1. What key challenges do companies face under the current corporate tax systems in the EU?

The existing corporate tax landscape within the European Union poses substantial challenges for companies, especially those with cross-border activities. These challenges arise from the coexistence of 27 distinct national tax regimes and manifest in legal fragmentation, increased administrative burden, high compliance costs, and distortions in the internal market. The European Commission's proposal for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT) directly addresses these systemic inefficiencies.

1. Fragmentation of Corporate Tax Rules and Legal Complexity

One of the most significant challenges is the **absence of a common framework** for determining taxable income across Member States. As the explanatory memorandum of the BEFIT proposal highlights, companies must "comply with (up to) 27 different national tax systems," each with its own rules, procedures, and interpretations (*COM(2023) 532 final, p. 1*). This legal diversity creates a **patchwork of obligations** that companies must navigate when operating cross-border, significantly increasing complexity and regulatory risk.

Moreover, the interaction between these diverse systems often leads to **unintended tax outcomes**, including double taxation (where the same income is taxed in more than one jurisdiction) and double non-taxation (where income escapes taxation entirely). These inconsistencies discourage cross-border expansion, as businesses may be unable to predict their tax liabilities with certainty or may need to engage in costly dispute resolution procedures.

2. High Compliance and Administrative Costs

The multiplicity of tax rules entails significant **compliance burdens**, particularly for multinational enterprises (MNEs) operating in several Member States. These burdens include:

- Preparing and filing multiple tax returns;
- Navigating various definitions of taxable income and deductibility rules;

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- Managing documentation for intra-group transactions to comply with transfer pricing rules;
- Undergoing parallel audits by different tax administrations.

As the proposal explains, this complexity "increases tax uncertainty and tax compliance costs" (*p. 1*). For many firms—especially SMEs with limited resources—these costs act as a **barrier to cross-border expansion**, undermining the very purpose of the EU's internal market.

3. Uneven Playing Field and Competitive Disadvantage

The current system creates an **unequal environment** for businesses depending on their size, legal capacity, and geographic structure. Larger MNEs often have access to sophisticated tax advisory services, enabling them to navigate or optimise tax planning across jurisdictions. In contrast, SMEs and less-resourced firms bear a disproportionately high burden. The Commission recognises that the current situation "puts Union businesses at a competitive disadvantage compared to businesses operating in markets of a comparable size elsewhere in the world" (*p. 1*).

This imbalance is particularly problematic when considering the Union's ambition to strengthen the single market and foster growth through fair competition. A common tax framework would help reduce this asymmetry by providing a **level playing field** for all companies, regardless of their Member State of establishment.

4. Transfer Pricing Challenges and Disputes

The reliance on the **arm's length principle** to assess intra-group transactions adds further complexity and legal uncertainty. This principle, while internationally recognised, requires that transactions between associated enterprises be valued as if they had occurred between unrelated parties. However, as the BEFIT proposal notes, this approach is particularly problematic in the context of **intangible assets**, such as patents, trademarks, and goodwill, where no true market comparison exists (*p. 2*).

Consequently, businesses may face **arbitrary tax assessments**, prolonged disputes with tax authorities, and inconsistent outcomes across jurisdictions. These disputes not only consume time and resources but also undermine confidence in the integrity and predictability of the tax system.

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5. Regulatory Overlap and Complexity from Anti-Avoidance Measures

In recent years, the EU and its Member States have adopted a wide range of measures to combat tax avoidance and profit shifting—such as the Anti-Tax Avoidance Directive (ATAD), the Directive on Administrative Cooperation (DAC), and country-by-country reporting obligations. While these initiatives have improved tax fairness, they have also **increased the complexity** of the tax environment, particularly for cross-border operations.

The BEFIT proposal acknowledges that these measures, though necessary, "added complexity to the tax systems that businesses have to navigate" (*p. 2*). Companies are now required not only to comply with domestic corporate tax rules but also to ensure consistency with overlapping EU-wide obligations, often with little harmonisation of enforcement across Member States.

