily to issue a "self-assessment notice", based on the tax returns submitted by the taxpayer, requesting the immediate payment of the corporate taxes computed on such basis. Under this procedure, CIT can be collected by tax authorities before an assessment of the tax returns filed, the completion of the full assessment procedure and the issuance of the final assessment.

Tax accounting and documentation requirements

Firstly, companies must obey to detailed rules concerning the proper keeping of books and keep supporting documentation for 10 years

In addition, companies must also be able to justify the financial information appearing in their tax returns, and provide the tax administration with proper transfer pricing documentation (directly with their tax return, or upon request of the tax authorities). To support their advance pricing agreement (APA) request, if that is the case, companies must submit a transfer pricing report explaining the methodology and the information used. More specifically, intra-group financing company must include in their APA request the following information: the qualification and functions of relevant employees, the countries affected by the financing transactions, information on the parties involved in the controlled transaction and a detailed transfer pricing analysis.

Furthermore, from 1 January 2016, multinational companies (with a turnover exceeding EUR 750 million) must also submit an annual country-by-country report (CbC report) within 12 months of the last day of the company's fiscal year. This report shall provide for the amount of revenue and the profits before income tax of the company (supported by any documentation necessary to understand the information); income tax paid and accrued; share capital; accumulated profits; number of employees; tangible assets for each country where a business activity is carried out; a list of group companies (with a description of their residence, the laws under which they were set up, and the nature of their activities).

VAT Framework

Tax compliance obligations and processes

Depending on their annual turnover, companies in Luxembourg must file electronically their VAT returns at different moment. If the annual turnover is less than EUR 112 000, the company must only file an annual VAT return by 1 March of the following year for which the VAT is due. If the annual turnover is between EUR 112 000 and EUR 620 000, the company must file both quarterly VAT returns (within 15 days following the end of the quarter), and an annual VAT return by 30 April of the following year for which the VAT is due. Finally, if the annual turnover exceeds EUR 620 000, the company must file both monthly VAT returns (within 15 days following the end of the month) and an annual VAT return by 30 April of the following year for which the VAT is due.

In any case, the deadline for paying the VAT is the same as the one for filing the VAT returns, and therefore companies must pay the VAT due along with their VAT return. In some cases, they can also be required to make advance payments.

In addition, companies must electronically file recapitulative statements of zero-rated intra-Community supplies of goods and B2B intra-Community services. These recapitulative statements must be filed on a monthly basis (by the 25th day of the following month). If the amount of the transactions is no higher than EUR 50 000 during the quarter (and the four preceding quarters), the recapitulative statements can be filed on a quarterly basis.

Tax accounting and documentation requirements

Companies must keep records for a period of 10 years in paper or in an electronic format (if the integrity of the document is ensured), with sufficient details so as to allow the calculation of VAT and tax controls. It is required that the accounting is appropriate.

Recent changes of tax legislation

Following EU legislation, from 31 July 2018, companies have been able to apply the VAT group regime, allowing them, among other features, to subtract transactions between the group members to VAT, and to file one VAT return for the whole group.

With effect from 1 January 2020, the exception allowing taxpayers to file VAT returns and recapitulative statements on paper has been abolished, and therefore they must be filed electronically.

Simplification measures and exemption thresholds

A threshold applies for enterprises established in Luxembourg whose annual turnover does not exceed EUR 500 000. These enterprises can opt for the cash-basis payment regime and are therefore required to pay the VAT only when they receive payments from their clients.

Other taxes

Local and regional tax

The municipal business tax (*impôt commercial communal*) is the only local income tax in Luxembourg: it is provided in the national legislation (*Loi impôt commercial communal, LICC*), and is not deductible for CIT purposes.

In order to mitigate the effect of the COVID-19 pandemic, temporary measures have been taken by the tax authorities concerning the payment of the municipal business tax in 2020 (Section 6.1).

Property and real estate tax

Taxpayers in Luxembourg are subject to two taxes on property and real estate: the Net Worth Tax and the real estate tax.

First of all, since 2015, the Net Worth Tax is assessed annually. According to the Net Worth Tax Law (*Loi relative à l'impôt sur la fortune, LIF*), residents in Luxembourg are subject to taxation on their worldwide netw work no matter whether wealth is held in Luxembourg or abroad. Non-residents are subject to taxation with respect to the net wealth held inLuxembourg. Similarly to CIT, tax returns for the net worth tax must be filed electronically before 31 May of the following year for which the tax is due, and advance payments based on the previous assessment must be made in equal quarterly instalments (10 February, 10 May, 10 August, and 10 November). However, in order to mitigate the effect of the COVID-19 pandemic, temporary measures have been taken by the tax authorities concerning the payment of the net worth tax in 2020 (Section 6.1).

Secondly, taxpayers in Luxembourg are subject to the real estate tax (*impôt foncier*), a municipal tax based on the unit value of immovable property (determined by tax authorities, but in general equal to 5% to 10% of the market value).

Wages related taxes and contributions

Companies must withhold two wages related taxes: the payroll tax and social security contributions.

Firstly, companies must withhold a tax on wages as an advance of the individual income tax of the employees, in order to the ease the collection of income tax by the tax authorities.

Secondly, companies are required to pay employer's social security contributions, as well as withholding employees' social security contributions.

In order to mitigate the effect of the COVID-19 pandemic, temporary measures have been taken by the tax authorities concerning social security contributions (Section 6.2).

COVID-19 relief measures

CIT, municipal business tax, and net worth tax

In order to mitigate the effect of the COVID-19 pandemic, three temporary measures has been taken with respect to CIT, municipal business tax, and net worth tax:

- First of all, the deadline to file the CIT return for 2020 has been extended from 31 May 2021 to 30 June 2021. For 2019, the deadline has been extended from 31 May 2020 until 31 March 2021.
- Secondly, no advance payment of CIT and municipal business tax due after 29 February 2020 were required to be paid during the first and second quarter of 2020. Then, the tax authorities allowed companies to file an online request for cancelling the first two quarterly advance tax payments for tax year 2020 until further notice.
- Thirdly, authorities also grant a deferral of 4 months for the payment of corporate income tax, municipal business tax and net worth tax, provided that they were due after 29 February 2020.

Social security contributions

In order to mitigate the effect of the COVID-19 pandemic, authorities in Luxembourg enacted that the late payment of employer social security contributions due from 14 March 2020 will not generate late payment interests and penalties, and that no collection and seizure measures will be taken by the Joint Social Security Centre.

Legislation referenced

- Loi impôt commercial communal – Law of 1936 as amended
- Loi concernant les sociétés commerciales – Law of 1915, as amended
- Loi impôt sur le revenu des collectivités – Law of 1967, as amended
- Loi générale des impôts – Law of 1931, as amended
- Loi sur la TVA du 12 Février 1979 modifié, VATL)

8.3.19. Malta

CIT Framework

Tax compliance obligations and processes

Companies are taxed for their worldwide income at the statutory tax rate of 35%.

Resident companies keep five different tax accounts based on the nature of the distributed profits: final tax account (for profits liable to a final tax), immovable property account, foreign income account, Maltese taxed account, and untaxed account.

Companies are resident in Malta if they are incorporated in Malta or if their control and management are in Malta. Companies that are not both domiciled and ordinarily resident in Malta are only liable to taxation on their Maltese revenue.

In general, the calendar year serves as the taxable period.

Companies are also liable for the payment of provisional tax in three instalments (30 April, 31 August, 21 December).

Tax accounting and documentation requirements

Tax returns must be filed either by 31st March of the next year or within 9 months from the end of the taxable period, whichever occurs later. Additional documents to be filed with the tax return are the balance sheet, a profit and loss account and a report by an auditor. All documents must be maintained for 9 years.

VAT Framework

Tax compliance obligations and processes

VAT is applicable on goods and services supplied in Malta and goods imported into Malta, including intra-Community acquisitions of goods.

Registration for VAT purposes is mandatory for companies established in Malta by the 30th day after their first supply applicable for VAT in Malta. It is also mandatory to register for non-resident companies who must pay VAT in Malta.

It is possible to establish a VAT group in Malta if at least one member is recognised by the Malta Gaming Authority or the Malta Financial Services Authority.

The taxable event occurs when supply is made. In case of a continuous supply, the time of taxation is at intervals of one-year periods, unless payment takes place during the period of statements arise. VAT is taxable on supplies either when the taxable event occurs or when payment is received, whichever is earlier, unless an invoice is issued, in which case the time of taxation is the 15th of the following month, i.e., when the invoice is issued. In case of imported goods, the time of taxation is on the date of importation.

In general, the VAT rate of 18% is applicable to supplies, although a reduced rate of 7% or 5% applies to certain supplies, and zero-rated or completely exempt supplies also exist.

A period of taxation is three calendar months in general.

The Mini One-Stop Shop system is available for companies dealing with electronic services.

Tax accounting and documentation requirements

The VAT Form 001 must be used for registering for VAT purposes.

Invoices are to be issued by the 15th of the next month. A simplified invoice can be used for supplies under EUR 100 or if a document functions as a credit note unless the supply is a cross-border supply. A summary invoice can also be used for multiple supplies if the VAT is applicable in the same month.

Records must be maintained for 6 years. The documents include accounts and records of all business activities, an annual VAT account, a VAT control account, issued and received invoices, customs documents, tax receipts, credit and debit notes, a register of goods in case of goods supplied to another Member State, a record of certain goods received from VAT registered companies in other EU countries.

A VAT return must be submitted by the 15th of the second month after the tax period. If applicable, recapitulative statements or EU sales lists must also be filed electronically. These can be filed on a quarterly basis unless the amount for the quarter in question is below EUR 50 000. Furthermore, companies involved in intra-Community supplies, are obliged to submit information regarding it for statistical purposes. Supplementary Declaration Forms are also to be filed if supplies received in or sent from Malta are above EUR 700.

Non-resident companies can apply for a refund of VAT incurred in Malta by submitting an application electronically in their country of residence 30 September of the following year.

Recent changes of tax legislation

From 1 June 2021, the rules of distance selling change. For instance, the threshold, previously set at EUR 35 000, is eliminated.

Simplification measures and exemption thresholds

It is possible for companies to register as small undertakings if their supply of goods does not exceed EUR 35 000 or if their other economic activities are below EUR 30 000.

Other taxes

Employers withhold tax on the salaries of employees and deduct social security contributions. Employers must file a form on a monthly basis about any deductions and contributions.

No other forms of income taxes are levied on companies in Malta.

COVID-19 relief measures

The payment of the provisional tax may be deferred if a significant downturn (25% or more) in a company's turnover was experienced due to the pandemic.

A reduced rate (5%) is applicable to certain diagnostic medical devices connected to Covid-19, whereas services connected to Covid-19 vaccines are zero-rated.

Legislation referenced

- Income Tax Act (ITA)
- Income Tax Management Act (ITMA)
- Value Added Tax Act (VATA) (Act XXIII of 1998)
- Value Added Tax (Registration as a Single Taxable Person) Regulations, 2018
- EU Directive 2008/9 applies (Refund of Value Added Tax to taxable persons not established in Malta but established in another Member State Regulations, Legal Notice 357 of 2009

8.3.20. Netherlands

CIT Framework

Tax compliance obligations and processes

The period of taxation is generally the calendar year, although any period of 12 months is accepted.

The Netherlands has two brackets of CIT. The taxable base up to EUR 245 000 is 15%, while above that base CIT is set at 25%.

The final CIT is due within 6 weeks after the assessment is made by the tax office; preliminary assessments can be paid in monthly instalments; and any additional CIT must be paid within a month.

Tax accounting and documentation requirements

CIT returns are submitted in electronic form only, usually by 1 June the following year, if the period of taxation is the calendar year. The submission deadline may be extended under some conditions. The local tax authority makes the assessment based on the tax return, although they can ask for additional information as well. After the assessment, a company has 6 weeks to make an objection.

The CIT return is complemented by other documents, such as explanatory notes and commercial annual accounts.

All documents related to taxation must be maintained for 7 years.

An audit may be carried out either on the spot, where the tax authority examines the books, or in a more thorough manner by auditing all books and records of the past 5 years.

VAT Framework

Tax compliance obligations and processes

Goods and services supplied in the Netherlands, goods imported into the country, and intra-EU acquisitions are liable to VAT.

A VAT group may be formed if the member companies are closely related in some way (e.g., financially or organisationally).

The time of taxation can be when the invoice is issued or, if there is no invoice, by the 15th of the following month. Alternatively, the time of taxation may be when the supply is made, for instance in case of the reverse charge mechanism. In case an advance payment is made, the time of taxation is when the payment is received.

The VAT rate is 21% in general, although a reduced rate (9%) is applicable to certain goods and services, such as hotel accommodation and specific agricultural services, whilst a zero-rate is applicable to certain supplies, such as intra-Community supplies or exports. Exemptions also apply to certain goods and services, such as healthcare services or specific postal services.

Registration is compulsory for companies liable for VAT in the Netherlands.

The Mini One-stop Shop is also available for companies dealing with electronic services in Member States.

Tax accounting and documentation requirements

Invoices, in duplicates, must be drawn up by the 15th of the next month. They can be issued in electronic form, if their authenticity can be guaranteed (e.g., through a certified electronic signature).

All records must be maintained for 7 years, except for documents related to immovable assets, which must be kept for 10 years.

VAT returns are generally filed quarterly, although it is possible to submit them on a monthly or on an annual basis. Monthly returns are required if the quarterly amount is over EUR 7 000, whereas if it is below EUR 1 883, filing an annual return is possible. The deadline for the monthly and quarterly returns as well as the payment of the VAT is the last business day of the following month. The annual return must be submitted by the 31 March the next year. All returns must be submitted electronically.

A quarterly list must also be submitted electronically by companies making intra-Community supplies of goods. In case the value of the goods is over EUR 50 000, lists are required monthly. As for intra-Community supplies of services, the lists need to be filed quarterly, irrespective of the amount.

Companies using the Mini One-Stop Shop scheme must submit quarterly MOSS returns.

Simplification measures and exemption thresholds

As of 1 January 2020, the small business regime is available for companies whose annual income, without VAT, is below EUR 20 000. Companies under this scheme are not liable for VAT and do not have to submit a VAT return.

Other taxes

There are no other taxes on income, although there is a tax on oil and gas production, payable by those holding a production license (onshore or offshore).

The Netherlands also has the national social security and the employee social security systems. The former is paid by the employees, while the latter is withheld by the employer.

A real estate tax can be levied by the relevant municipality.

COVID-19 relief measures

Companies can ask for an extension of three months on the payment of taxes until 30 June 2021. Furthermore, the payback period for tax debts incurred due to this deferral scheme is 36 months, instead of 12, starting on 1 October 2021.

Legislation referenced

- Corporate Income Tax Law of 1969: *Wet op de vennootschapsbelasting 1969*, Stb. 1969/445, last amendment Stb. 2019/175
- the Tax Regulation for the Netherlands and Curaçao (Belastingregeling voor Nederland en Curaçao, BRNC)
- Individual Income Tax Law of 2001 (Wet inkomstenbelasting 2001 , IB)
- General Law on Taxation (Algemene wet inzake rijksbelastingen, AWR)

8.3.21. Poland

CIT Framework

Tax compliance obligations and processes

Resident companies are those that are established in Poland or have their effective management in the country. Non-resident companies have limited tax liability, i.e., they are only taxed on revenue sourced in Poland. Resident companies can establish a tax group if the average share capital of each member exceeds PLN 500 000 (EUR 111 720), and certain other conditions apply.

A company's taxable income includes capital gains. However, there are types of revenue that are exempt, such as income obtained through certain agricultural activities or forestry.

The period of taxation is the calendar year in general, although a different, 12-month period may be chosen. There is however flexibility with the length of the first year of a company.

The CIT rate for the fiscal year 2020 was 19%. The amount of CIT liability to be paid is determined through self-assessment by the companies.

Companies are generally liable to monthly advance payments, due within 20 days after the end of the month, although small companies, whose annual turnover is below EUR 2 000 000 can pay them quarterly.

The tax authorities monitor the declarations on a monthly basis.

Tax accounting and documentation requirements

Companies must keep accounting records, based on which their taxable income is determined. The system used to issue refunds, which include accrued interests, is that the amount of overpaid taxes is set off against tax arrears, and only following a request by the affected company, the overpaid amount is set off against future tax liabilities.

