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Tax Compliance Costs for Companies in an Enlarged European Community

Edited by
Michael Lang
Christine Obermair
Josef Schuch
Claus Staringer
Patrick Weninger



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Law & Business

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EUCOTAX Series on European Taxation

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VOLUME 19

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The titles in this series are listed at the back of this volume.

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Preface

When it comes to taxation, administrative costs to the tax authorities and compliance costs to the taxpayers arise. A lot of studies have already been conducted in order to shed more light on such “hidden costs” of taxation. Particularly in the field of transfer pricing, administrative and compliance costs are assumed to be quite high due to the obligation of computing and documenting an arm’s length price for each intra-group-transaction. Apparently, European policy makers have also become aware of this problem since the European Commission’s report released in 2001 (“Company Taxation in the Internal Market”) recommends targeted measures in the short run and comprehensive approaches in the long run, crossing the border line of the currently prevailing transfer pricing approach, inter alia in order to combat compliance costs in the field of transfer pricing. Since these comprehensive approaches provide for a consolidated tax base for the whole group that has to be formulary apportioned, it makes total sense to learn from jurisdictions already using formulary apportionment as an alternative to arm’s length pricing. Therefore 18 national reports have been put together in order to get an idea of compliance costs issues in different jurisdictions, on the one hand, and to learn something useful for the design of a corporate tax harmonization in the EU, on the other. Experts from all over the world, including the National Reporters as well as the authors of the Annex reports, convened for a joint conference on “Compliance Costs in an Enlarged European Union” in Rust (Austria) from 6 to 8 June 2006. The knowledge shared at the conference benefited not only the participants themselves, but also manifested itself in the papers included in this volume, which were completed after the conference.

Without the support of the European Commission, the city of Vienna, the Austrian Federal Ministry of Education, Science, and Culture (BMBWK), and the Austrian Science Fund (FWF), neither the conference nor the entire project itself would have been feasible. The EU supported the project within its Jean Monnet Programme. As a result, many young researchers as well as senior academics were able to travel to and participate in the conference.

We are very grateful to the National Reporters and to the authors of the Annex reports. They displayed enormous discipline in completing their papers, using the guidelines compiled as orientation. They participated in the discussions at the conference at Rust with much enthusiasm, presented their results there, and completed their papers following the conference.

The publishers Linde and Kluwer expressed their willingness to include this book in their catalogue. We would like to express our sincere thanks for their co-operation and swift realization of this publication project. Ms. Margaret Nettinga contributed greatly to the completion of this book by editing and polishing the texts from the authors, for whom English is – to a great extent – a foreign language.

Above all, we would like to thank the project manager of the Institute of Austrian and International Tax Law/the Special Research Programme (SFB) “International Tax Coordination” at the Vienna University of Economics and Business Administration, Ms. Brigitte Dudli! Without her dedication and talent for organization, both the success of the conference and the swift completion of this book would not have been possible.

Vienna, spring 2007

*Michael Lang
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List of abbreviations

Advisory Panel	Advisory Panel on Federal Tax Reform
AJPES	Agencija Republike Slovenije za javnopravne evidence in storitve (Agency for public legal records of Slovenia)
ALP	Arm's Length Principle
APA	Advance Pricing Agreement
API	Invest in Portugal Agency
Art.	Article
BAPA	Bilateral Advance Pricing Arrangement
BASB	Belgian Accounting Standards Board
BB	Betriebs-Berater
BCCS	Business Compliance Cost Statement
BRTF	Better Regulation Task Force
C.M.L.Rev.	Common Market Law Review
CCCBT	Common Consolidated Corporate Base Taxation
CCCTB	Common Consolidated Corporate Tax Base
CCCTB WG	Common Consolidated Corporate Tax Base Working Group
CCIR	Compliance Cost Impact Report
CCP	Canada Pension Plan
CCTB	Common Consolidated Tax Base
CER	Closer Economic Relations
CFC	Controlled Foreign Company
CIDE	Contribution on the Interference with the Economic Order
CIR	Commissioner of Inland Revenue
CIRC	Código do Imposto sobre o Rendimento das Pessoas Colectivas (Corporate Income Tax Code)
CIRS	Código do Imposto sobre o Rendimento das Pessoas Singulares (Individual Income Tax Code)
CIT	Corporate Income Tax
CO ₂	carbon dioxide
COFINS	Contribution for the Financing of the Social Security
COM	Commission Communication
Commentaries	Commentaries on the Articles of the OECD Model Tax Convention
CONFAZ	National Council of Finance Policy
CPMF	Provisional Contribution on Financial Movement
CPPT	Código de Procedimento e de Processo Tributário (Code on Tax Procedure and Appeals)

