

Public Hearing

Subcommittee on Tax Matters (FISC) of the European Parliament

**“Simplification and transparency: Role of simplified tax policy to encourage growth, job creation, competitiveness and cross-border business with the EU”**

17 October 2024

Dear Chair Tridico,  
Distinguished members of the Subcommittee,

Thank you for the opportunity to provide testimony on tax simplification. In my presentation, I will focus on business, and on the European perspective; I will therefore not talk about purely domestic measures in individual member states.

Let me start with the opposite of tax simplification, which is tax complexity. Tax complexity exists to a large part for good reasons; you may need complex rules and procedures for fairness in the tax system, new business models in a globalized and digitalized world require additional rules in the tax code, and tax avoidance and tax evasion provoke complicated anti-avoidance rules. Any simplification should rather address the other, not so good reasons for tax complexity. These include, I would like to underline, investment incentives whose administration may be burdensome and whose real effect is often in doubt. Also, any kind of option, any choice, inevitably leads to the necessity of calculating alternative tax benefits, which adds to complexity.

Further let me clarify: tax complexity is not only about complicated laws that are hard to understand and execute. Tax complexity is also, and maybe even more, about administrative burdens, and ever-increasing reporting requirements.

Empirical evidence on the drawbacks of tax complexity is abundant. It obviously increases compliance costs, for businesses as well as for tax authorities. But tax complexity is not only costly, it also has effects on business decisions: it discourages entrepreneurship, it reduces FDI, and it may even undermine the beneficial effect of tax rate cuts. And: tax complexity increases tax uncertainty, which like any uncertainty in business, impairs investment activity and growth. A large, worldwide survey among consultants finds most complexity in transfer pricing and its documentation, and in tax audits.



Looking forward, I would like to suggest three main directions that may help tax simplification from the European perspective.

1. The first suggestion is the continued simplification of existing tax law. Several initiatives are already well on the way, and you are of course aware of them. FASTER, simplifies cross-border withholding tax credit for dividends of public companies. Also, other withholding tax credits deserve simplification (dividends of private companies; interest; royalties). BEFIT is important for multinational entities. It replaces 27 distinct taxable profit calculations with one, and, at least for large enterprises, it is not optional.

Speaking of anti-avoidance. With good reason, the EU implemented a multitude of anti-avoidance measures, and then came Pillar Two minimum taxation. We currently have a wild mix of overlapping and redundant anti-avoidance rules. I am confident that the current “decluttering” initiative of the European Commission will ultimately lead to simplification for taxpayers and tax authorities. In this context: some coordination of measures would be helpful, too. For instance, there is no good reason for substance clauses to differ in tiny details.

Finally, as transfer pricing is one of the most pressing and most complex issues, a cross-border mechanism would be most useful. In this mechanism, the quality of a multinational’s transfer pricing system, and its documentation, are certified; subsequently this certified transfer pricing system can be used for a number of years in all EU countries, for all group members, without being challenged in each country. Many multinationals moved away from tax planning via transfer pricing. All they want is avoid double taxation and have one system that holds – the EU Transfer Pricing Directive Proposal is a good starting point, but more is needed.

2. My second suggestion is about the digitalization of tax administration. I am well aware that all tax administrations are quickly improving their degree of digitalization, and digitalization supports simplification. Let me highlight three issues:

E-invoicing, as is planned with ViDA (VAT in the Digital Age) is not only about fighting VAT fraud. It is also, and particularly, a necessary basic requirement for good tax governance and advanced tax control systems in the firm. I strongly encourage quick and comprehensive implementation.

Predictive analytics allow for an even better risk-based audit. You may remember that tax audits add most to tax complexity. Risk based audit puts the burden of an audit on high-risk firms. It therefore simplifies matters for low-risk firms. Predictive analytics for cross border businesses, however, require a legal basis for cross-border data exchange, and for using the data in the appropriate manner.

Finally, many small entities are more than willing to share all their microtransactional data real-time with tax authorities, provided that they have the benefit of real-time, automated audit, no ex-post audit, and thus early tax certainty. Tax certainty is important.

3. Let me come to my third suggestion. The past decade has placed all effort in fighting corporate tax avoidance, with good reason. However, there are not only tax avoiders out there. I suggest to specifically address “good tax citizens” who just want to comply as quickly and as easily as possible, pay their taxes, and then be left alone to do business. The aim would be to identify via more elaborate risk-based approaches such good tax citizens, and to reward them with relaxed reporting and audit requirements. This would add to tax simplification and would allow tax administrators to focus on high-risk taxpayers.

Along the same lines I would like to encourage the EU to pick up the ICAP, the International Compliance Assurance Programme of the OECD and provide a legal basis in the EU. It offers transparency in exchange for certainty for multinationals. This requires sound tax control systems for routine transactions, real time clarification of difficult tax cases between tax authority and taxpayer, and no ex-post tax audit.

To summarize: I am delighted that the Subcommittee dedicates its deliberations to tax simplification, I see room for improvement in tax law simplification, in digitalization, and in the lighter treatment of “good tax citizens”. Thank you very much for your attention, I look forward to the discussion.