

Overview on the tax compliance costs faced by European enterprises – with a focus on SMEs



Background

Tax compliance activities can be considered as a necessary evil, as they serve the purpose to collect tax revenues effectively but, at the same time, they burden private enterprises with costs that may eventually cause them additional tax-induced burden. A widely-held belief is that smaller enterprises pay the higher price and may be put at a disadvantage compared to larger competitors. Given the role of younger firms in spurring growth, innovation and employment, policymakers often contend that policy action is warranted

The present document is the executive summary of the study on *Overview on the tax compliance costs faced by European enterprises – with a focus on SMEs*. The full study, which is available in English can be downloaded at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2023/642353/IPOL_STU\(2023\)642353_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/642353/IPOL_STU(2023)642353_EN.pdf)



to improve a country's competitiveness and reduce barriers met by small and medium sized enterprises (SMEs). In the European Union (EU), the latter stance is observed in a number of EU-wide policy reform proposals, including but not limited to the Common Consolidated Corporate Tax Base (CCCTB) published in 2016 and, more recently, the Business in Europe: Framework for Income Taxation (BEFIT) initiative of the European Commission, which is undergoing a public consultation. Both said proposals include a common tax base definition with the aim to reduce complexity and associated costs faced by businesses when dealing with the many countries in Europe and the EU.

Aim

This study aims at quantifying tax compliance costs burdening private businesses in the EU by reviewing the available empirical literature and data. The review focuses on data that allows comparing and ranking different European tax systems, enterprises of different sizes and that engage, or not, in cross-border trade. The objective is to provide sound evidence about the drivers of tax compliance costs, the association with specific taxes, the possible existence of best-practice tax systems to draw inspiration for the design of EU-wide policies. Special attention is devoted to understanding the advantages and limitations of different methodologies and data sources, also in order to suggest avenues for future research on this topic.

Key Findings

- Tax compliance costs faced by private enterprises in the European Single Market are found to be sizable, most commonly ranging between 1% and 2% of turnover. In absolute value, compliance costs amount on average to about EUR 15,000 per year for enterprises located in the EU-27 countries plus the UK. These figures mask large heterogeneity, in that in countries imposing the largest compliance costs these can be up to three times those faced in countries with the smallest costs.
- Tax compliance costs grow in absolute terms with firm size, but less than proportionally. This means that smaller enterprises are burdened with relatively larger compliance costs. Such additional burden does not appear to stem from special allowances for small firms, rather from the general design of a tax system. Relatively recent data indicate that tax compliance costs range between EUR 13,897 for micro-sized companies and EUR 33,917 for large companies. The data and their underlying definitions vary however strongly between different studies.
- Tax compliance costs stemming from corporate income taxation, value added taxes and wage-related taxes are similar in size, for all company size categories. Compliance costs due to other tax types (property-related and local/regional taxes) are still significant but smaller in magnitude. Self-reported compliance costs for corporate income taxes and value added taxes are found, on average across EU countries, to amount to about EUR 3,000 each. Costs due to wage-related taxes are found to be a comparable burden.
- Companies who report to engage in cross-border trade are not found to be significantly more burdened by compliance costs. The additional burden, if any, is very small. On the contrary, enterprises who operate exclusively within domestic borders may suffer additional tax liabilities because of multinational enterprises' tax planning and the consequent rise of the local effective statutory tax rates as a response from governments to recover lost revenues. These purely domestic enterprises are unable to exploit transfer pricing as multinational competitors do, hence they may find themselves at a competitive disadvantage, particularly on the credit market where they could only offer smaller net returns to investors (due to paying larger effective tax rates).

- Cross-country comparisons of tax compliance cost measures are found challenging due to a number of methodological issues. Using multiple indicators, this study suggests that within Europe, the Nordic and the Baltic countries seem to offer an interesting best-case benchmark that deserves further study. Nordic and Baltic countries are found among the best performers when using standardised measures by tax experts (such as those measuring the average time taken to deal with tax obligations for a fictional company in different countries) and surveys asking opinions about the transparency, frequency of change and complexity of administrative procedures. When looking at absolute and relative self-reported compliance costs by businesses, the picture is less clear-cut, although this may be due to a number of methodological limitations that are met when using such data for cross-country comparisons.
- Generally speaking, complexity and uncertainty increase tax compliance costs. As such, EU policy should focus on introducing common rules that reduce to a minimum the ability for local jurisdictions to deviate from such common rules. The definition of a common tax base for all EU members (e.g., as envisaged in the Common Consolidated Corporate Tax Base [CCCTB] proposal), preferably with a broad base with few or no deductible items, would go towards this direction. Rules that introduce only minimum common standards (e.g., the Anti Tax Avoidance Directive, the so-called ATAD rules), or the possibility for local jurisdictions to set exceptions, do not. Stability in existing rules, simplicity and clarity are also beneficial as they together reduce risks for taxpayers and the associated compliance costs. The introduction of multiple tax systems and options should therefore be avoided (e.g., one should refrain from introducing different base definitions for large and for small enterprises, or optional tax regimes), as it would increase complexity (as tax experts would be required to learn rules for multiple systems instead of just one, and would be required to make calculation under multiple optional regimes to compute the most beneficial).
- Harmonisation of national tax bases and rules is expected to bring benefits in the form of lower compliance costs. Based on the reviewed data, the majority of such benefits is expected from the internal simplification of national tax systems, and only to a lesser extent from establishing equal rules across countries. This further stresses the importance of setting common definitions that are inspired by the best-performing tax systems in terms of their simplicity, clarity and ease of interpretation.

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