List of abbreviations

CRA	Canada Revenue Agency
CSLL	Social Contribution on Net Profit
DG	Directorate-General
DL	Decree-Law
DStR	Deutsches Steuerrecht
DTA	Double Tax Agreement
DTC	Double Taxation Convention
e.g.	for instance
E.L.Rev.	European Law Review
EC	European Communities
ECJ	European Court of Justice
ed. or eds.	editor(s)
EI	Employment Insurance
ET	European Taxation
et al.	and others
et seq.	et sequence
EU	European Union
EUCIT	European Union Corporate Income Tax
EUWE	EU Water's edge
EY	Ernst and Young
FASB	Financial Accounting Standards Board
FBI	File By Internet
FBT	Fringe Benefit Tax
FCO	Constitutional Fund for the Center-West
FGTS	Workers' Insurance Fund
FIF	Foreign Investment Fund
FNE	Constitutional Fund for the Northeast
FNO	Constitutional Fund for the North
FPE	Federal District and States Participation Fund
FPEX	Export Compensation Fund
FPM	Municipalities Participation Fund
FRA	Financial Reporting Act
FSS	Final Settlement System
GAAP	Generally Accepted Accounting Principles
GAO	General Accountancy Office
GDP	Gross Domestic Product
GST	Goods and Services Tax
GTPP	Generic Tax Policy Process

HMRC	Her Majesty's Revenue and Customs
HST	Home State Taxation
i.e.	that is
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Standard Committee
IASCF	International Accounting Standards Committee Foundation
IBFD	International Bureau of Fiscal Documentation
IBGE	Brazilian Institute of Geography and Statistics
ICMS	Tax on the Circulation of Goods and Transportation and Communication Services
IE	Taxes on foreign trade – on exports of goods and services
IFA	International Fiscal Association
IFC	International Financial Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
II	Taxes on foreign trade – on imports of goods and services
IMF	International Monetary Fund
INSS	National Social Security Institute
IOF	Tax on financial operations
IPI	Tax on Industrialized Products
IPTU	Tax on Industrialized Products
IPVA	Tax on Motor Vehicles
IR	Tax on income and earnings
IR(R)F	Withholding Income Tax
IRAP	Regional Tax on Productive Activities
IRC	Internal Revenue Code
IRC	Imposto sobre o Rendimento das Pessoas Colectivas (Corporate Income Tax)
IRD	Inland Revenue Department
IRES	Corporate Income Tax
IRPF	Individual Income Tax
IRPJ	Corporate Income Tax
IRS	Imposto sobre o Rendimento das Pessoas Singulares (Individual Income Tax)
ISS	Tax on Services
ITA	Income Tax Act New Zealand
ITA	Individual Tax Act
ITBI	Corporate Income Tax
ITCD	Tax on Inheritance and Gifts
ITMA	Income Tax Management Act
ITR	Tax on rural land property

LGT	Lei Geral Tributária (General Taxation Law)
LRF	Fiscal Responsibility Act
MAP	Mutual Agreement Procedure
MC	Model Convention
MED	Ministry of Economic Development (NZ)
Mn	marginal number
MNE(s)	Multinational Enterprise(s)
MST	Manufacturers' Sales Tax
NAFTA	North America Free Trade Alliance
NICs	National Insurance Contributions
O.J.	Official Journal of the European Union
OECD	Organization for Economic Co-operation and Development
OECD-MC	OECD Model Tax Convention on Income and on Capital
OIAs	Operational Impact Assessments
p. (pp.)	page (pages)
Para. or paras.	paragraph(s)
Para. or paras.	paragraph(s)
PATA	Pacific Association of Tax Administrators
PAYE	Pay-As-You-Earn
PE	Permanent establishment
PIS/PASEP	Social Integration Program/ Civil Servants Savings Program Contribution
PPTC	Pravilnik o določanju primerljivih tržnih cenah (Rules on comparable market prices settings)
PWC	PricewaterhouseCoopers
Reg.	Regulations
RIAs	Regulatory Impact Assessments
RIS	Regulatory Impact Statement
RWT	Resident Withholding Tax
sec.	section(s)
SIC	Standing Interpretations Committee
SIMPLES	System for the Payment of Taxes and Contributions of Micro and Small Enterprises
SISCOMEX	Integrated Foreign Trade System
SIT	Slovenian tolar
SKK	Slovak Crown
SME	Small and Medium Enterprises