An annual CIT return is due within three months after the end of the year. It can be submitted in electronic form.

All records must be maintained until the end of the statute of limitations, that is, for 5 years, although financial statements cannot be discarded.

Recent changes of tax legislation

From 1 January 2021, companies that meet certain requirements (e.g., their annual revenue does not exceed PLN 100 000 000, or EUR 22 373 617), can choose to be liable to taxation on the distribution of benefits instead. The rates under this tax regime are discussed below.

From 1 January 2021, limited partnerships and partnerships with partners that are not only individuals are subject to CIT. The threshold for companies to pay the preferential CIT rate (9% instead of 19%) was effectively raised on the same day from EUR 1.2 million to EUR 2 million yearly turnover.

Special measures on tax compliance for SMEs

As of 1 January 2019, companies with an annual turnover below EUR 1.2 million are subject to a CIT rate of only 9%.On 1 January 2021, this threshold was raised to EUR 2 million.

Under the new optative system of taxation on the distribution of benefits, companies with a turnover below EUR 2 million will pay a lower rate (15%) than bigger companies (25%).

VAT Framework

Tax compliance obligations and processes

VAT is applicable on supplies in Poland, imported goods and goods acquired within the EU, although the reverse charge mechanism is applicable to any supply made by non-resident companies to resident entities and on certain other goods, such as scrap metal or certain electronic devices. There is no group registration in Poland.

A transaction is taxable when the goods are delivered or the services are performed, or, alternatively, upon receiving any advance payments. The VAT rate in Poland is 23%, although a reduced rate of 8% applies to certain goods and services, such as hotel services or passenger transport, while exports and intra-EU supplies are zero-rated. Furthermore, certain goods and services are VAT-exempt, such as public postal services or educational services.

The mandatory registration threshold is PLN 200 000 (EUR 44 856), although the threshold is not applicable to non-resident companies, for whom it is mandatory to register.

Supplies to customers have to be documented through online cash registers.

Tax accounting and documentation requirements

Invoices must be issued within 15 days after the end of the month when the supply was made, and, in case of services, within 30 days after the supply, and within 60 days after the supply of goods. Simplified invoices are available for values under EUR 100. A collective invoice is also possible for several supplies as long as they were made in the same month. The invoices do not have to bear the signature of either the supplier or the customer, although it is encouraged. Invoices may be issued electronically if the customer agrees, however its authenticity must be proved, for instance, with the use of an electronic data interchange or a certified electronic signature.

All documents must be maintained for 5 years in general, although it can be almost 6 years if the calendar month is also the period of taxation.

VAT returns are due monthly, by the 25th of the next month. Small businesses whose annual turnover is below EUR 1 200 000 and who chose a cash basis for VAT accounting, can submit tax returns quarterly. Their deadline is the 25th of the month after the end of the quarter. Furthermore, their advance payments are one third of the amount of taxes due for the previous period (quarter).

EU sales lists must be submitted electronically on a monthly basis by the 25th of the following month for intra-Community supplies. Companies involved in intra-Communities supplies or acquisitions are also liable to submitting Intrastat returns if the annual value of supplies is over PLN 2 000 000 (EUR 448 556) or the annual value of acquisitions is over PLN 4 000 000 (EUR 897 112). The deadline is the 10th of the next month and the returns must be submitted in electronic form.

Recent changes of tax legislation

From 1 April 2020, a reduced rate of 5% is applicable to e-books, audiobooks, and certain food products, including tropical fruits and citrus fruits.

As of 1 July 2018, the split payment mechanism may be used when receiving an invoice for VAT.

Simplification measures and exemption thresholds

Small businesses whose annual turnover is below EUR 1 200 000 can opt in the cash accounting system.

Other taxes

Employers are obliged to withhold taxes on salaries, such as social security contributions and pension schemes. Companies make other contributions as well: 0.10% of employee's salaries foes to the Fund of the Guaranteed Employees' Claims, 1% to the Labour Fund, and 1.45% to the Solidarity Fund.

Furthermore, Poland has a real estate tax on the local level as well.

COVID-19 relief measures

The deadline for submitting the annual CIT return for 2020 was extended until 20 June 2021.

Legislation referenced

- Corporate Income Tax Law (*Ustawa o podatku dochodowym od osóbprawnych*) of 15 February 1992.
- Administrative Tax Code (*Ordynacja Podatkowa*)

- Accounting Law (*Ustawa o rachunkowości*),
- Law on Social Security System of 13 October 1998 (*Ustawa o systemie ubezpieczeń społecznych*)
- Goods and Services Tax Act (*Ustawa o podatku od towarów i usług* , VAT Law)

8.3.22. Portugal

CIT Framework

Tax compliance obligations and processes

Profits of companies in Portugal are taxed through the corporate income tax at the national level, and through a state surtax[25], as well as a municipal surtax. The general corporate tax rate in Portugal is 21%, but SMEs benefit for a lower rate of 17% that applies to the first EUR 25 000 of taxable income. There is a withholding tax rate on dividends at 25%.

Companies calculate the amount of CIT following the self-assessment method, filling a tax return by 31st May of the next year.

The payment of the tax takes place in two different phases. First companies must make an advance payment of the CIT equivalent to 95% of the previous' fiscal year assessed tax. Companies with a turnover below EUR 500 000 must only pay 80% of the previous' year assessed tax as a prepayment. These payments are made in three instalments (July, September, and December), and the amount of the third instalment might be reduced if the amount paid in total in all three instalments exceeds the amount of the payment according to the company's self-assessment.

Additionally, companies must pay a minimum special tax on account, which does *de facto* work as a minimum tax[26]. This special advance payment is calculated as 1% of the previous' year turnover with a minimum of EUR 850, and is paid in one instalment in March or two instalments (March and October). This payment is deductible from the CIT.

Following the prepayment phase, companies proceed to pay the remaining amount of the income tax based on their taxable benefits. Additionally, companies must provide statutory accounts, information related to payments to non-residents, employees and independent professionals.

Tax accounting and documentation requirements

All books, records and respective support documents, including, when accounting is established by computerized means, those relating to the analysis, programming and execution of treatments, (in some cases, such as real estate, the term may be longer) must be kept during the subsequent 10 calendar years:

- When in paper format, they must be kept in an establishment or facility located in Portugal. These documents can be digitized and kept in electronic format, however the original invoices for the acquisition of goods or services, must be kept until the right to deduct has been exercised;
- When in electronic format, including the filing of backup copies of the processed information, may be kept in any Member State of the European Union. Invoices and

[25] The state surtax only applies to taxable profits above EUR 1 500 000.00

[26] Since 2018, there are the possibility of no payment of the special tax on account as long as some declarative obligations are fulfilled.

other documents, issued and received electronically, can also be kept outside the European Union, with prior authorization from the Portuguese Tax Authority.

The form of the submission of the tax return for CIT is electronic.

Special measures on tax compliance for SMEs

While SMEs benefit from a lower CIT rate, they do not benefit from simplified compliance measures.

Other CIT benefits for include that SMEs are subject to a series of special measures in Portugal. Expenses of SMEs operating in agricultural, commercial or industrial activities are eligible for deductions on corporate tax at 110% for expenses arising from participation in fairs and exhibitions abroad, specialized consultancy services provided by external consultants and/or the promotion of internationalization. Similarly, those expenses incurred in by SMEs in the process of implementing the SAF-T (Standard Audit File for Tax) can be considered in 120% of their amount for the purpose of calculating the taxable profit.

VAT Framework

Tax compliance obligations and processes

Portugal has 3 different VAT rates, corresponding to the standard, intermediate and reduced rate, in mainland Portugal these taxa rates are 23%, 13% and 6%, respectively. Reduced tax rates apply in Azores (18%, 9% and 4%) and Madeira (22%, 12%, 5%).

Companies have to complete their VAT tax returns using an electronic form that is available online. This VAT returns must be sent by electronic data transmission, within the following deadlines:

a) until the 10th day of the 2nd month following the month to which the operations refer, in the case of taxable persons with a turnover equal to or greater than EUR 650 000 in the previous calendar year (monthly basis scheme);

b) until the 15th day of the 2nd month following the quarter of the calendar year to which the operations refer to, in case of taxpayers with a turnover lower than EUR 650 000 in the previous calendar year (quarterly basis scheme).

Tax accounting and documentation requirements

The rules of conservation are identical to those for VAT and CIT (see 2.2)

Companies must also provide, by electronic or paper-based means, details of the invoices issued in the previous month by the 12th of a given month to the tax authorities.

Simplification measures and exemption thresholds

The taxpayers covered by the quarterly basis scheme may opt-in to send the monthly periodic declaration. If they make this option they must remain in the monthly basis scheme during, at least, three years.

Other taxes

There are not taxes on payroll in Portugal. Social security contributions are levied on gross pay and are paid both by employees and employers. As a rule, the rate of employee contributions is 11% of gross pay and the employer's rate is 23.75% of gross pay.

Enterprises are subject to a municipal real estate tax, which is paid once a year by the owners or usufructuaries of immovable property in Portugal. The base of this municipal real estate tax is the tax value of rural and urban properties located in Portugal. The tax value

of urban property is based in the area of the propriety and the construction costs and determined through the application of coefficients defined by law related to the location, aging, quality and use of the building. The tax value of rural property is the equivalent of 20 times the notional rent per year.

In Portugal, companies are subject to a municipal surtax calculated on the basis of the annual taxable profit of each company established within a given municipal area. The tax rate has a ceiling of 1.5%, and municipalities are allowed to levy a lower surtax on companies with a turnover below EUR 150 000.

COVID-19 relief measures

The deadline to file the CIT tax return for 2019 taxyear was postponed from 31st May 2020 to 3th August 2021 (additional extension being applied if the delay was duly justified due by an inability of the companies certified accountant). The deadline to file the CIT tax return for 2020 taxyear was postponed until 19th July 2021. The Ministry of Finance also issued official guidelines according to which enforcement measures such as late payment penalties would be waived until 31st December 2020 if the debtor was directly affected by the COVID-19 pandemic.

Cooperatives and SMEs were exempted from the obligation of prepaying corporate income tax, as well as others companies with their main economic activity was in the sectors of accommodation, restaurants and similar, and provided that their turnover had fallen at least 50% compared to the first semester of previous years. For other companies, if their turnover had fall at least 20% compared to the first semester of previous year they only pay 50% of prepaying corporate income tax.

For companies with a turnover lower of EUR 10 000 000, also benefited from a special temporary regime that allowed them to pay withheld taxes in 3 or 6 monthly instalments.

The deadlines to make CIT prepayments were extended, and companies were allowed to pay the remaining amount of CIT due in up to 4 monthly instalments.

Ten additional days have been granted to Portuguese companies to submit their monthly VAT returns since November 2020 as a mean to help companies mitigate the effects of the COVID-19 pandemic, making the 20th of each month the new deadline. Five additional days have been granted as the deadline for the payment of the monthly VAT, making the 25th of each month the effective deadline since November 2020.

With some conditions, that had changed during Covid-19 pandemic, companies might benefit from a special and temporary regime for paying VAT in 3 or 6 instalments.

Creation of IVAucher (VAT VAUCHER) PROGRAMME, which consists of a mechanism allowing consumers to accumulate the value corresponding to all input VAT on consumption in the accommodation, culture and catering sectors, in a quarter (between 1 June and 31 August 2021), and use this value during another quarter (between 1 October and 31 December), for consumption in these same sectors.

Legislation referenced

- Corporate Income Tax Code (CIRC) Available at: https://www.apb.pt/legislation/tax_codes_and_legal_framework_of_credit_institutions_and_financial_companies/tax_codes/corporate_income_tax_code_(circ)
- https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/codigos_tributarios/CIRC_2R
- Tax audit procedure complementary regime (Regime Complementar do Procedimento de Inspecção Tributária). Available at: https://dre.pt/legislacao-consolidada/-/lc/119474789/202104201304/73675695/diploma/indice

- https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/codigos_tributarios/rcpit/pages/regime-complementar-do-procedimento-da-inspeccao-t-2429.aspx
- Imposto Municipal sobre Imóveis (IMI). Available at: https://www.portugalglobal.pt/PT/InvestirPortugal/Sistema%20Fiscal/Paginas/ImpostoMunicipalImoveisIMI.aspx
- https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/codigos_tributarios/cimi/pages/codigo-do-imi-indice.aspx
- Imposto sobre o Valor Acrescentado (IVA). Available at: https://portugalglobal.pt/PT/InvestirPortugal/Sistema%20Fiscal/Paginas/ImpostosValorAcrescentadoIVA.aspx
- https://info.portaldasfinancas.gov.pt/pt/informacao_fiscal/codigos_tributarios/civa_rep/pages/codigo-do-iva-indice.aspx
- Imposto sobre o Rendimento das Pessoas Coletivas (IRC) em Portugal. Available at: https://eportugal.gov.pt/cidadaos-europeus-viajar-viver-e-fazer-negocios-em-portugal/impostos-para-atividades-economicas-em-portugal/imposto-sobre-o-rendimento-das-pessoas-coletivas-irc-em-portugal

8.3.23. Romania

CIT Framework

Tax compliance obligations and processes

CIT is levied in Romania on companies incorporated in Romania, foreign companies with their place of effective management in Romania, and foreign companies that carry out an activity through a permanent establishment in Romania. According to the Romanian CIT tax system, profits are subject to corporate income tax at the company level and the distributed benefits are taxed again when they are distributed to shareholders with exceptions. The tax rate is set at 16%, and the payment of dividends is subject to a withholding tax of 5%. Deductible expenses include employees remuneration, directors' fees, interest and royalties.

Companies, by derogation from the provisions of Title II "Profit Tax" of the Fiscal Code, owe and pay a sectoral tax, called "activity-specific tax" if on December 31 of the previous year they were registered in the articles of incorporation, as a primary or secondary activity, one of the activities corresponding to selected sectors[27]

If these taxpayers generate income from activities other than those corresponding to these abovementioned sectors, they apply the corporate tax return and payment system.

Tax accounting and documentation requirements

Companies must file CIT returns quarterly. The fourth quarterly is a recapitulative annual return that is due by 25th March, while the majority of agricultural companies must do so by 25th February of the following year. It is possible for companies to opt for a financial year different from the calendar year, and in that case, they must file their returns by the 25th of the month following the financial year.

[27]Namely: Hotels and other similar accommodation facilities; Accommodation facilities for holidays and short periods; Caravan parks, campsites and camps; Other accommodation services; Restaurants; Event catering activities; Other food services; Bars and other beverage service activities.

The calculation of the taxable income is the difference between income from any source and expenses incurred in for the purpose of generating revenue, minus the non-taxable income and plus non-deductible expenses. Exempt income includes dividends paid by resident from other resident companies and reinvested profits. The list of deductions include exceeding borrowing costs, certain representation costs, and social contributions.

Companies must keep records for all the accounting documents for 10 years, with the exception of payroll documents (50 years) and specific justifying documentation (5 years).

Companies, with certain exceptions, can choose advance payments, performed quarterly for the calculation, declaration and payment of annual income tax. The deadline for payment of the annual tax is the deadline for filing the income tax return, mentioned above.

Recent changes of tax legislation

Since 2018, companies must file their tax returns electronically.

Special measures on tax compliance for SMEs

Under the microenterprise tax regime, micro-enterprises, defined as companies with a turnover below EUR 1 million pay 1% or 3% of their turnover rate, reducing the administrative burden on these companies. The former rate applies to companies with one or more employees and the latter to companies with no employees.

VAT Framework

Tax compliance obligations and processes

VAT is defined as a general consumption tax that is levied by the State on goods and services supplied by taxable persons.

There are three rates of VAT, a general one at 19%, and two reduced ones at 9% and 5%. The 9% rate applies to a series of medical products and foodstuff mostly, while the 5% applies to a longer list of cultural, hospitality and transport goods and services

The Tax Code includes exemptions for VAT for hospital and healthcare products, educational services, sport-related services, certain financial services and lease of immovable goods.

Companies must register with tax authorities if their yearly turnover is above EUR 88 500.

Tax accounting and documentation requirements

Companies must file returns on a monthly basis, by the 25th of the following month, alongside a statement for local transactions. Additionally, a recapitulative statement (390 VIES) must be filed including information on intra-Community supplies and acquisitions, acquisitions of services under B2B from EU taxable persons *not* VAT registered in Romania, and supplies of services subject to VAT abroad under the B2B rule provided to taxable persons established in the EU.

