

**Simplification and transparency:**

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

**WU**

WIRTSCHAFTS  
UNIVERSITÄT  
WIEN VIENNA  
UNIVERSITY OF  
ECONOMICS  
AND BUSINESS

ACCOUNTING  
& AUDITING  
TAX

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Univ.Prof. Dr. Eva Eberhartinger, LL.M.

# Reasons for tax complexity

## good reasons

- tax fairness
- globalization, digitalization
- anti avoidance

## not so good reasons

- clientelism
- frequent changes
- low quality of laws
  - pay attention to review process for draft legislation
- careful with
  - investment incentives
  - options

**not only in the law, but also in administration + reporting**

# Negative effects of tax complexity

## Empirical evidence

- increases **compliance costs**, for firms and for tax authorities  
Giese et al 2024
- discourages **entrepreneurship** and small business creation  
Amberger et al 2024; Armstrong/Glaeser 2024; Weber 2015;
- decreases **FDI**  
Hoppe et al. 2021; Esteller-Moré et al 2021; Lawless 2012; Müller/Voget 2012; Edmiston et al 2003
- **undermines** tax policy for economic growth Amberger et al 2024
- increases **tax uncertainty**, reduces investment Lee/Shevlin 2023; Edmiston 2004
- most complexity in
  - **transfer pricing**
  - **tax audits** Hoppe/Schanz/Sturm/Sureth-Sloane 2023; taxcomplexity.org

# Three main directions for EU:

## 1. Address known drivers of tax law complexity

- **existing initiatives** aim at simplification
  - FASTER → yes! more of it
  - BEFIT → yes! not optional
- ATAD vs Pillar II → **decluttering!**
- **coordinate** initiatives (for instance, substance clauses)
- cross-border acceptance of **transfer pricing** system
  - TP Directive just a starting point

# Three main directions for EU:

## 2. Digitalize tax administration

- **e-invoicing**, ViDA → yes!
  - not just about VAT
  - basis for comprehensive digitalization
- **predictive analytics** → risk-based audit
  - legal basis for (even more) cross-border data exchange
  - legal basis for data usage by tax authorities
- **tax certainty**: co-operative compliance (Eberhartinger/Zieser 2021)
  - for SMEs/micro entities (Brezina et al 2021)
  - upload micro-transactional data → real-time e-audit
  - full transparency → no ex-post audit

# Three main directions for EU:

## 3. Address „good tax citizens“

- past decade: fight „bad tax citizens“
- next decade: support „**good tax citizens**“
  - identification via risk assessment
  - lower reporting duties
  - lower audit probability
- International Compliance Assurance Programme (**ICAP**, OECD)
  - cooperative compliance for multinational entities
  - transparency in exchange for tax certainty
  - no ex-post audit

# Three main directions for EU: To summarize

1. address known drivers of tax law complexity
2. digitalize tax administration
3. address „good tax citizens“