Simplifying Revenue Administration for Businesses

Context

An important cost driver of tax compliance burden is complexity due to a fragmentation of rules across Member States. Notably, SMEs often face a disproportionate burden compared to large enterprises, despite their importance in the EU [1]. High business compliance costs threaten to compromise the competitiveness of the EU vis-à-vis other regions in the world. Additionally, large businesses need to learn how to navigate the Minimum Tax Directive (Pillar II Directive) in force from 1 January 2024.

The EU is committed to enhancing the competitiveness of European businesses and reducing their burden by creating a single internal market. This requires the reduction of barriers created by fragmented national tax systems and complicated standards and practices in national markets.

These are supported by the European Commission digital strategy including programmes such as DIGITAL and Europe's Digital Decade strengthening the digital transformation for businesses and public services [3]. These EU proposals are reflected internationally by OECD initiatives such as Tax Administration 3.0[4] and Treaty Relief and Compliance Enhancement (TRACE) [5].

Tax and customs administrations that are streamlined and simplified through business process improvement, digitalisation and innovation will be better prepared to administer future EU tax and customs frameworks. Member States maintain flexibility and opportunities to simplify and modernise at their own initiative and according to their own design, however there are significant variations across administrations. Providing tailor made solutions to tax and customs administration will level the playing field when future rules are adopted, and this will reduce administrative barriers across the internal market.

Contributing to increased tax compliance, reducing administrative burden for taxpayers and tax administrations, reducing costs for businesses, and improving the business environment which stimulates economic growth, innovation, and competitiveness.

Objectives

Supporting the development of a business-friendly environment in terms of Member States' tax and customs administration while simultaneously strengthening voluntary compliance.

This flagship aims to support EU tax and customs authorities in their efforts to alleviate the administrative burden on businesses and their own revenue administrations through simplification, streamlining and modernisation.

Indicative support measures

Under this flagship, EU Member States may request technical support to review their tax policy and streamline their revenue and customs administrations to simplify tax compliance for all taxpayers, while paying particular attention to the burden on small and medium enterprises through the following list of indicative, non-exhaustive work packages and measures:

Modernising and simplifying tax and customs processes and procedures to facilitate compliance and reduce the administrative burden for SMEs

- Business process re-design for simplification of tax and customs forms, processes, and regulations;
- Digitisation of processes and real-time reporting obligations for taxpayers and business operators;
- Implementation of customer-centred services, which guarantee inclusiveness, efficiency, and effectiveness for taxpayers and business operators;

Tax certainty through targeted implementation and cooperation with large businesses and multinational corporations

- Implementation and evaluation of Cooperative Tax Compliance Programmes (CTCP), including multi-lateral cooperative compliance.
- Application of transfer pricing (TP) rules, risk assessment and audit; Administration of advance price agreements (APA);
- Implementation of the global minimum tax directive (Pillar II Directive).

Inclusive, balanced and fair tax policy framework

- Review and assessment of existing tax policy and legal framework including tax expenditure and tax mix in view of simplification;
- Implementation of micro-simulation and modelling tools for impact assessment and evaluation of tax policy changes;

[1] SMEs currently account for almost all European Union (EU-27) non-financial business sector enterprises (99.8%), two-thirds of total EU-27 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. Source: study for the EC (2022) ‘Tax compliance costs for SMEs: An update and a complement’.

[2] https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en.

[3] See: European Trust and Cooperation Approach – ETACA Pilot Project for MNEs (europa.eu), European Commission Digital Strategy (europa.eu), The Digital Europe Programme | Shaping Europe’s digital future (europa.eu), Europe’s Digital Decade | Shaping Europe’s digital future (europa.eu).

[4] https://www.oecd.org/tax/tax-administration-3-0-and-connecting-with-natural-systems-53b8dade-en.htm.

[5] https://www.oecd.org/ctp/exchange-of-tax-information/treatyreliefandcomplianceenhancementtrace.htm.