Companies can issue simplified invoices for supplies below EUR 100, and when companies are granted permission by the VAT committee, they might do so in some cases for invoices between EUR 100 and 400. Otherwise, invoices must include a large number of mandatory details. It is also possible to use centralised invoicing, comprising all the operations performed in a month.

All accounting documents related to VAT must be kept for 10 years. Whereas invoices might be kept in any format, other accounting documents must be kept in paper

Recent changes of tax legislation

The rate applied to a series of goods changed on 1st June 2019, as organic, mountain, and traditional foodstuffs are now taxed at 5% instead of 9%.

A mechanism under which a series of companies had to have a separate VAT bank account to which VAT payments were made by beneficiaries (split payment mechanism) was effectively abolished in 1st February 2020.

Simplification measures and exemption thresholds

As mentioned in Section 4.1., companies with a turnover below EUR 88 500 must not register for VAT purposes, and companies with a turnover below EUR 100 000 can file returns less frequently as discussed in Section 4.2.

Other taxes

There are not local income or business taxes in Romania, nor payroll taxes. Employers act as withholders of the social security contributions of their employees.

Romanian companies pay real estate tax to local authorities, paying a rate of 0.2% to 1.3% of the value of non-residential buildings for those buildings acquired over the last 5 years, and 5% otherwise, and 0.4% for buildings used with agricultural purposes.

Legislation referenced

- Civil Code. Available at: http://www.euroavocatura.ro/noul_cod_civil_comentat.php
- Company Law: Available at: https://www.google.com/search?q=LAW+No.+31+of+16+November+1990&rlz=1C1GCEB_enBE891BE891&oq=LAW+No.+31+of+16+November+1990&aqs=chrome..69i57.698j0j7&sourceid=chrome&ie=UTF-8
- Tax Code approved by Law 227/2015
- Accounting Law no 82/1991 and following amendments

8.3.24. Slovakia

CIT Framework

Tax compliance obligations and processes

Joint stock companies, limited liability companies, limited partnerships and cooperatives pay CIT, at a rate of 21% all over the territory of Slovakia without any territorial distinction

Companies must generally pay advance pre-payments in Slovakia. Companies that paid more than EUR 16 600 the previous year must pay an equivalent of the previous year's liability in monthly payments. Companies with a CIT liability in the previous year between EUR 5 000 and 16 600 must pay 25% of their previous year's liability split in quarterly payments. Companies that paid less than 5.000 in CIT the previous year must not pay any advance payment. Should advance payments result in an overpayment, the quantity is returned by tax authorities unless it can be offset against pending liabilities, such as excise tax or VAT obligations by the company.

Companies pay CIT annually, apart from the advance payment, at the same time that they submit of the return, which must be submitted until 31st March of the following year.

Companies that have foreign sources of income might request a 3 or 6 month extension to the submission of the CIT return.

Tax accounting and documentation requirements

Companies calculate their CIT obligations following a self-assessment of their tax obligations, and submit the tax return in the period described above alongside a financial statement. No other documentation needs to be submitted, but tax authorities might request contracts and invoices among other type of documents if they identify inaccuracies.

Tax returns and financial statements must be kept of 5 years, unless the company declared a tax loss, in which case they must be kept for 7 years.

Recent changes of tax legislation

In 2021, the Income Tax Act was changed to lower the CIT rate for companies with a taxable revenue below EUR 49 790

Special measures on tax compliance for SMEs

There are not special measures for compliance other than the lack of an obligation to pay advance payments described in Section 3.1.

VAT Framework

Tax compliance obligations and processes

VAT is paid in Slovakia over the supply of goods or provision of services in Slovakia, intra-Community acquisition of goods and the importation of goods. Companies must register for VAT purposes in Slovakia if their turnover exceeds EUR 49 790 over a period of 12 months.

Companies must submit monthly returns and proceed with the corresponding payment by the 25th of the following month. These might be submitted electronically, as only under few exceptions these can be submitted on paper.

Companies with a turnover below EUR 100 000 over the last 12 months do not need to submit monthly returns, and can instead submit returns and pay VAT quarterly, by the 25th of the month following the quarter.

Tax accounting and documentation requirements

Alongside the submission of monthly returns, companies must also submit transactions statements, reflecting information on local supplies of goods and services, acquisitions of goods and purchase of services from a different Member State and corrective invoices. VAT transaction statements must be filled electronically, with few exceptions.

Companies must keep records of each transaction, including taxable supplies of goods and services received, supplies of goods to another Member State and importation of goods.

Other taxes

There are no local income taxes or local business taxes in Slovakia, not payroll taxes. Employers act as withholders of the social contributions on behalf of employees.

Companies in Slovakia pay three different real estate taxes: tax on land, the tax on land; the tax on buildings; and the tax on apartments and non-residential areas located in a residential building. The main different is that the tax on land is paid as a rate (0.25%) of the value of the land as determined by the municipality, whereas the other two taxes are paid as the number of square meters of the properties multiplied by 0.33.

COVID-19 relief measures

Companies what failed to file VAT returns and VAT transaction statements during the COVID pandemic were not publicly disclosed on the list of taxable persons as long as they met those obligations by 1st February 2021.

Benefits given to companies under measures to support job retention during the COVID pandemic are exempt income for CIT purposes.

Legislation referenced

- VAT Law 222/2004. Available at: https://www.mfsr.sk/en/taxes-customs-accounting/indirect-taxes/vat/act-222/2004-coll-on-value-added-tax/
- Income Tax Act 595/2003. Available at: https://www.mfsr.sk/en/taxes-customs-accounting/direct-taxes/income-tax/legislation-force/income-tax-act/
- Law on Local Taxes 582/2004 . Available at: https://www.zakonypreludi.sk/zz/2004-582

8.3.25. Slovenia

CIT Framework

Tax compliance obligations and processes

There is a single rate of corporate income tax at 19%, with a special 0% tax rate that applies to a very limited number of cases, including investment or pension funds and insurance companies. Slovenian companies must submit profit and loss statements and balance sheets. No additional reporting is necessary if the company is already filling its financial statements with the relevant agency (Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), which most companies, both resident and branches of non-resident companies do.

Tax accounting and documentation requirements

Tax returns can only be submitted in electronic format, and be accompanied by a balance sheet, and profit and loss account, a cash-flow statement and statements on changes in equity capital for external business reporting. If relevant, additional documents must also be submitted, including a form about hidden reserves disclosure, any evidence in relation to exempt foreign income and/or tax deduction, a form on the covering of tax loss or claiming tax incentives, a form on significant financial instrument transactions, forms regarding provisions, forms about transactions with countries of deemed harmful tax competition, forms about loans and interest between related persons, forms about business transactions between related persons and forms about capital gain from disposal of financial investments in risk capital companies.

All resident and non-resident companies operating in Slovenia are due to submit tax return for CIT purposes. The tax return must be submitted to the tax authorities by the 31st March of the year following the calendar year. Extensions granted in the context of the COVID-19 crisis are discussed below.

Special measures on tax compliance for SMEs

Special measures on tax compliance for SMEs exist in Slovenia. Companies whose annual taxable income in the preceding year was below EUR 100 000 have the option to calculate

their tax basis using a lump-sum expense deduction, as long as in that company one person is fully covered by mandatory social security insurance. The ceiling for this deduction is of EUR 80 000. This scheme is also available for SMEs that do not fulfil the social security insurance if their annual taxable income is below EUR 50 000. The maximum deduction is then EUR 40 000. Newly established companies are eligible for this scheme too.

VAT Framework

Tax compliance obligations and processes

The VAT returns are to be filed on a monthly basis for resident and branches of non-resident companies. A quarterly filing is accepted for Slovenian SMEs. Statistical information must be provided for Intra-Community supplies of goods in addition to recapitulative statements relating to intra-Community supplies of goods in the form of Intrastat declarations that must be filled on a monthly basis. Smaller companies are de facto exempted from this obligation as this only applies to companies with intra-Community supplies above EUR 200 000 or intra-Community acquisitions above EUR 120 000.

Tax accounting and documentation requirements

All companies operating in Slovenia are required to register for VAT purposes, with the exception of small businesses whose turnover does not exceed EUR 50 000 over the last 12 month period. Farmers with a cadastral income from agriculture and forestry land does not exceed EUR 7 500 are also exempt.

Invoices, either in electronic or print format, must be submitted by companies for every transaction, either exempt from VAT or not. Companies must keep records for a period of at least 10 years of all VAT-related issues or received documents, including received and copies of issued invoices, customs documents on imports and exports, financial documents, and documents to support VAT exemptions,

Simplification measures and exemption thresholds

Small businesses with a turnover below EUR 50 000 in the last 12 months are exempt from the obligation to register for VAT purposes, and for agricultural companies whose cadastral income does not exceed EUR 7 500.

Other taxes

Social security contributions in Slovenia are paid as a withholding tax by the employer and also by employees via their monthly salary. The employer must register the employee and file separate returns for the obligatory pension, invalidity, health and unemployment insurance, also for those employees seconded abroad for a limited period of time

Companies in Slovenia do not pay regional, local or other tax on profit . Municipalities levy a real estate tax on the use of land for construction purposes, as well as a building tax.

COVID-19 relief measures

An extension to the submission of the CIT tax returns corresponding to the 2019 financial years was granted, extending the deadline for this submission until 31st May 2020. Despite of the persistence of the COVID-19 pandemic, the Slovenian authorities did not grant any similar extension for the submission of the CIT tax returns of the year 2020 in 2021.

Medical equipment used to combat the COVID-19 pandemic is exempt from VAT upon import until 30th April 2021.

Legislation referenced

- Commercial Companies Law, OG 65/2009 – official consolidated version, 33/2011, 91/2011, 32/2012, 57/2012, 82/2013, 55/2015 and 15/2017 (Zakon o gospodarskih družbah)
- Corporate Income Tax Law, ZDDPO -2, OG 117/2006, 56/2008, 76/2008, 5/2009, 96/2009, 43/2010, 59/2011, 24/2012, 30/2012, 94/2012, 81/2013, 50/2014, 23/2015, 82/2015, 68/2016, 69/2017, 79/2018 and 66/2019 (Zakon o davku od dohodkov pravnih oseb)
- Social Security Contributions Law, ZPSV, OG 5/1996, 34/1996, 87/1997, 3/1998, 81/2000, 97/2001 and 62/2010 (Zakon o prispevkih za socialno varnost)
- Value Added Tax Law, ZDDV-1 , OG 13/2011 – official consolidated version, 18/2011, 78/2011, 38/2012, 86/2014, 90/2015, 77/2018, 59/2019 and 72/2019 (Zakon o davku na dodano vrednost)

8.3.26. Spain

CIT Framework

Tax compliance obligations and processes

Spanish taxpayers should make advance tax payments in three instalments by 20 April, 20 October and 20 December each year. In general, each advance payment is calculated on the basis of the CIT that was due in the preceding tax year (at 18%). However, in case an enterprise has an annual turnover exceeding EUR 6 000 000, it will have to calculate the tax pre-payments due on the basis of the taxable base in the first three-month period, nine-month period or eleven-month period of the current fiscal year (at 17%). Spanish enterprises with a turnover of more than EUR 10 million in the prior fiscal year should calculate their advance tax payments at a higher rate of 24%. Also, in case a taxpayer had a turnover of more than EUR 10 million during the prior fiscal year, it has to file an additional annex to the pre-payment tax return in which it should explain all applicable tax adjustments. The computation of advance tax payments therefore becomes more complex as the size of the enterprise increases.

Tax accounting and documentation requirements

During a tax audit, the Spanish tax authorities may require a taxpayer to submit documentation. The Spanish tax authorities will determine the submission deadline on a case-by-case basis with a minimum period of ten business days counting from the business day subsequent to the request. Documentation must be prepared in Spanish in principle. In an ordinary tax audit, the tax auditor may accept the TP documentation in other languages (e.g. English), but a translation into Spanish may still be requested.

VAT Framework

Tax compliance obligations and processes

There are three VAT rates in mainland Spain and the Balearic Islands: a standard rate at 21%, a reduced rate at 10% and a super-reduced rate at 4%. The Canary Islands is not part of the VAT system and has its own Added Value Tax..

Tax returns must be filled quarterly as a general rule, within 20 days after the end of March, June, and September, while the fourth quarterly tax return must be filled by the 30th of

January alongside the annual tax return, which recapitulates the information provided in quarterly returns. Larger companies and companies choosing to do so might fill in VAT returns monthly, 20 days after the end of the month.

Tax accounting and documentation requirements

Taxable persons must register with the office of the National Tax Administration (*Delegación de la Agencia Estatal de Administración Tributaria*) of their domicile, submitting an initial declaration of activities. The registration may also be effected by electronic means. Invoices must be in duplicate and contain necessary information. The may be issued in electronic form in certain circumstances. Invoices must be retained during the statute of limitations period. A register of issues invoices, a register of received invoices, a register of tangible fixed assets, and a register of intra-Community transactions must be kept as records, typically for 4 years after the date each tax return was filled. These records can be kept in electronic media as long as certain requirements are met.

Electronic filing of VAT is optional in some cases and obligatory in other cases, including large companies and exporting taxpayers.

Simplification measures and exemption thresholds

SMEs conducting activities in some economic sectors can opt-in a simplified VAT regime that involves a flat rate mechanism to determine the amount of VAT to be paid.

Other taxes

Wage related taxes and contributions

Withholding taxes apply on salaries, wages and other similar remuneration and there are different social security contribution schemes that apply.

Local income taxes are not levied in Spain, but a local business tax (*Impuesto sobre Actividades Económicas)* is applied, not on the revenue of the company, but on the fact that the taxpayer has an economic activity, which is nevertheless deductible from the CIT.

A real estate tax is levied by local authorities for a rate of 0.4% to 1.1% of the value of the real estate (urban property) and 0.3%-0.9% (rural property). This tax is considered a deductible expense for corporate income tax purposes.

COVID-19 relief measures

A special deferral regime was introduced in 2020 for SMEs and self-employed taxpayers extending 4 months the period of late payments without interests of CIT.

Additional VAT exemptions (and zero rated supplies) were introduced in the importation of goods acquired to address the health emergency caused by the COVID pandemic.

Legislation referenced

- Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades.
- Ley 37/1992, de 28 de diciembre, del Impuesto sobre el Valor Añadido.
- Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas y de modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Renta de no Residentes y sobre el Patrimonio.

8.3.27. Sweden

CIT Framework

Tax compliance obligations and processes

Companies in Sweden must file their CIT return, electronically or in paper, 5 and a half to 6 months after the end of their financial year (deadlines vary depending on when the financial year ends, and are extended by one month if it is filed electronically).

Companies must pay monthly the CIT according to a preliminary assessment (made by Swedish tax authorities) based on the CIT return filed by the company the year preceding the income year. Then, in the year following the concerned year for CIT, a final assessment provide companies with the final balance to be paid within 90 days.

Tax accounting and documentation requirements

Together with their CIT return, companies must attach their balance sheet, profit and loss accounts, as well as the annual report of auditors. However, the tax authorities, especially the assessment committee responsible for sending the preliminary assessment of CIT due to companies, cannot ask the company to open its books.

In addition, if companies having cross-border activities need to prepare annual transfer pricing (TP) documentation in case tax authorities request it, they do not need to attach it to their CIT return.

Recent changes of tax legislation

The general income tax was reduced in 2021 to 20.6%, after being reduced to 21.4% in 2020 from a 22% rate until 2019.

Special measures on tax compliance for SMEs

In Sweden, no special measures to alleviate the administrative burden concerning CIT compliance have been identified for SMEs.

VAT Framework

Tax compliance obligations and processes

Companies in Sweden must register for VAT purposes, provided that their annual turnover exceed 30,000 SEK. Depending on their annual turnover, companies file VAT return differently: annually for a turnover between 30,000 SEK and 1 million SEK (within 42 days); on a quarterly basis for a turnover between 1 million and 40 million SEK (within 42 days); and monthly if the turnover exceeds 40 million SEK (within 26 days). The same deadlines apply for the payment of the VAT. Companies can decide to submit their VAT return electronically or on paper.

In addition, if a company carries out cross-border activity and meet certain thresholds, it must also file EC sales lists and Intrastat reports, usually on a monthly basis, electronically or on paper.