Conclusion

The cumulative effect of fragmented national tax systems, inconsistent transfer pricing rules, high compliance costs, and overlapping anti-abuse measures has created a corporate tax environment in the EU that is **complex, costly, and inefficient**—particularly for businesses engaged in cross-border activities.

These challenges weaken the internal market, hinder fair competition, and reduce the EU's attractiveness as a business environment. The BEFIT proposal aims to address these shortcomings by introducing a **harmonised and simplified corporate tax framework**, thereby enhancing tax certainty, reducing costs, and fostering investment and growth across the Union.

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2. What key challenges do companies face under the current corporate tax systems in the EU?

Companies operating within the European Union, particularly those with cross-border activities, encounter a complex and fragmented corporate tax landscape that undermines the efficiency and competitiveness of the internal market. These challenges stem from the coexistence of 27 different national corporate tax systems, each with distinct rules, procedures, and interpretations.

Firstly, the **lack of a common corporate tax base** creates substantial legal and administrative complexity. Companies must prepare multiple tax returns, apply different definitions of taxable income, and comply with varying national legislation, often with overlapping and conflicting requirements. This fragmented framework significantly increases **compliance costs**, particularly for multinational enterprises (MNEs), and creates uncertainty regarding tax obligations in each jurisdiction (COM(2023) 532 final, p. 1).

Secondly, the interaction between divergent tax systems gives rise to **mismatches** that can result in either **double taxation**—where the same income is taxed more than once—or **double non-taxation**, where income escapes taxation altogether. Such outcomes undermine both the equity and neutrality of the tax system and complicate financial planning for businesses. The lack of predictability acts as a deterrent to cross-border investment and expansion, especially for small and medium-sized enterprises (SMEs), which have limited capacity to absorb compliance burdens (p. 2).

A third critical issue is the reliance on the **arm's length principle** in determining the value of intra-group transactions. While this principle is internationally accepted, it is often difficult to apply in practice, especially in transactions involving **intangible assets** such as patents, trademarks, and goodwill. These assets are inherently unique, and the lack of comparable market transactions leads to disputes over pricing, long administrative procedures, and inconsistent tax assessments across Member States. As a result, businesses face significant legal uncertainty and risk arbitrary valuation of key elements of their operations.

Moreover, although the EU and Member States have introduced various **anti-avoidance measures** (e.g., ATAD, DAC6, and transfer pricing regulations), these have added another layer of complexity to an already burdensome system. While successful

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Indirect Taxation

1. **What are the main challenges faced by EU Member States in VAT collection and compliance, and how can digitalization improve the system?**

1. Introduction

Value Added Tax (VAT) is a crucial revenue source for EU Member States, yet it remains vulnerable to fraud, non-compliance, and administrative inefficiencies. The European Commission has highlighted the persistent VAT gap, which represents lost tax revenues due to fraud, evasion, and inadequate compliance mechanisms. To address these challenges, digitalization has emerged as a key strategy to modernize VAT collection, enhance transparency, and streamline reporting processes. This report examines the main obstacles in VAT compliance and collection and assesses how digital solutions can help mitigate these issues.

2. Key Challenges in VAT Collection and Compliance

2.1 VAT Fraud and Evasion

One of the most significant challenges in VAT collection is fraud, particularly **carousel fraud (missing trader intra-community fraud)**, where goods are moved between Member States to exploit VAT refunds fraudulently. The document highlights that fraudulent schemes account for a considerable portion of the VAT gap, requiring stricter enforcement mechanisms.

2.2 Complexity and Administrative Burdens

Businesses operating across multiple Member States face **fragmented VAT registration and reporting requirements**, increasing compliance costs and operational inefficiencies. The document underlines that the lack of a uniform digital reporting system complicates VAT collection, making enforcement inconsistent across the EU.

