



Decluttering Tax Policy in the European Union

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Why Simplicity Matters

Principle

- Tax codes should be easy for taxpayers to comply with and for governments to administer and enforce.

Taxpayers

- Compliance costs decrease available funds to invest in capital & labor
- More complexity leads to more arbitrage possibilities
- Complexity favors industry incumbents

Tax Administration

- Smaller Member States have less enforcement capacity than larger States
- Inefficient systems means less revenue for public spending

Why Transparency Matters

Principle

- Tax policies should clearly and plainly define what taxpayers must pay and when they must pay it. Hiding tax burdens in complex structures should be avoided.

Taxpayers

- What are these reporting data being used for? Effectiveness?

Tax Administration

- Taxpayer buy-in generally increases tax morale and compliance
- More transparency by governments and institutions is needed to permanently monitor proportionality

Systematic Approach to “Decluttering”

Many different reporting points and timelines and differing definitions for similar concepts:

- (Public) CbCR
- DAC 1-9
- Pillar 2
- ATAD I & II
- Pillar 2

❖ Files were designed in a piecemeal fashion and overlap in inefficient ways and have little respect for national level requirements and local differences.

Recommendations

- The main objective of tax policy should be to efficiently raise revenue while minimizing distortions
- Synchronize reporting requirements
- At the EU level, aim for zero duplicative reporting requirements and eliminate reporting requirements not used for enforcement.
- Major decluttering would look first at Pillar 2
- If focus is away from Pillar 2:
 - DAC 4 (CbCR)
 - DAC 6
- Declutter current policies before adding new ones
 - BEFIT
 - DEBRA
 - Unshell (ATAD III)

Questions Going Forward

- What are the objectives of these policies?
 - Raising revenue
 - Deterrence
 - Creating international standards
- Are they achieving these objectives?
 - If so, are the costs worth the benefits?
 - If not, what can be reformed and to which objectives?
- How important is Fiscal Fairness?
 - Incidence of complexity increases on smaller Member States