Tax accounting and documentation requirements

Companies do not need to submit supporting documents together with their VAT return. However, to support their VAT return, companies must keep all invoices, as well as records of purchases, sales, imports and exports in case they are requested by the tax authorities. Those shall be retained for 7 years. Invoices must be stored in their original format

(electronically if issued/received electronically, on paper if issued/received on paper), and the records must be kept in Sweden.

Simplification measures and exemption thresholds

Firstly, SMEs whose turnover is below 30,000 SEK are exempted of registration for VAT. Secondly, compliance with VAT obligations is facilitated for SMEs whose turnover is below 1 million because they can file VAT only annually.

Other taxes

Wages related taxes and contributions

Two types of taxes related to wages are paid by companies in Sweden: a payroll tax and social security contributions. Firstly, if employers provide their employees with pensions, then they must pay a special salary tax on pension costs. Secondly, employers in Sweden pay social security contributions for: retirement pension insurance, health insurance, unemployment and other labour market measures, survivor's pension insurance, parenthood insurance, occupational accident insurance, as well as general salary tax. Those social security contributions are based on the employees' salary.

It must be noted that from 1 July 2019, the special old-age salary tax (tax payable for individuals over the age of 65) was abolished. Now, the rule is that for individuals born in 1937 or earlier, no contributions apply, and for individuals born between 1938 and 1954, employers must only pay the contribution for retirement pension insurance.

Real estate tax

In Sweden, companies can also be subjected to a national tax on real estate, based on the assessed value of their immovable property (used for commercial or industrial purposes).

COVID-19 relief measures

To mitigate the consequences of the COVID-19 pandemic, in April 2020 authorities took a measure allow for a deferral of VAT payments, employer's contribution and preliminary tax on salary. Companies are allowed to defer up to one year for maximum three months' payments.

In case of deferral, an interest rate equal to 1,25% per annum is applied by the tax authority.

Legislation referenced

- Company Law: Aktiebolagslag (2005:551), last amendments by Law 2018:1105
- Income Tax Law: Inkomstskattelag (1999:1229), last amendments by Law 2020:1240
- Law on Municipal Real Estate Fee: Lag (2007:1398) om kommunal fastighetsavgift , last amendments by 2012:743
- Law on National Real Estate Tax: Lag (1984:1052) om statlig fastighetsskatt , last amendments by Law 2017:397
- Law on Social Security Contributions: Socialavgiftslag (2000:980), last amendments by Law 2020:1060
- VAT Law: Mervärdesskattelag (1994:200), last amendments by Law 2020:1221

8.3.28. United Kingdom

CIT Framework

Tax compliance obligations and processes

In the United Kingdom, a system of self-assessment applies for the CIT, and companies must attached their self-assessment of CIT liability together with a return for the period determined by the tax authorities (Her Majesty's Revenue and Customs, HRMC) in a notice (CT603).

The deadline for companies to file their return together with the self-assessment of their CIT liability can vary according to the three following scenarios:

- Following the end of an accounting period of 18 months or less, the company has 12 months to file the return relevant for this period;
- Following the beginning of an accounting period of more than 18 months, the company has 30 months to file the return relevant for this period;
- Following the delivering of a notice by the HRMC, the company has 3 months to file its return.

However, in any case, a company has 12 months after filing its return to amend the self-assessment.

Concerning payments, they must be made by companies within 9 months and 1 day following the end of the accounting period.

However, large companies (with annual taxable profits exceeding GBP 1.5 million) must pay in four advance payments. For accounting periods beginning before 1 April 2019, these four advance payments must have been made during the 14th day of the 7th, 10th, 13th and 16th months from the start of the accounting period. From 1 April 2019 onwards, these payments have been advanced of 4 months and must now be made on the 3rd, 6th, 9th and 12th months from the start of the accounting period.

Tax accounting and documentation requirements

Because the company is self-assessing its CIT liability, it must include in the returns all the details possible, in order to avoid any penalties should the self-assessment be incorrect. In addition, the company must keep the accounting records supporting its return for at least 6 years after the end of the accounting period to which the return refers.

Since 2016, MNEs in the United Kingdom must also provide country-by-country (CbC) reports about their activities in other jurisdictions.

Recent changes of tax legislation

Since 1 April 2019, the deadlines for large companies to pay their CIT tax has been advanced of 4 months and must now be made on the 3rd, 6th, 9th and 12th months from the start of the accounting period (instead of the 7th, 10th, 13th and 16th months).

VAT Framework

Tax compliance obligations and processes

In the United Kingdom, if a company's taxable turnover exceeds GBP 85,000 (or is expected to exceed it in the next 30 days), then it must also register for VAT purposes by sending the Form VAT 1 to the HRMC. Below this threshold, registration in only voluntarily.

Concerning VAT returns, companies can file them on a monthly quarterly, or annual basis, depending on their situations:

- Most companies file returns on a quarterly basis, within 30 days of the end of a quarter (which dates are flexible and can be aligned with the accounting period internal to the company);
- A company can choose to file monthly VAT returns if its input tax frequently exceeds its output tax (in order to get faster refunds from the authority);
- A company can choose to file only an annual VAT return if its annual taxable turnover is equal or inferior to GBP 1,350,000.

In this later case, the payments are made in advance, monthly during the 9 first months of the accounting period, and the last total payment is made at the end of the year according to the VAT return.

Otherwise, companies having a VAT liability exceeding GBP 2,3 million over a tax period of maximum 12 months, must make monthly VAT payments, as well as balancing quarterly payments in March, June, September, and December (according to their quarterly VAT returns).

In addition, when a company choose to make monthly VAT returns, it must also provide monthly statements, within 21 days if they are filed electronically, or within 14 days if they are filed on paper.

Tax accounting and documentation requirements

Invoices must be issued by companies providing supplies and services within 14 days of the delivery of the supply or the performance of the service. Then, in order to support their VAT return in case of control, companies must keep records of all their transactions related to VAT for a minimum of 6 years, and must make them available to tax authorities in the event of an audit.

Recent changes of tax legislation

In 2018, the UK tax authorities published a VAT Notice 700/22 Making Tax Digital for VAT. Globally, this project aims at simplifying and improving businesses compliance with the UK tax system, and to this regard provide guidance to businesses to make electronic return, and keep documents digitally. These new rules have started to apply from 1 April 2019.

Concerning the United Kingdom's withdrawal from the European Union, at the end of the transition period, for VAT purposes, generally the United Kingdom will be considered as any other third country, to the exception of Norther Ireland that continues to be aligned on the EU VAT territory. Therefore, companies had to submit any VAT refund claims subject to the EU Directive 2008/9 before 21st March 2021.

Simplification measures and exemption thresholds

In the United Kingdom, the administrative burden to comply with VAT obligations is reduced for companies with a taxable turnover equal of inferior to GDP 85,000. Indeed, below this threshold, registration for VAT purposes is only voluntarily.

Moreover, for SMEs which turnover exceed this threshold, there is a flat-rate scheme in order to simplify the accounting requirements. Indeed, companies with an annual turnover equal or inferior to GBP 150,000 are allowed to apply a fixed percentage to its gross annual turnover in order to calculate its VAT liability.

Other taxes

Wages related taxes and contributions

First of all, employers are also required to pay social security contributions (called national insurance contributions, NICs) for their employees. These contributions are based and collected directly on the employees' salary, except if the weekly earnings are below GBP 120. Then, these social security contributions are deductible for CIT purposes.

Moreover, since 2017, companies in the United Kingdom are also subject to another tax on payroll: the apprenticeship levy, based on the total earnings (the "total pay bill") on which the employer has paid social security contributions of Class 1. However, this tax on payroll only applies in practice to employers with a "total pay bill" superior to GBP 3 million, since it is possible to qualify for an allowance of GBP 15,000 to offset this tax.

Real estate tax

There are two real estate taxes to which companies in the United Kingdom must comply to: the Annual Tax on Enveloped Dwellings (ATED), and the National Non-Domestic Rate (NNDR).

First of all, since 2013, companies owning high value UK residential properties must pay an annual charge, the ATED, based on the band on which the property is. In order to comply with the ATED, companies must file a return and submit it to the tax authorities.

In addition, companies must pay a tax to occupy a property, the NNDR, collected by authorities with a Uniform Business Rate (UBR) fixed by the government. The NNDR must be pad by companies in two advance payments during the year concerned by the tax, on 1 April and 1 October.

COVID-19 relief measures

In order to mitigate the effect of the COVID-19 pandemic on businesses, the Government has allowed companies to defer their VAT payments due between the 20 March 2020 and 30 June 2020 to the 2021/2022 financial year. However, the deadlines to file and submit the VAT returns have not been extended.

In addition, in between May 2020 and October 2020, the VAT rate for supply of personal protective equipment has been diminished to 0%. Finally, in between 15 July 2020 and 31 October 2021, the VAT rate for the supply of goods related to the food, hospitality and tourism sectors was also diminished to 5%.

Concerning the National Non-Domestic Rate (NNDR), several measures have been taken to alleviate the burden of this tax on businesses in the United Kingdom:

- In England, the business have beneficiated from a business rates holiday between April 2020 and June 2020;
- In Northern Ireland, businesses have not been charged with any rates in between April and July 2020 (included);
- In Scotland, businesses have beneficiated from a reduction of the rate of 1,6% for the whole 2020/2021 tax period.

Finally, in England, Scotland and Wales, for businesses particularly affected by the COVID-19 pandemic (e.g. in the retail, hospitality, and leisure sectors), no rates have been charged at all during the whole tax year 2020/2021.

Legislation referenced

- The legislation relevant to corporation tax is contained primarily in the Income and Corporation Taxes Act 1988 (ICTA), the Taxation of Chargeable Gains Act 1992 (TCGA), the Capital Allowances Act 2001 (CAA 2001), the Corporation Tax Act 2009 (CTA 2009), the Corporation Tax Act 2010 (CTA 2010) and the Taxation (International and Other Provisions) Act 2010 (TIOPA), all as amended by, inter alia, subsequent annual Finance Acts. Most of the administrative and procedural aspects are set out in the Taxes Management Act 1970 (TMA), and the Commissioners for Revenue and Customs Act 2005 (CRCA), as amended.
- The main sources of VAT law are: (i) the Value Added Tax Act 1994 (VAT Act), which has been subsequently amended to bring the UK VAT more into line with the provisions of the VAT Directive (EU Directive 2006/112); (ii) the Value Added Tax Regulations 1995, SI 1995/2518 (VAT Regulations 1995) (made under VAT Act); and (iii) case law. In disputes (arising in respect of the period prior to 31 December 2020) where the provisions of the VAT Directive differ from national provisions, a person may rely on the former under the principle of “direct effect”. The UK VAT authorities, HMRC , may rely only on national legislation. As of 1 January 2021, with the United Kingdom’s departure from the European Union and the conclusion of the transition period, the VAT Directive no longer applies in the United Kingdom.
- Social Security Contributions and Benefits Act 1992

9. Conclusions

The methodological caveats of the study allow for some final considerations only at EU level and country specific situations, even if they have been presented in the study, cannot be considered as being in all cases statistically significant and thus will not be included in these conclusions.

The conclusions and, to some extent, the recommendation of this study are presented here below and grouped by topic.

Digitalisation of tax filing

Electronic filing is a great solution to the 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 are the source of the administrative burden.

In some cases, the digitalisation of the tax filing process may increase the administrative burden, in particular for smaller enterprises that require the support of an accountant to perform these procedures. However, according to consulted stakeholders, the benefits of digitalisation outweight these costs.

Thus, a recommendtation on this aspect is a further push for the digitalisation of tax filing. In the survey, a fifth of the consulted businesses self-reported a non digitalised process of tax filing. Even if we take into account national statistics for the most recent OECD study, in some countries there are still margins of improvement on electronic filing.

Tax compliance costs

Companies in the 28 countries in scope of the study are estimated to spend an annual total amount of EUR 204 billion to comply with obligations related to CIT, VAT, wage related taxes and contributions, property and real estate taxes and local taxes. This roughly equals to 1.3% of the GDP of these countries.

The average enterprise in the 28 countries in scope is estimated to incur an annual absolute cost of EUR 14 475 in meeting its tax compliance obligations, amounting to 1.9% of its turnover.

The cost of compliance with wage related taxes and contributions is comparable to CIT and VAT (cca. EUR 2 000 to 6 000 depending on the size of the enterprise). Compliance with property and real estate taxes and local taxes are less resource intensive compared to CIT, VAT and wage related taxes.

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.

VAT registration is another source of burden for SMEs in those countries where the process is particularly lengthy. Few countries provide help and translations and when this happens is considered as a good practice. Interviewees suggest that a single VAT registration in Europe would be beneficial for both national fiscal administrations and businesses and the adoption of the One-stop-shop solution for e-commerce will drastically reduce the burden.

Smaller SMEs which may lack legal/administrative knowledge required to comply with taxes are more likely to outsource tax compliance obligations.

The relative burden of compliance

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 LSEs. This could indicate that compliance costs are, at least in part, fixed costs and also that larger enterprises utilise economies of scale to deal with tax compliance obligations.

There is no clear evidence that enterprise characteristics other than size have a profound impact on the relative burden of compliance. Understanding the enterprise specific drivers of compliance costs may require gathering more detailed, qualitative types of information from the enterprises.

There is no clear evidence that cross border trade has an impact on the relative burden of compliance (which can be disentangled from the impact of size). The majority of the leaders of companies does not believe either that engaging in cross-border activities leads to a disproportionate increase in the compliance burden. Those who do, refer to the complexity of European rules on cross-border operations and difficulties with dealing with different levels of government when it comes to explaining their perceptions.

According to the interviewed stakeholders, a simplified tax regime is a solution that reduces the administrative burden for SMEs but as of today this is adopted in several but not all Member States.

Simplification of the refund procedures, of the deductions and of litigations are, according to interviewed stakeholders, other solutions to reduce administrative burden. In particular, these procedures affect SMEs disproportionately due to the reduced administrative staff in comparison to larger companies and the need to manage finances through an external accountant which – in proportion to larger enterprises – is more expensive.

Country comparisons

The categorical country variables have a statistically significant joint impact on the relative burden of compliance after controlling for the differences across the countries in the key characteristics of the enterprises. This 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.

At the same time, with the data at hand, it is difficult make robust inference to differences in the cost and the relative burden of compliance across countries. In the future, larger country level samples and an initial mapping of tax forms to tax categories could be the suitable approach to gather more information on this matter.

In some countries (e.g. Czechia, Hungary, Latvia, the Netherlands, Slovakia, Slovenia), tax audits are more frequent than in others. Both the frequency and the cost of audit for VAT is the highest among the five types of taxes in scope.

COVID-19 relief measures

All EU Member States have adopted some COVID-19 relief measures and, in turn, these had an impact on the administrative burden for businesses. In almost all countries some form of deferral of the tax filing and payment was adopted to allow companies to cope with lockdown measures and the objective difficulties. Nevertheless, in some cases, the additional information obligations needed to benefit from special relief measures had the counter-effect of increasing the administrative burden. Familiarisation with new norms and deductions introduced between 2020 and 2021, even if not accounted in the quantitative analysis (which covers the FY2019) may have also played an important role in increasing compliance costs. Since the quantitative analysis of this study is based on self-reported

data in the CATI survey, the probability that the pandemic has influenced the responses is to be taken into account.

Overall study approach

The present study provides a comprehensive perspective on the administrative burden for the fiscal procedures in scope and captures those taxes that are effectively considered as the most burdensome for businesses.

Nevertheless, some improvements should be considered in case of future re-iteration of this exercise. In particular, the country sample of 125 observations is a limitation that does not allow for statistically significant results and for this reason, the country-comparison analyses in this study have been reported with their confidence interval, to highlight those cases where the variance of the observation reduced considerably the statistical significance of the results. This solution can be easily solved with a larger sample.

This specific study also suffers of the unique global situation of the pandemic which has a stronger effect of the self-selection bias problem: companies that are particularly affected by the economic difficulties participate to the study to lament the problems they are facing and over-estimate the administrative burden. A self-selection bias can also be solved by adopting a partially recurrent pool of participants which are included in the study on a periodic basis.

Maintaining the same approach in future iterations of this study would allow for a gradual improvement of the econometric analysis allowing for the control of non-observable time-specific factors that may influence reported data.