2.3 Delayed Reporting and Inefficient Auditing

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Traditional VAT reporting mechanisms rely on **periodic filings** (e.g., quarterly or annually), which delay fraud detection and hinder tax authorities' ability to respond quickly. The document emphasizes that such delays contribute to VAT losses, as fraudulent actors can exploit slow reporting systems to manipulate transactions.

3. The Role of Digitalization in Improving VAT Collection and Compliance

3.1 Real-Time Digital Reporting and E-Invoicing

A key proposal in the document is the shift toward **real-time digital reporting and mandatory e-invoicing**, which allows tax authorities to monitor transactions as they occur. This approach significantly reduces the window for fraud and enhances the accuracy of VAT declarations.

3.2 Single VAT Registration and Centralized Systems

The document proposes a **Single VAT Registration** framework, which would allow businesses to register and comply with VAT obligations **through a unified EU-wide system**. This would eliminate the need for multiple VAT registrations, reducing administrative burdens and compliance costs.

3.3 Data Analytics and AI for Fraud Detection

Advanced digital tools such as **artificial intelligence (AI) and data analytics** can be leveraged to detect fraudulent patterns, automate compliance checks, and identify high-risk transactions. The document highlights that these technologies enhance the ability of tax authorities to track inconsistencies and flag suspicious activities in real time.

3.4 Enhanced Cross-Border Cooperation

Digitalization facilitates **better information exchange between Member States**, ensuring that VAT-related data is shared efficiently to combat cross-border fraud. The document notes that a centralized digital system would enable seamless cooperation between tax authorities.

4. Conclusion

The VAT system in the EU faces considerable challenges related to fraud, administrative complexity, and inefficiencies in reporting. However, the adoption of **real-time digital reporting, e-invoicing, AI-powered fraud detection, and centralized VAT**

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registration systems can significantly enhance compliance and tax collection. The document strongly supports these digital reforms as necessary steps toward a more transparent, efficient, and fraud-resistant VAT system in the EU.

5. Recommendations

- **Mandate real-time digital reporting** across all Member States.
- **Implement a Single VAT Registration system** to simplify compliance.
- **Enhance AI-driven fraud detection** to improve enforcement efficiency.
- **Strengthen cross-border data sharing** to combat VAT evasion effectively.

By implementing these digital measures, the EU can **reduce the VAT gap, improve revenue collection, and modernize tax administration** for a digital economy.

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2. Discuss the role of technology in streamlining VAT reporting. How can real-time reporting benefit businesses and tax authorities?

1. Introduction

Value Added Tax (VAT) is a critical revenue source for EU Member States, contributing significantly to national budgets and the overall economy. However, the traditional VAT system has faced **numerous challenges**, including complex compliance procedures, fraud risks, and administrative burdens for both businesses and tax authorities.

To address these issues, the **European Commission** has proposed comprehensive reforms under the **"VAT in the Digital Age" initiative**, focusing on **digitalization, automation, and real-time reporting**. These reforms aim to improve tax collection efficiency, reduce VAT fraud, and ease compliance burdens.

This report explores how **technology** is revolutionizing VAT reporting, focusing on **digital reporting requirements (DRRs), e-invoicing, and real-time VAT reporting systems**, along with the **challenges and benefits** associated with these innovations.

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2. The Role of Technology in VAT Reporting

2.1 Transition from Traditional VAT Reporting to Digital Systems

Historically, businesses have submitted VAT returns **periodically (monthly or quarterly)**, leading to delays in fraud detection and compliance challenges. The shift to **real-time VAT reporting** ensures that tax authorities receive transaction data **immediately or within days** after a sale is made, enhancing transparency and accuracy .

The EU's move towards **mandatory digital VAT reporting** and **e-invoicing** is part of a broader effort to modernize the VAT system and standardize tax compliance across Member States.

2.2 Digital Reporting Requirements (DRRs)

The introduction of **Digital Reporting Requirements (DRRs)** is a game-changer for VAT compliance. DRRs mandate that businesses report VAT-related transaction data

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