Annex I – Survey Questionnaire (CATI)

Questions
Introductory text: Good morning / afternoon, I am calling you regarding a study currently being undertaken by the European Commission. The topic of this study is tax compliance costs [for SMEs]. As this survey covers issues related to tax, could you please pass me on to the individual within your enterprise that would have the best overview of taxes?
Respondent instruction: Read out if necessary If your enterprise outsources this to an external agent or accountant, please can you pass me on to the individual within your enterprise that would have the best overview of the conduct of your compliance activities, including those undertaken by this external agent or accountant?
[1] The respondent is this person [start interview] [2] The respondent is not this person [obtain information about new respondent]
If [2] *Would you please give me the telephone number of that person?* *Name:* _____ *Direct telephone number:* _____
If [1] By tax compliance costs, we mean all recurring costs for complying with tax formalities, excluding the amount of the taxes themselves. Please note that the topic of this survey is about tax related directly to your business rather than your own personal income taxes. This survey is anonymous and the data will be stored on a secure database. It will not be possible to connect your answers to you, unless you add personal information in a comment field. The results will be analysed anonymously on an aggregate level and will be stored for further analyses in accordance with GDPR rules (without any personal data). In your responses, please refer to information applicable to accounting **year 2019**.
Section 0. Identification Questions
Before we conduct the key survey questions on the topic of tax compliance costs, the first few questions of this study aim to collect information about your enterprise.
Q 1. Which sector fits the main area(s) of your business best? • Manufacturing • Construction • Wholesale and retail trade; repair of motor vehicles and motorcycles • Accommodation and food service activities • Professional, scientific and technical activities • Other *[thank and close interview]*
Q 2. What is your home country? -- *EU28 Drop down list* --
Section 1. Dependence Structure
Q 3. Is your enterprise [opt.1] a standalone enterprise, not part of a group [opt.2] a subsidiary or member of a group with no subsidiaries/branches/permanent establishments [opt.3] enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group [opt.4] enterprise with subsidiaries/branches/permanent establishments in EU Member States other than your home country, but not the ultimate parent of a group [opt.5] ultimate parent of a group

Questions
[opt.6] Other: …
Section 2. Enterprise Characteristics
Q 4. What was the approximate total number of people employed in your enterprise (in your home country) at the end of 2019 (according to FTE)? *Note: Each employee is counted according to his or her proportionate working hours. Seasonal workers having a temporary contract of at most six months and persons hired temporarily from work agencies should not be included, but please include apprentices.*
Q 5. What was the approximate annual turnover (excluding VAT and other indirect taxes) of your enterprise in your home country in 2019? [IN LOCAL CURRENCY]
Q 6. When was your enterprise established?
Q 7. What is the legal form of your enterprise?
Section 3. Tax Compliance Costs
Q 8. Is your enterprise subject to Corporate Income Taxation or to a simplified tax regime on income? [if CIT go to Q 9a] [if Simplified regime go to Q 9b]
Q 9. Please estimate the annual internal time spent by your enterprise / outsourcing cost in complying with recurring tax formalities with respect to the taxes listed below (including VAT and corporate income tax) in your home country by activity: *Note: Traditionally most recurring tax formalities consist of the following four steps: data collection, preparation, review and submission.* *For each of these steps, the respondent needs to indicate the* ***annual internal time*** *(how many hours are needed to comply with each process step - for instance the preparation of corporate income tax return) and/or specific* ***outsourcing costs*** *(how much do they pay their accountant/tax specialist for doing such activities) for complying with recurring tax formalities, excluding Business as Usual Costs (for instance the preparation of financial statements).*

[Q 9a] **Corporate income tax**

	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			

[Q 9b] **Simplified tax regime**

	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			

[Q 9c] **Value added tax**

	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			

Questions			
[Q 9d] **Wage related taxes and contributions** (for example, but not limited to:)			
	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			
[Q 9e] **Property and real estate** (for example, but not limited to:)			
	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			
[Q 9f] **Local and regional taxes** (excluding local and regional taxes already accounted for in previous questions)			
	Internal time (hrs)	*Overall Outsourcing costs*	*Frequency*
Data collection			
Preparation			
Review			
Submission			
Other activities (specify)			
Q 10. At the previous question, you stated that you spent a total of (x hours) internally and (x money) on outsourcing for these taxes. Considering all taxes together (i.e. these, plus any other taxes that you did not include in the previous question), please can you estimate the annual internal time spent by your enterprise / outsourcing cost in complying with recurring tax formalities with respect to all taxes in your home country? [1] Total annual internal time: [in hour] [2] Total outsourcing costs: [in local currency]			
Q 11 a. Of these taxes highlighted at the previous questions, please list those which are submitted electronically. [1] Corporate Income Tax [2] VAT [3] Wage related taxes and contributions *(Please specify which ones are submitted electronically)* [4] Property and real estate *(Please specify which ones are submitted electronically)* [5] Local and regional taxes *(Please specify which ones are submitted electronically)* *[6] None of the above* *[7] I don't know*			
Q 11 b. Is your internal reporting process digitalised or not? [1] Digitalised, but not linked to the tax reporting process [2] Digitalised and in support of the tax reporting process [3] Not digitalised [4] I don't know			

Questions
Q 12 a. Did you experience any audits and/or additional questions from tax authorities during the last 3 years in your home country? [Opt. 1] Yes [Opt. 2] No [Opt. 3] I don't know Q 12 b. If yes, can you please indicate us how many times in the last 3 years? *Frequency (over the last three years)* VAT Corporate income tax Wage related taxes and contributions Property and real estate Local and regional taxes
Q 13. Please estimate the annual internal time spent by your enterprise / outsourcing cost in complying with audit and/or questions asked by tax authorities with respect to taxes in your home country, by type of tax

	Internal time (hrs)	*Outsourcing cost*
VAT		
Corporate income tax		
Wage related taxes and contributions		
Property and real estate		
Local and regional taxes		

Q 14. Which of the following issues do you attribute administrative burden to? Please classify them from 0 to 3 (0 = not burdensome, 1= somewhat burdensome, 2 = burdensome, 3 = very burdensome).

Issue	*Ranking (0-3)*
Complexity of tax laws (e.g. number and comprehensibility of tax laws, number of taxes, of exemptions, deductions, and credits, frequency of tax law changes, frequency of filings)	
Management of tax compliance processes (e.g. absence of tax software, costs of tax consultants)	
Tax accounting and documentation requirements (e.g. need for separate tax books, transfer pricing documentation, invoice requirements; translation of documents)	
Frequency of tax filings	

Section 4. Cross-Border Activity

Q 15. Does your enterprise operate cross-border?
[Yes]
[No]
If yes, proceed to Q 15a.

Q 15a. To the best of your knowledge, what is your estimation of the total cost of complying with (other) EU Members States' tax obligations by your enterprise in 2019?
[Opt. 1] Number of internal hours spent on tax obligations: INSERT NUMBER OF HOURS
[Opt. 2] Cost of outsourcing related to tax obligations: INSERT AMOUNT [IN LOCAL CURRENCY]
[Opt. 3] Which percentage of internal hours spent on tax obligations could be attributed to indirect taxes? Indirect taxes include VAT sales taxes and other service and good taxes.
[Opt. 4] Which percentage of outsourcing costs of tax obligations could be attributed to corporate income tax?

Questions
[Opt. 5] Which percentage of outsourcing costs of tax obligations could be attributed to indirect taxes? Indirect taxes include VAT sales taxes and other service and good taxes.
Q 15b. To the best of your knowledge, do SMEs operating cross-border face a disproportionate tax compliance burden in comparison to similar SMEs operating only in domestic markets? [Yes] [No] Q 15c. If yes, which of the following reasons are more relevant? [Opt. 1] Complexity of domestic rules and tax returns formats; [Opt. 2] Complexity of European rules on cross-border operations; [Opt. 3] Complexity in dealing with local authorities; [Opt. 4] Difficulties in dealing with different levels of government; [Opt. 5] Language barriers; [Opt. 6] Others, please specify:
Q 15d. Have any tax regulations / formalities in your home country influenced the structure of your enterprise? [Yes] [No] Q 15e. If yes, please describe how?
Q16. What was your enterprise's turnover (excluding VAT and other indirect taxes) in (other) EU member States in 2019? [IN LOCAL CURRENCY]
Q 16a. What is the average time required to reach the nearest border-crossing from the location where the majority of business activities of your enterprise takes place? [Hours] *[Note: estimate average trip time on road in hours]*
Q 19a. Have any tax regulations / formalities affected the business model of your cross-border activities or your opportunities for conducting cross-border trade? *Note: Please consider tax regulations both in your home country and abroad.* [Yes] [No]
If yes at Q 19a, ask Q 19b and 19c:
Q 19b. Please specify which taxes: _____
Q 19c. Please detail whether this impact was positive or negative, including details on the type of impact and the extent to which there was an impact: _____
Section 7. Recommendations to Tax Authorities
Note: In case the enterprise was established after 2014, please refer to the year previously indicated. Q 20. In comparison to 2014, would you say that tax compliance in general is becoming… [opt.1] much less burdensome [opt.2] slightly less burdensome [opt.3] unchanged [opt.4] slightly more burdensome [opt.5] much more burdensome [opt.6] do not know [opt.7] not applicable

Questions
Q 20a. Can you please explain why and which taxes have been the most affected?
Q 21. Please name your top 3 recommendations for easing tax compliance burden of your enterprise including any related compliance activities that you consider unnecessary in completing an accurate tax filing (and why) (in a few sentences maximum).
Section 8. Final enterprise detail
These last questions help us to put the burden of tax compliance into the context of your enterprise size. Please answer them to the best of your ability and be reassured that this information will be treated completely confidentially.
Q 22. What was the approximate balance sheet total of your enterprise in 2019? [IN LOCAL CURRENCY]
Q 23. What was the approximate gross profit of your enterprise in 2019? [IN LOCAL CURRENCY]
Section 9. Taxes Recorded
Q 24. What was the total amount of corporate income tax recorded in the profit and loss accounts by your enterprise in 2019? What was the total amount of direct taxes recorded in the profit and loss accounts by your enterprise in 2019? *Respondent instruction; READ OUT: Direct enterprise taxes are defined to include the profit or corporate income tax (CIT), mandatory social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, municipal fees and taxes, church taxes, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other taxes or fees that are borne by the enterprise. They do not include any personal income taxes.*
Q 25. What was the approximate total amount of indirect tax paid by your enterprise in 2019? *Respondent instruction; READ OUT: Indirect taxes include VAT sales taxes and other service and good taxes. For VAT, please estimate the total amount of tax remitted to the tax authority across all of the VAT returns submitted in the year*

Annex II – Semi-structured Interview Questionnaire

Questions for semi-structured interviews

SECTION I – Fiscal regimes

Q 1. To the best of your knowledge, are you aware of any fiscal regime in Europe which administrative procedures for tax filing could be considered as a good practice or a bad practice? Could you please describe these cases in terms of:

- Format and filing of the return (i.e. more or less complex):
- Prepayments (e.g. complexity of procedures, timing):
- Formalities on refund requests (e.g. complexity of procedures, timing):
- Other formalities regarding the tax compliance process:
- Clarity of the regulatory provisions (including ease of regulatory environment):
- Communication with local authorities (for explanations/interpretations):

Q 2. Which are, in your opinion, the fiscal regimes that disproportionately affect SMEs in comparison to larger enterprises in consideration of the administrative burden due to the fiscal obligations and procedures? Could you please describe how?

Q 3. To the best of your knowledge, are you aware of particular fiscal regimes which are able to influence how a company is structured and the strategy it adopts (e.g. decisions regarding debt-equity financing)?

Q 4. To the best of your knowledge, which are the most relevant obstacles SMEs face operating cross-border which give rise to a relevant tax compliance burden (e.g. higher indirect tax compliance costs as opposed to domestic-only companies)? In your opinion, are these obstacles able to hamper cross-border activities? Are you aware of examples in which the tax compliance obligations for cross-border activities have influenced organisational and/or legal structure?

SECTION II – Perception and recommendations

Q 5. Based on your experience with your members/clients, what kind of administrative procedures and specific taxes do companies perceive to be the most and least burdensome?

Q 6. For each type of the following fiscal duties, how do you perceive the level of irritation for companies from this tax obligation?

	VAT	CIT	Wage	Property	Local
1. Very irritating					
2. Rather irritating					
3. Neutral					
4. Not especially irritating					
5. Not at all irritating					
6. Do not know					

Q 7. For the irritating taxes (rated as 'very irritating' or 'rather irritating' in Q5), please specify the main causes of this irritation, according with the perception of your members/clients:
[opt.1] Time required to comply vs. amount collected
[opt.2] The complexity of the regulation/rules
[opt.3] The frequency of information obligations
[opt.4] The need for outsourcing to comply
[opt.5] The cost of outsourcing
[opt.6] The lack of transparency of the regulation
[opt.7] Post tax filing processes (e.g. obtaining a refund, complying with audit requirements, completing a tax form correction)
[opt.8] Other (e.g., behaviour of tax officials, unfairness of the tax)

Q 8. Which type of measures would you recommend to fiscal authorities to reduce the administrative burden in tax compliance obligations, with a focus on SMEs?

SECTION III – Time trends

Q 9. According to our preliminary quantitative findings, there appears to be a general increase in total tax compliance costs to turnover ratio in 2019 as opposed to 2014. To what extent do you think this is plausible (yes/no)? If yes, what reasons could have led to this effect?

Q 10. To the best of your knowledge, which countries implemented tax reforms over the 2014-2019 period with the largest effect on tax compliance costs? Can you make any examples of reforms that increased/decreased costs?

Q 11. To the best of your knowledge, has there been any other relevant change (e.g. market trends, EU legislation…) impacting tax compliance costs in Europe over the 2014-2019 time period?

SECTION IV – COVID-19 relief measures

Q 12. In your opinion, what has been the general impact of the measures implemented by different national authorities in response to COVID-19 in relation to the administrative burden on enterprises?

Q 13. In your opinion, which countries have adopted the most cost/effective relief measures? In your opinion, did these measures had a different impact on the administrative burden on large enterprises and on SMEs?

Q 14. Would you be able to estimate the effect (increase/neutral/decrease) of these measures on internal time and outsourcing costs?

Annex III – Sample population

The following table reports the actual number of respondents per country and sector.

Country	Accommodation and food service activities	Construction	Manufacturing	Professional, scientific and technical activities	Wholesale and retail trade	Grand Total
Austria	25	25	25	25	25	125
Belgium	23	26	26	24	26	125
Bulgaria	25	25	25	25	25	125
Croatia	25	25	25	25	25	125
Cyprus	25	26	25	25	24	125
Czech Republic	25	25	25	25	25	125
Denmark	28	28	23	24	22	125
Estonia	25	22	28	25	25	125
Finland	25	25	25	25	25	125
France	25	25	25	25	25	125
Germany	25	25	25	25	25	125
Greece	26	24	23	26	26	125
Hungary	24	27	23	26	25	125
Ireland	25	25	24	27	24	125
Italy	25	25	25	25	25	125
Latvia	25	26	24	25	25	125
Lithuania	25	22	28	24	26	125
Luxembourg	25	25	25	25	25	125
Malta	25	25	26	25	24	125
Netherlands	25	25	25	25	25	125
Poland	25	25	25	25	25	125
Portugal	25	25	25	25	25	125
Romania	25	25	25	25	25	125
Slovakia	25	25	25	25	25	125
Slovenia	25	25	25	25	25	125
Spain	25	25	25	25	25	125
Sweden	25	25	29	25	21	125

Country	Accommodation and food service activities	Construction	Manufacturing	Professional, scientific and technical activities	Wholesale and retail trade	Grand Total
United Kingdom	25	28	27	21	24	125
Grand Total	701	704	706	697	692	3500

The table below presents the total number of interviews performed per size and country.

Country	Micro	Small	Medium	Large	Total
Austria	71	28	21	5	125
Belgium	64	34	23	4	125
Bulgaria	69	26	22	8	125
Croatia	42	38	35	10	125
Cyprus	49	43	21	12	125
Czech Republic	52	37	25	11	125
Denmark	64	27	26	8	125
Estonia	56	32	25	12	125
Finland	60	29	26	10	125
France	70	20	24	11	125
Germany	72	26	23	4	125
Greece	46	39	28	12	125
Hungary	40	40	30	15	125
Ireland	68	21	29	7	125
Italy	63	23	33	6	125
Latvia	46	39	26	14	125
Lithuania	27	48	34	16	125
Luxembourg	67	29	23	6	125
Malta	52	30	33	10	125
Netherlands	61	24	27	13	125
Poland	64	31	19	11	125
Portugal	61	26	29	9	125
Romania	47	33	33	12	125
Slovakia	63	31	21	10	125
Slovenia	69	25	22	9	125

Country	Micro	Small	Medium	Large	Total
Spain	65	20	28	12	125
Sweden	61	30	26	8	125
United Kingdom	66	17	26	16	125
Grand Total	1635	846	738	281	3500

The table below present the actual sample per country following the data quality review and follow up refinement.

Country	Sample
Austria	113
Belgium	101
Bulgaria	94
Croatia	100
Cyprus	112
Czech Republic	98
Denmark	81
Estonia	118
Finland	88
France	86
Germany	114
Greece	114
Hungary	120
Ireland	82
Italy	110
Latvia	115
Lithuania	116
Luxembourg	114
Malta	115
Netherlands	116
Poland	96
Portugal	108
Romania	90
Slovakia	112

Country	Sample
Slovenia	88
Spain	117
Sweden	106
United Kingdom	96
Grand Total	2920

Annex IV – Data preparation and data cleaning

The section below presents the preparatory steps we took with the raw data resulting from the fieldwork, prior to commencing the analytic tasks.

Converting currencies

As 9 out of the 28 member states use national currencies, monetary responses from these member states had to be converted to euros. Average exchange rates for 2019 were used as the answers referred to this year. These exchange rates are presented in the table below.

Table 6: Average annual exchange rates used for converting monetary responses provided in national currencies

Member state	Currency	Exchange rate (average of 2019)	
		EUR/NATIONAL	NATIONAL/EUR
Bulgaria	Bulgarian lev	0.5113	1.9558
Croatia	Croatian kuna	0.1348	7,418
Czech Republic	Czech Koruna	0.0389	25.670
Denmark	Danish krone	0.1339	7.4661
Hungary	Hungarian forint	0.0031	325.30
Poland	Zloty	0.2327	4.2976
Romania	Leu	0.2107	4.7453
Sweden	Swedish Krona	0.0944	10.5891
United Kingdom	GBP	1.1393	0,8777

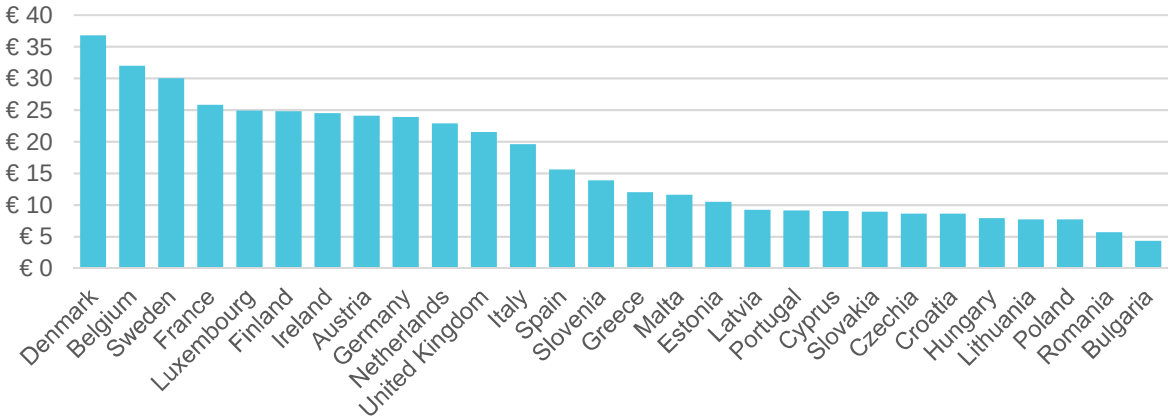
Source: European Central Bank[28].

Converting hours to costs

Identically to the predecessor study, this survey questionnaire used internal hours spent instead of costs for measuring tax compliance related activities. This was expected to lead to more accurate self-reporting especially in the case of small enterprises. In turn, the internal hours spent on tax compliance related activities were multiplied by the member state specific wage costs of administrative staff (usually handling compliance matters) for each member state. The member state specific wage rates are presented in the figure below.

[28] European Central Bank. (2021). Euro foreign exchange reference rates. Retrieved from https://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html, 19 March 2021.

Figure 43: Labour costs (compensation of employees plus taxes minus subsidies) of administrative and support service activities by member states



Source: EUROSTAT[29].

Calculating compliance costs

Preceding the estimation of the ratios, total direct enterprise tax[30], total enterprise tax compliance costs and total indirect tax compliance costs had to be calculated from the survey data. Calculations were carried out as follows:

- total enterprise tax compliance cost = (internal time spent /Q9[31]/ * member state specific labour cost of administrative personnel) + external/outsourcing costs[32] (Q9);
- total indirect tax compliance cost = (internal time spent on VAT /Q9/ * member state specific labour cost of administrative personnel) + external/outsourcing costs (Q9)* percentage of outsourcing costs attributed to indirect taxes (Q9).

Improving the quality of primary data

The research team, for the update of the present quantitative analysis, reached out to those respondents that in the first iteration of the survey provided inconsistent data or data which did not meet the quality standards for our analysis. The research team reached out 941 companies, with the following results:

- 243 contacts provided more accurate data compared to those provided in the first call;
- 118 contacts confirmed the data (or slightly modified) provided in the first call;
- 331 contacts rejected the second participation to the survey;
- 249 contacts did not respond.

The analysis is thus based solely on the data that have been considered as compliant with our approach to outliers (described below).

[29] Source: EUROSTAT. http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lc_lci_lev&lang=EN.

[30] Direct enterprise taxes are defined to include the profit or corporate income tax (CIT), mandatory social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, municipal fees and taxes, church taxes, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other taxes or fees that are borne by the enterprise. They do not include any personal income taxes.

[31] Q9 refers to Question 9 in the CATI survey which asks respondents to estimate the time spent by the company to comply with administrative procedures of tax filing.

[32] Detailed descriptive statistics are to be provided in the Final Interim Report regarding outsourcing activities.

Outliers

From the sample, a total of 580 outliers were removed from the dataset, leaving a total of 2920 observations to be used in calculations. We decided to remove observations based on the following criteria:

- Total tax compliance cost to turnover ratio is above 1 which makes the operation of the enterprise economically unfeasible and is likely due to an overstatement of the self-reported compliance costs by respondents;
- The minimum costs of the enterprise (reported outsourcing costs and gross profit, minimum wage costs) exceed turnover, or very close to exceeding it, which makes the operation of the enterprise economically unfeasible;
- The reported hours spent on tax compliance internally exceed the possible working hours of the reported number of employees; and
- The trial to conduct another interview with the respondent to double check their answer was not successful.

This entails the total exclusion of these 580 outliers, since it is not possible to estimate which one of their answer(s) could be misleading. This approach leads to the removal of around 25% of the observations in some countries, namely Denmark and Ireland which signals that data quality might be poorer in these countries compared to others.

Survey weighting

The sampling approach (disproportionate stratified sampling) entails that the data needs to be weighted prior to analysis to ensure representativity of the underlying population of enterprises.

The idea behind weighting is simple: based on the available population distribution, a number is assigned to each respondent indicating how many similar enterprises the respondent is representing from the population of SMEs and Large Size Enterprises (hereafter LSEs) in the 28 member states. After assigning weights to each respondent, the weighted responses are used in further analysis.

Identically to the predecessor study, data from EUROSTAT regarding the number of enterprises in the 28 member states and employment categories were used for this purpose. The weighted sample at the EU level is representative of the underlying population in terms of member states, sectors and size categories and at the MS level by sectors and size categories.

We take note that representativeness of the sample along certain enterprise characteristics does not automatically lead to precision when it comes to estimating different characteristics of the population. It simply means that the estimates are expected to be less biased, assuming that size and country are the primary enterprise characteristics driving compliance costs. At the same time the certainty of estimates will remain much lower at the MS level where the estimations are based on a maximum number of 125 enterprises per MS. The level of certainty is made transparent by confidence intervals.

Annex V – Methodology of SCM calculation

The bulk of tax compliance costs are caused by information obligations, for instance, gathering data, filing in tax returns with data, etc. The SCM is used to assess a total figure for administrative costs for businesses and for measuring overall tax compliance.

The SCM addresses administrative costs which consist of administrative burdens and business-as usual costs (BAU costs). Administrative burdens (AB) are those costs borne by businesses, citizens, civil society organizations and public authorities as a result of administrative activities performed to comply with information obligations (IO) included in legal rules. More specifically, administrative burdens are the part of administrative costs which is caused by regulatory requirements. BAU costs, i.e. costs that would emerge also in absence of regulation, are not included in administrative burdens but, together with AB, form administrative costs.

As tax obligations stem from regulations by definition, making a distinction between BAU costs and ABs is not a fundamental issue in the context of this study. Still we explained survey respondents the concept of BAU costs and asked them to estimate costs and time required to comply with the exclusion of such costs (identically to the predecessor study).

To conduct the SCM we took the 11 steps included in the EU SCM methodology as defined by Annex 10 to the “Impact Assessment Guidelines” of the European Commission SEC (2005)791 as a starting point. We tailored this approach to the specifics of this study and introduced some slight changes based on the experiences of the predecessor study as presented below.

Phase 1: Preparatory analysis

Step 1 and 2 – Identification and classification of the information obligations (IO) and actions required to comply with IOs

The SCM focuses on the five most burdensome taxes. Results of the Study 2018 suggest that these are:

- Value Added Tax (VAT),
- Corporate Income Tax (CIT)
- Wage related taxes and contributions
- Property and real estate tax
- Local and regional taxes

To enable a clear and sound comparison across borders and tax jurisdictions we focus on the four main processes distinguished for the compliance costs of the selected tax categories when it comes to IOs (see Q9 in the survey):

1) data collection;
2) preparation;
3) review;
4) submission.

Step 3 – Classification by regulatory origin

Based on the experience of the previous study, enterprises have very limited information on the origin of the IOs. Another issue is posed by the international scale of the study, with some types of taxes run centrally in one member state and regionally in another. Classification by regulatory sources – identically to the predecessor study – is not a part of this study – also because we rely on a predetermined set of taxes considered as the most burdensome (see step 2).

Step 4 – Identification of target groups

Identically to the predecessor study, enterprises are classified by size (micro, small, medium and large enterprises), by industrial sectors and by countries. Results are presented by countries and by size of enterprises. A classification by industry is also included at the EU level.

Step 5 – Identification of the frequency of required actions

The survey questionnaire includes a question on the frequency of the required actions by enterprises on the IOs (per year). Responses to this question are used to identify filing frequencies. While we carried out quality checks on the data, as is the case with all surveys, there can be a variations of frequency in time which may seem contradictory to the workings of the different taxes (e.g. one off cost of familiarisation with the tax).

Step 6 – Identification of relevant cost parameters

We structured cost parameters by two cases:

- the first considers an enterprise that fully internalises its tax compliance processes;
- the second is a mix of internal and external processes (e.g. the preparation is outsourced but submission is run by the enterprise) including enterprises which externalise whole processes. As the predecessor study showed that there are very few examples for enterprises that outsource their complete process (there always remains a fraction of the work to be done internally, such as data gathering), we included them in this category as well.

This distinction enabled us to analyse whether in-house preparation or outsourcing impacts tax compliance costs and if the choice of in-house preparation or outsourcing is influenced by elements such as the size of the enterprises involved.

Step 7 – Define data sources

The analysis relies on data collected through a survey involving 3.500 enterprises.

Phase 2: Data collection and standardisation

The analysis of the SCM includes two main steps. The eighth step (step 8) consists of the collection of data and the number of observations considered (number of enterprises that pay taxes). The ninth step (step 9) considers the performance of a normally-efficient enterprise (NEE) or, in other words, the average amount of time and/or cost that a considered enterprise spends to comply with its tax compliance obligations.

Step 8 – Collect data

Step 8 refers to the implementation of the survey which provides inputs the other study tasks as well. The collection of ran through the presented survey (see section 4.2 for the description of the underlying population of enterprises) which led to the

collection of 3500 responses throughout the 28 countries. The questions of the survey (with regard to the SCM), based on the IOs required for each tax, identified the administrative activities required to meet these IOs. These activities are divided into four categories for each tax: data collection; preparation (of tax filings); review; and submission. Each respondent was specifically asked to provide an estimate of the time or costs required for these activities only as far as the AB is concerned, excluding BAU costs.

Step 9 – Identifying the normally efficient enterprise

The ninth step (step 9) considers the performance of a normally efficient entity (NEE). In the context of this study, the 15%[33] trimmed weighted average amount of time and/or cost is considered to be the amount a normally efficient enterprise spends to comply with its tax compliance obligations. Medians are estimated as a robustness check.

A NEE is an enterprise deemed representative of an observed population. The NEE at the European level of this study is an enterprise:

- with 6 employees;
- with EUR 2 041 000 of annual turnover.

Since the sample distribution for such observations (compliance time and costs for each tax) is not normally distributed and stratified, the sample will exclude outliers and will be weighted to represent the population and not the sample (as described the sample will overestimate the share of LSEs in order to have sufficient statistically significant results for this group of enterprises). The weighting applied to the sample helps ensure a proper representation of each of the observed population and, hence, of the concept of a NEE. It also means that when it comes to individual estimations the characteristics of the NEE may slightly deviate from the above.

From this perspective, all results (average compliance costs) that are presented in this interim report shall be considered as representative of a NEE. In other words, a NEE at European level for all kinds of enterprise is not similar to the one in a specific member state, sector or size-range.

Phase 3: Calculating and reporting

In this phase, SCM estimations are carried out and the results are documented. The calculations are based on a maximum number of 2 920 observations in the survey sample. Due to trimming or missing data, the actual number of observations is most often smaller than this number. The actual number of observations used for the different estimations is included as a note under each figure in this report.

[33] Due to the characteristics of the data, a 15% trimming seemed to be a more adequate approach as opposed to the 10% trimming used in the predecessor study.

Annex VI – Methodology of Regression analysis

Regression models are estimated for total enterprise tax compliance costs and two of the four ratios analysed[34]:

- total enterprise tax compliance cost to turnover ratio (R1);
- indirect enterprise tax compliance cost to turnover ratio (R2);

The outcome variables are explained in the estimation models by enterprise characteristics that are expected to have an influence on absolute compliance costs and the ratios. These enterprise characteristics are presented in the table below.

Table 7: Enterprise characteristics included in the regression models

Explanatory variable	Rationale behind including the variable	Measurement
Size	Larger enterprises are expected to face higher compliance costs but a lower relative burden.	Categorical. Official SME categories of the European Commission (micro, small, medium, and large).
Outsourcing	Outsourcing at least a part of tax compliance obligations may lead to differences in total enterprise tax compliance cost because the external service providers may have more efficient processes to deal with compliance and better knowledge regarding the relevant regulations, tax forms, etc.	The total external compliance cost as a percentage of all compliance cost (The variable is between 0 and 100%).
Dependence structure	Enterprises with subsidiaries in their home country or those with foreign business operations may bear a higher compliance burden due to higher costs in complying with several different tax systems and the need for greater governance and oversight by management.	Categorical: standalone enterprise, not part of a group subsidiary or member of a group with no subsidiaries/branches/permanent establishments enterprise with subsidiaries/branches/permanent establishments in Countries other than the home country, but not the ultimate parent of a group

[34] As we saw earlier in this Study, the confidence intervals for the estimations of the total direct taxes to gross profit and total enterprise tax compliance cost to tax revenue ratios were very large. One reason for this is the fact of the lower number of respondents answering these questions, the other is that the variation of taxes paid and gross profit can be assumed to be higher than the variation of turnover. As discussed earlier, the low response rates are most likely explained by the confidentiality of the data requested. Secondly, these ratios are also more prone to measurement errors as respondents may have given estimates regarding gross profit and taxes paid if they did not have accurate information to hand, even if the respondent has some knowledge of the information required. For these reasons, most explanatory variables are not significant in the regression analysis of these ratios and the estimations are unlikely to provide additional insights into the drivers of the compliance burden.

Explanatory variable	Rationale behind including the variable	Measurement
		enterprise with subsidiaries/branches/permanent establishments in the home country, but not the ultimate parent of a group ultimate parent of a group other
Enterprise age	The age of the enterprise may impact on compliance cost in terms of, for example, having more established practices or, conversely, having greater complexity because of older and multiple legacy financial systems.	Categorical: The enterprise was established after 2008 between 1999 and 2008 between 1984 and 1998 before 1984
Electronic filing	Countries that provide optional electronic filing arrangements may deliver a different compliance experience depending on whether an enterprise chooses to use it or not. A positive estimated impact would serve as evidence of efficiency gains from electronic tax filing.	Categorical: Equals 0 if the enterprise does not file either CIT or VAT electronically Equals 1 if the enterprise files either CIT or VAT electronically Equals 2 if the enterprise files both CIT and VAT electronically
Cross-border trade	Enterprises engaging in cross-border trade may face higher absolute compliance costs, particularly for VAT, and may face a higher relative burden due to differences in the national tax systems.	Categorical: Equals 0 if the enterprise does not engage in cross-border trade Equals 1 if it does
Country	The regulatory environment and the general complexity of tax rules are characteristics of the countries affecting the compliance burden. While these factors cannot be directly measured from the survey, we know the country of residence for each enterprise in the sample. Therefore we can control for these factors via categorical country variables. If these variables are statistically significant we can say that the observations in some countries systematically differ	Categorical: 20 countries selected.

Explanatory variable	Rationale behind including the variable	Measurement
	from the observations in other countries, even after controlling for differences in the characteristics of enterprises within the countries.	
Sector	Similarly to the characteristics of the countries, we expect that there are unobservable characteristics of the sectors that affect the compliance burden in the same way within sectors. Including a categorical sector variable as a proxy enables us to control for such unobservable sectors specific characteristics.	Categorical: Accommodation and food service activities Construction Electricity, gas, steam and air conditioning supply Manufacturing Professional, scientific and technical activities Wholesale and retail trade; repair of motor vehicles and motorcycles

Source: KPMG (2021).

Besides enterprise characteristics, a set of categorical variables was included for the countries and sectors in scope. These categorical variables capture unobservable effects that are assumed to influence the compliance burden of enterprises operating in the same sector regardless of country (e.g. sector-specific economic trends) or unobservable effects that are assumed to influence all enterprises operating in the same country regardless of sector (e.g. tax rules, tax administration).

The model specifications outlined above are useful for several purposes:

- they can be used to analyse the impact of certain enterprise characteristics on compliance costs or the compliance burden, while controlling for other enterprise characteristics;
- they can be used to quantify the impact of country level unobservable elements on the tax compliance burden, such as the differences in the national tax systems. They are capable of doing this by estimating parameters for the country dummies while controlling for systematic differences between the enterprises in the different countries. The estimated impacts can be compared to a base category (a base country) and the differences in the estimated impacts can be related to the characteristics of the national tax administrations by qualitative argumentation. The base category was selected to be Italy as the estimated ratios for this country were the closest to the EU average; and they can be used to assess whether or not electronic filing and outsourcing affects compliance costs or the compliance burden while controlling for enterprise characteristics.

Estimation approach

The model specifications described above are estimated at the EU level by weighted ordinary least squares (WOLS).

Let us first start by the description of the classical OLS assumptions. A general linear model in the population can be written as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \cdots + \beta_n x_n + u$$

In the equation above $\beta_0, \beta_1, \ldots, \beta_n$ are unknown parameters (coefficients, the impacts of enterprise characteristics) to be estimated and u is an unobserved random error term. The usual assumptions[35] of the OLS estimator are the following:

A1. The relationship between the explanatory variables and the outcome variable is linear.
A2. The estimation sample is randomly taken from the population.
A3. No perfect collinearity. None of the independent variables is constant and there are no exact linear relationships among the independent variables.
A4. The error terms are independently distributed and have zero expected value.
A5. The conditional variance of the error term is constant across the values of explanatory variables (homoscedasticity assumption).

Under assumptions A1 to A4, OLS is unbiased and consistent. Unbiased means that the expected value of the coefficient estimates equals the true population parameter. Consistent means that the estimated parameters become more and more tightly distributed around the true population parameters as the sample size grows. Assumptions A1 to A5 are known as the Gauss-Markov assumptions. Under these assumptions, OLS is the Best Linear Unbiased Estimator of the unknown population parameters, i.e. has the smallest variance among all linear estimators.

If we add another assumption to the previously mentioned ones, namely that the error term not only has a zero expected value but is also normally distributed (*assumption A6*), we refer to these assumptions as "the Classical Linear Model Assumptions". Under these assumptions, it can be shown that that the OLS estimator is the minimum variance unbiased estimator, i.e. that it has the smallest variance among all unbiased estimators. If these assumptions hold, confidence intervals (i.e. a range of plausible estimates) t-tests and F-tests can be conducted regarding the estimated parameters of the model.

Notably, however, assumption A6 is not required for the validity of confidence intervals, F-tests and t-test in large samples. It can be shown[36] that the OLS estimator has an asymptotically normal distribution in large samples and, therefore, in large enough samples confidence intervals, t-tests and F-tests can be calculated regardless of the normality of the error term.

WOLS instead of OLS

Assumption A2 is clearly violated as we have a disproportionate stratified sample. Therefore we use Weighted Least Squares (WOLS) estimation instead of the simple OLS estimation. The assumptions of WOLS are the same as the assumptions of OLS besides assumption A2.

To see how WOLS is estimated, let us rewrite the population model in matrix notation:

$$Y = X'\beta + u$$

With $\hat{\beta}$ denoting the WOLS estimate of β and W denoting a diagonal matrix with the weights as elements we can write:

[35] For a more technical and detailed discussion of the Gauss-Markov assumptions and the General Linear Model please refer to Woolridge, J. M. (2002). Econometric Analysis of Cross Section and Panel Data. Cambridge MA: MIT Press. For a more detailed but less technical discussion, please refer to Woolridge, J. M. (2012). Introductory Econometrics: A Modern Approach. Michigan: Michigan State University.

[36] With the central limit theorem.

$$\hat{\beta} = (X'WX)^{-1}X'WY$$

2SLS regression

Two-stage least squares (2SLS) regression analysis is a statistical technique that is used in the analysis of structural equations. This technique is the extension of the OLS method. It is mostly used when the dependent variable's error terms are correlated with the independent variables.

In ordinary least square method, there is a basic assumption that the value of the error terms is independent of predictor variables. When this assumption is broken, this technique helps us to solve this problem. This analysis assumes that there is a secondary predictor that is correlated to the problematic predictor but not with the error term. Given the existence of the instrument variable, the following two methods are used:

1. In the first stage, a new variable is created using the instrument variable.
2. In the second stage, the model-estimated values from stage one are then used in place of the actual values of the problematic predictors to compute an OLS model for the response of interest.

Repeated cross sectional regression

Repeated cross-sectional data refers to data where a new random sample is collected at successive surveys. The waves of survey make the pooling of datasets possible by including a time variable. Including time variables and using a larger dataset allows us to look at the differences throughout data collection periods and also to increase the robustness of our results.

Assessing goodness-of-fit

To assess the appropriateness of the estimation models, goodness-of-fit indicators (such as the R-squared and adjusted R-squared) and the statistical significance of the estimated coefficients (p-values) were used. The p-value is interpreted as the estimated probability of obtaining such an estimated parameter value (or more extreme) if the "true" population parameter is zero. Low p-values therefore indicate statistically significant estimations, i.e. estimations significantly different from zero in a statistical sense. The R-squared can be interpreted as the proportion of the variance in the outcome variable explained by the model. The adjusted R-squared can be interpreted similarly.

Model specifications in mathematical notations

The model of total compliance costs – with u_i denoting a random error term – can be written as follows:

$$\begin{aligned}\log(total\ enterprise\ tax\ compliance\ cost) \\ &= \boldsymbol{\beta_0} + \boldsymbol{\beta_1} \times company\ size_1 + \boldsymbol{\beta_2} \times country_1 + \boldsymbol{\beta_3} \times sector_1 + \boldsymbol{\beta_4} \\ &\times dependence\ sturcture_1 + \boldsymbol{\beta_4} \times outsourcing_1 + \boldsymbol{\beta_5} \\ &\times electronic\ filling_1 + \boldsymbol{\beta_6} \times multinational\ presence_1 + \boldsymbol{\beta_7} \\ &\times year\ established_1 + u_i\end{aligned}$$

All the explanatory variables are categorical variables, except the outsourcing which is linear. In the model, compliance costs are expressed in natural logarithms. After taking the exponential, the estimated parameters (elements of the vector $\boldsymbol{\beta}$ shall be interpreted as a relative change in total enterprise tax compliance costs attributed to a change in enterprise characteristics. By relative we mean that the change is always compared to the absolute value of a base category in the case of the categorical variables. The $\boldsymbol{\beta_4}$ vector of

outsourcing can be interpreted as a percentage change in compliance cost when the outsourcing increases by one percentage point.

The models of the ratios were estimated in levels instead, because of the convenience of the interpretation of the parameter estimates. All the explanatory variables are categorical variables, except the outsourcing which is linear. In these models, the elements of the vector $\boldsymbol{\beta}$ be interpreted as a percentage point change in compliance costs compared to a base category in the case of the categorical variables. The $\boldsymbol{\beta_4}$ vector of outsourcing can be interpreted as a percentage point change in compliance cost when the outsourcing increases by one percentage point.

The model of the total enterprise tax compliance cost to turnover ratio can be written as follows:

$$\begin{aligned} &Total\ enterprise\ tax\ compliance\ cost\ to\ turnover\ ratio \\ &\quad = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} \times company\ size_1 + \boldsymbol{\beta_2} \times country_1 + \boldsymbol{\beta_3} \times sector_1 + \boldsymbol{\beta_4} \\ &\quad \times dependence\ sturcture_1 + \boldsymbol{\beta_4} \times outsourcing_1 + \boldsymbol{\beta_5} \\ &\quad \times electronic\ filling_1 + \boldsymbol{\beta_6} \times multinational\ presence_1 + \boldsymbol{\beta_7} \\ &\quad \times year\ established_1 + \boldsymbol{\beta_8} \times data\ source\ of\ the\ turnover_1 + u_i \end{aligned}$$

The model of the total indirect enterprise tax compliance cost to turnover ratio is identical with the previous ratio:

$$\begin{aligned} &Total\ indirect\ enterprise\ tax\ compliance\ cost\ to\ turnover\ ratio \\ &\quad = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} \times company\ size_1 + \boldsymbol{\beta_2} \times country_1 + \boldsymbol{\beta_3} \times sector_1 + \boldsymbol{\beta_4} \\ &\quad \times dependence\ sturcture_1 + \boldsymbol{\beta_4} \times outsourcing_1 + \boldsymbol{\beta_5} \\ &\quad \times electronic\ filling_1 + \boldsymbol{\beta_6} \times multinational\ presence_1 + \boldsymbol{\beta_7} \\ &\quad \times year\ established_1 + \boldsymbol{\beta_8} \times data\ source\ of\ the\ turnover_1 + u_i \end{aligned}$$

Annex VII – Estimation tables – WOLS

TETCC

Table 8: TETCC - regression results

	Estimated coefficient	Standard error
Enterprise size, baseline: Micro-sized		
Small-sized	0.688***	0.118
Medium-sized	0.887***	0.101
LSEs	1.253***	0.145
Sector, baseline: C - Manufacturing		
F - Construction	0.0602	0.147
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	0.0852	0.118
I - Accommodation and food service activities	-0.000435	0.128
M - Professional, scientific and technical activities	-0.0334	0.133
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	0.0978	0.127
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.697***	0.211

Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	0.0277	0.327
Ultimate parent of a group	0.153	0.192
Outsourcing	0.650***	0.193
Digitalisation, baseline: Not digitalised		
Digitalised, but not linked to the tax reporting process	-0.360***	0.134
Digitalised and in support of the tax reporting process	-0.160	0.132
I don't know	-0.218	0.155
Cross-border trade, baseline: No		
Yes	0.0850	0.122
Year established, baseline: after 2008		
Between 1999 and 2008	-0.0722	0.120
Between 1984 and 1998	-0.0190	0.117
Before 1984	-0.0501	0.178
Categorical country variable included		
Constant	9.263***	0.232
Observations	2,907	
R-squared	0.282	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

TETCC to turnover ratio (R1)

Table 9: TETCC to turnover ratio (R1) - regression results

	Estimated coefficient	Standard error
Enterprise size, baseline: Micro-sized		
Small-sized	-0.0118***	0.0011
Medium-sized	-0.0184***	0.0014
LSEs	-0.0222***	0.00172
Sector, baseline: C - Manufacturing		
F - Construction	-0.00294	0.00196
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	-0.00322	0.00322
I - Accommodation and food service activities	-0.000196	0.00216
M - Professional, scientific and technical activities	0.00181	0.00203
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.00325	0.00209
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	-0.00164	0.00204
Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	0.0105***	0.00353
Ultimate parent of a group	-0.00134	0.00410
Outsourcing	0.00174	0.00266
Digitalisation, baseline: Not digitalised		

Digitalised, but not linked to the tax reporting process	-0.00166	0.00203
Digitalised and in support of the tax reporting process	-0.000499	0.00176
I don't know	0.00175	0.00426
Cross-border trade, baseline: No		
Yes	0.00600***	0.00180
Year established, baseline: after 2008		
Between 1999 and 2008	0.000822	0.00193
Between 1984 and 1998	-0.00374**	0.00162
Before 1984	-0.00286	0.00213
Categorical country variable included		
Constant	0.0192***	0.00312
Observations	2,475	
R-squared	0.172	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

IETCC to turnover ratio (R2)

Table 10: IETCC to turnover ratio (R2) - regression results

	Estimated coefficient	Standard error
Enterprise size, baseline: Micro-sized		
Small-sized	-0.00209***	0.000217
Medium-sized	-0.00309***	0.000258
LSEs	-0.00349***	0.00349
Sector, baseline: C - Manufacturing		
F - Construction	-0.000450	0.000358
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	0,0000316	0.000356
I - Accommodation and food service activities	0.000176	0.000349
M - Professional, scientific and technical activities	0.000290	0.000380
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.000352	0.000410
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.0000833	0.000487
Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	0.00133*	0.000802
Ultimate parent of a group	0.000205	0.00132
Outsourcing	0.000684	0.000489
Digitalisation, baseline: Not digitalised		
Digitalised, but not linked to the tax reporting process	-0.000777*	0.000407
Digitalised and in support of the tax reporting process	-0.000610	0.000411
I don't know	0.000553	0.000700
Cross-border trade, baseline: No		
Yes	0.000354	0.000318
Year established, baseline: after 2008		

Between 1999 and 2008	0.000414	0.000383
Between 1984 and 1998	-0.000173	0.000325
Before 1984	-0.0000223	0.000488
Categorical country variable included		
Constant	0.00367***	0.000613
Observations	2,473	
R-squared	0.154	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

Annex VIII – Estimation tables – 2SLS

Table 11: TETCC – 2SLS regression results

	Estimated coefficient	Standard error
Enterprise size, baseline: Micro-sized		
Small-sized	0.688***	0.118
Medium-sized	0.887***	0.101
LSEs	1.253***	0.145
Sector, baseline: C - Manufacturing		
F - Construction	0.0602	0.147
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	0.0852	0.118
I - Accommodation and food service activities	-0.000435	0.128
M - Professional, scientific and technical activities	-0.0334	0.133
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	0.0978	0.127
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.697***	0.211
Enterprise with subsidiaries/branches/permanent establishments in (EU) Member States other than your home country, but not the ultimate parent of a group	0.0277	0.327
Ultimate parent of a group	0.153	0.192
Outsourcing	0.650***	
Digitalisation, baseline: Not digitalised		
Digitalised, but not linked to the tax reporting process	-0.360***	0.134
Digitalised and in support of the tax reporting process	-0.160	0.132
I don't know	-0.218	0.155
Cross-border trade, baseline: No		
Yes	0.0850	0.122
Year established, baseline: after 2008		
Between 1999 and 2008	-0.0722	0.120
Between 1984 and 1998	-0.0190	0.117
Before 1984	-0.0501	0.178
Categorical country variable included		
Constant	9.263***	0.232

Observations	2,907	
R-squared	0.282	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: 2SLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

Table 12: TETCC to turnover ratio (R1) – 2SLS regression results

	Estimated coefficient	Standard error
Enterprise size, baseline: Micro-sized		
Small-sized	-0.0118***	0.0011
Medium-sized	-0.0184***	0.0014
LSEs	-0.0222***	0.00172
Sector, baseline: C - Manufacturing		
F - Construction	-0.00294	0.00196
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	-0.00322	0.00322
I - Accommodation and food service activities	-0.000196	0.00216
M - Professional, scientific and technical activities	0.00181	0.00203
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.00325	0.00209
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	-0.00164	0.00204
Enterprise with subsidiaries/branches/permanent establishments in (EU) Member States other than your home country, but not the ultimate parent of a group	0.0105***	0.00353
Ultimate parent of a group	-0.00134	0.00410
Outsourcing	0.00174	0.00266
Digitalisation, baseline: Not digitalised		
Digitalised, but not linked to the tax reporting process	-0.00166	0.00203
Digitalised and in support of the tax reporting process	-0.000499	0.00176
I don't know	0.00175	0.00426
Cross-border trade, baseline: No		
Yes	0.00600***	0.00180
Year established, baseline: after 2008		
Between 1999 and 2008	0.000822	0.00193
Between 1984 and 1998	-0.00374**	0.00162
Before 1984	-0.00286	0.00213
Categorical country variable included		
Constant	0.0192***	0.00312
Observations	2,475	
R-squared	0.172	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: 2SLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

Table 13: IETCC to turnover ratio (R2) – 2SLS regression results

	Estimated coefficient	Standard error

Enterprise size, baseline: Micro-sized		
Small-sized	-0.00209***	0.000217
Medium-sized	-0.00309***	0.000258
LSEs	-0.00349***	0.00349
Sector, baseline: C - Manufacturing		
F - Construction	-0.000450	0.000358
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	0,0000316	0.000356
I - Accommodation and food service activities	0.000176	0.000349
M - Professional, scientific and technical activities	0.000290	0.000380
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.000352	0.000410
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.0000833	0.000487
Enterprise with subsidiaries/branches/permanent establishments in (EU) Member States other than your home country, but not the ultimate parent of a group	0.00133*	0.000802
Ultimate parent of a group	0.000205	0.00132
Outsourcing	0.000684	0.000489
Digitalisation, baseline: Not digitalised		
Digitalised, but not linked to the tax reporting process	-0.000777*	0.000407
Digitalised and in support of the tax reporting process	-0.000610	0.000411
I don't know	0.000553	0.000700
Cross-border trade, baseline: No		
Yes	0.000354	0.000318
Year established, baseline: after 2008		
Between 1999 and 2008	0.000414	0.000383
Between 1984 and 1998	-0.000173	0.000325
Before 1984	-0.0000223	0.000488
Categorical country variable included		
Constant	0.00367***	0.000613
Observations	2,473	
R-squared	0.154	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: 2SLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

Annex IX – Estimation tables – Repeated cross-sectional WOLS

TETCC

Table 14: TETCC – repeated cross-section regression results

	Estimated coefficient	Standard error
Year, baseline: 2014		
2019	0.761***	0.083

Enterprise size, baseline: Micro-sized		
Small-sized	0.709***	0.087
Medium-sized	0.900***	0.096
LSEs	1.375***	0.161
Sector, baseline: C - Manufacturing		
F - Construction	-0.053	0.135
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	-0.048	0.128
I - Accommodation and food service activities	-0.123	0.139
M - Professional, scientific and technical activities	-0.085	0.132
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	0.083	0.124
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.653***	0.234
Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	0.559	0.377
Ultimate parent of a group	0.195	0.371
Outsourcing	0.607**	0.134
Cross-border trade, baseline: No		
Yes	0.291**	0.096
Year established, baseline: after 2008		
Between 1999 and 2008	-0.001	0.105
Between 1984 and 1998	-0.076	0.103
Before 1984	-0.171	0.136
Categorical country variable included		
Constant	8.096***	0.216
Observations	4,626	
R-squared	0.232	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

TETCC to turnover ratio (R1)

Table 15: TETCC to turnover ratio (R1) – repeated cross-section regression results

	Estimated coefficient	Standard error
Year, baseline: 2014		
2019	-0.006***	0.002
Enterprise size, baseline: Micro-sized		
Small-sized	-0.012***	0.001
Medium-sized	-0.019***	0.001
LSEs	-0.017***	0.004
Sector, baseline: C - Manufacturing		
F - Construction	-0.004*	0.002
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	-0.002	0.002

I - Accommodation and food service activities	0.002	0.002
M - Professional, scientific and technical activities	0.0004	0.002
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.004*	0.002
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.003	0.006
Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	-0.005	0.006
Ultimate parent of a group	-0.006	0.004
Outsourcing	0.004	0.003
Cross-border trade, baseline: No		
Yes	-0.0006	0.002
Year established, baseline: after 2008		
Between 1999 and 2008	-0.00002	0.002
Between 1984 and 1998	-0.004*	0.002
Before 1984	-0.004	0.003
Categorical country variable included		
Constant	0.028***	0.004
Observations	3,967	
R-squared	0.10	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

IETCC to turnover ratio (R2)

Table 16: IETCC to turnover ratio (R2) – repeated cross-section regression results

	Estimated coefficient	Standard error
Year, baseline: 2014		
2019	-0.0029***	0.0005
Enterprise size, baseline: Micro-sized		
Small-sized	-0.0019***	0.0005
Medium-sized	-0.0046***	0.0004
LSEs	-0.0047***	0.0007
Sector, baseline: C - Manufacturing		
F - Construction	-0.0004	0.0005
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	0.0003	0.0006
I - Accommodation and food service activities	0.001	0.0006
M - Professional, scientific and technical activities	-0.00001	0.0006
Dependence structure, baseline: Standalone enterprise, not part of a group		
Subsidiary or member of a group with no subsidiaries/branches/permanent establishments	-0.0005	0.0006
Enterprise with subsidiaries/branches/permanent establishments in your home country, but not the ultimate parent of a group	0.005	0.004

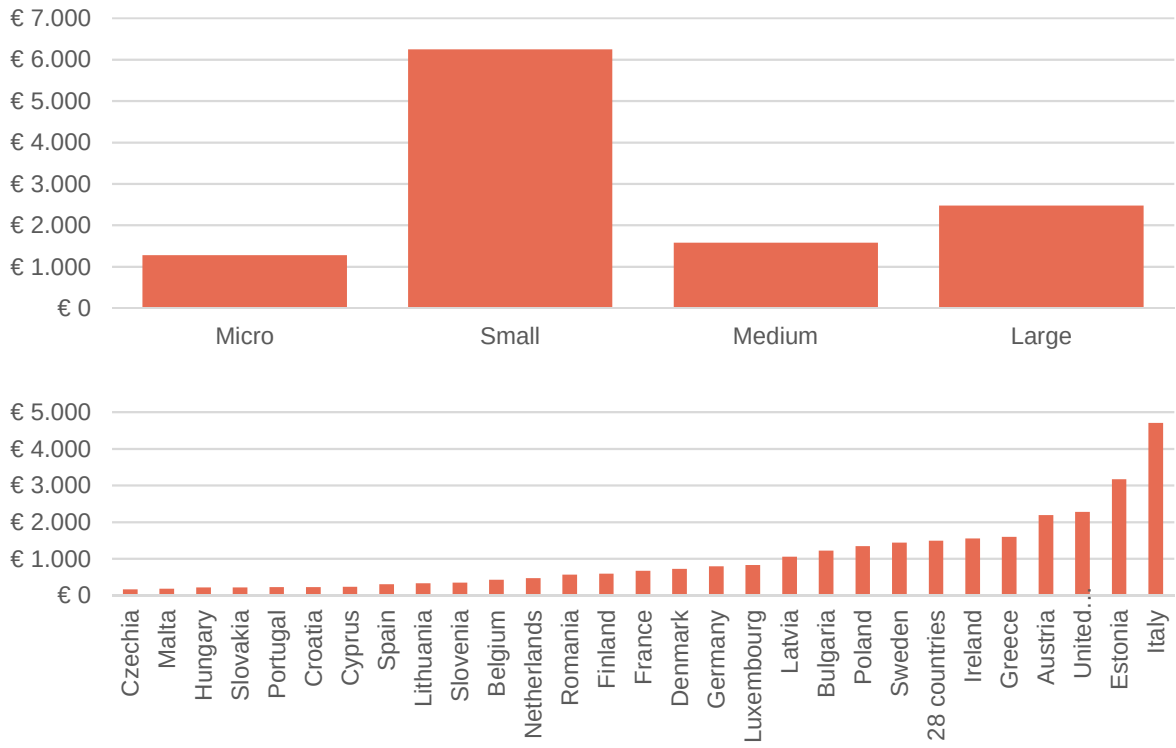
Enterprise with subsidiaries/branches/permanent establishments in countries other than your home country, but not the ultimate parent of a group	0.012**	0.005
Ultimate parent of a group	-0.0019**	0.0009
Outsourcing	-0.0008	0.0008
Cross-border trade, baseline: No		
Yes	-0.0008*	0.0004
Year established, baseline: after 2008		
Between 1999 and 2008	0.00037	0.0006
Between 1984 and 1998	-0.00006	0.0005
Before 1984	0.0002	0.0007
Categorical country variable included		
Constant	0.00556***	0.00095
Observations	3,392	
R-squared	0.160	

**** p<0.01, ** p<0.05, * p<0.1. All standard errors are robust to arbitrary forms of heteroscedasticity. Estimation method: WOLS. There is no perfect multicollinearity in the model.*
Source: VVA / KPMG (2021)

Annex X – The cost of tax audits – additional estimations related to the three most burdensome taxes besides CIT and VAT

The estimated average of audit related costs for enterprises that underwent an audit for wage related taxes and contributions in general increases by size, but small-sized enterprises are outliers[37]. Based on the estimations, the average cost of an audit for an enterprise is the smallest is the Czech Republic and Malta, and enterprises in Italy and Estonia bare the largest costs.

Figure 44: Estimated average of audit related costs for enterprises that underwent an audit for wage related taxes and contributions by size (top) and by country (bottom)

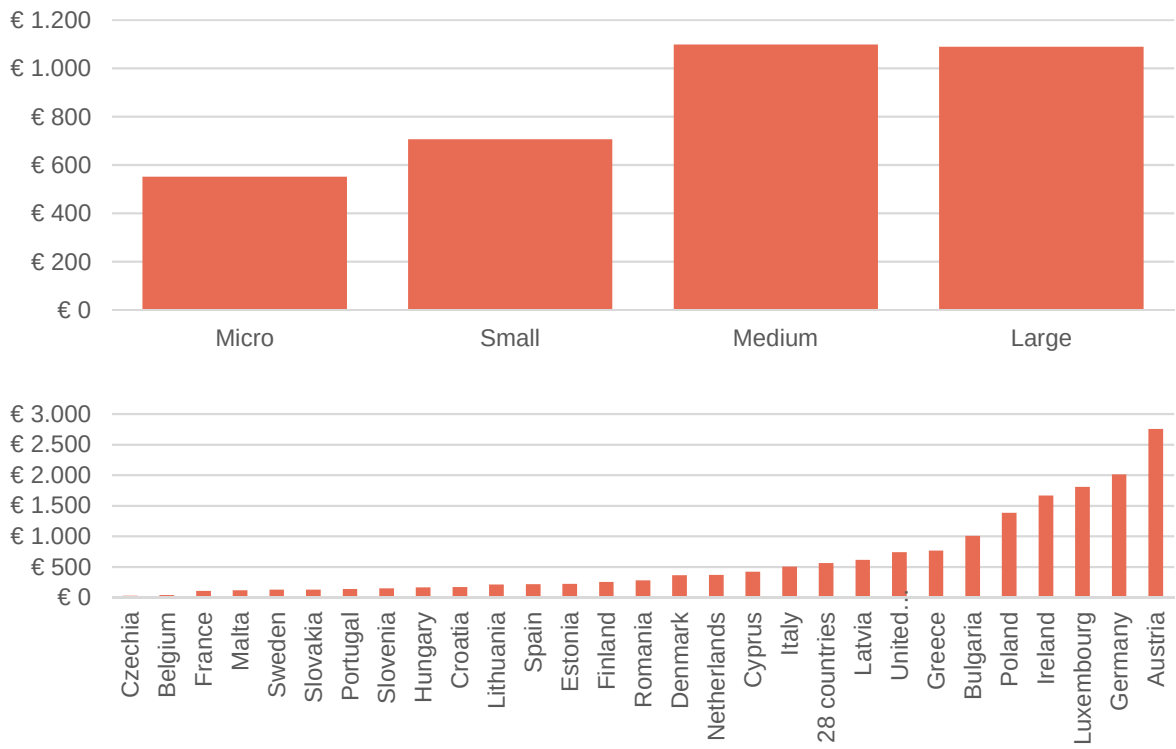


Source: VVA / KPMG (2021).

The estimated average of audit related costs for enterprises that underwent an audit for property related taxes increases by size, but on average, the financial burden of this type of audit is the smallest among information obligations. Based on the estimations, the average cost of an audit for an enterprise is the smallest is the Czech Republic and Belgium, and enterprises in Germany and Austria bare the largest costs.

[37] Likely due to an outlier in the dataset, which will be double-checked by the final report.

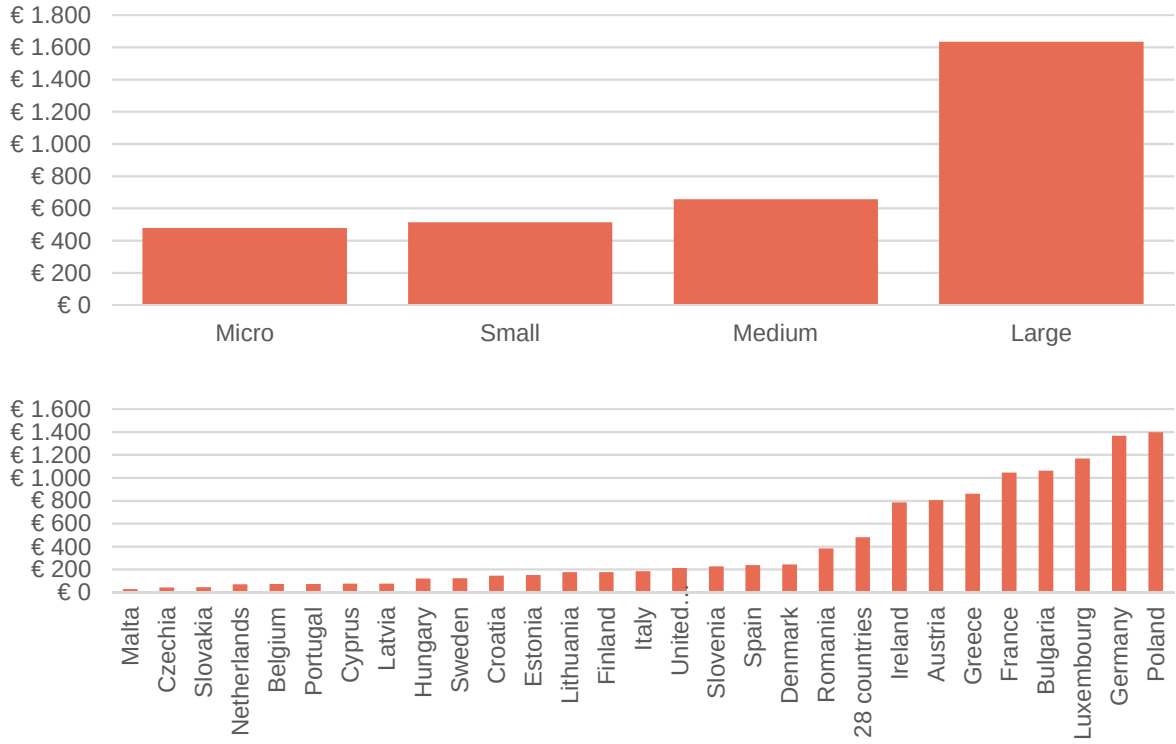
Figure 45: Estimated average of audit related costs for property related taxes by size (top) and by country (bottom)



Source: VVA / KPMG (2021).

Finally, the estimated average of audit related costs for enterprises that underwent an audit for property related taxes also increases by size. Based on the estimations, the average cost of an audit for an enterprise is the smallest is the Czech Republic and Malta, and enterprises in Germany and Poland bare the largest costs.

Figure 46: Estimated average of audit related costs for local and regional taxes by size (top) and by country (bottom)



Source: VVA / KPMG (2021).

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