SME Tax Compliance and Simplification

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This note considers tax compliance costs imposed on small and medium-size enterprises (SMEs) with regard to their possible effects on the competitive position of firms and firm behaviour, and steps taken by a number of OECD countries to lower these costs. In particular, the note considers how tax compliance cost considerations may factor centrally into a number of decisions, for example, whether to become self-employed, and whether to operate in the formal economy.

Information applicable as of January 2007, is provided and discussed, gathered from a questionnaire to OECD countries on provisions of value added tax (VAT) and income tax systems targeted at small businesses to simplify their compliance requirements (e.g. permitting simplified accounts, simplified tax calculations, less frequent filing) and thereby lower their tax compliance costs – that is, lower the amount of time and resources required by firms to comply with the tax system (aside from their tax liability). Depending on design features, simplification measures may not only lower tax compliance costs; certain measures may also provide small businesses with the additional cost savings of reduced tax payments to government. With or without this additional cost savings, reduced tax compliance costs encourage increased SME creation and compliance with a tax system.

1 The total resource cost to business of a given tax system may be considered as consisting of two parts – the amount of money that taxpayers are required to pay to government, to meet their tax liabilities (which may be loosely referred to as the ‘statutory tax burden’), and the amount of administrative resources not paid to government but required to determine, document and make tax payments – so-called ‘tax compliance costs’ (including recording transactions, maintaining accounts, computing and filing tax returns, etc). Measures that reduce tax compliance costs (e.g. less frequent filing and payments of a given amount of tax liability) may involve reduced payments to government. Likewise, measures that adjust the statutory tax burden, or the way the tax burden is computed, may result in decreased (or increased) tax compliance costs. A further consideration is an analysis of the economic incidence of these costs – that is, an examination of how the burden of this total resource cost is reflected in higher consumer prices, reduced total returns to labour and reduced total returns to capital.

2 This recognizes that for many employees, personal income tax and social security contribution calculations are carried out by employers (with tax withheld at source), saving employees considerable time/cost associated with self-assessment, record keeping and tax payment. For other employees, where tax is not withheld and compliance costs are met individually, the time/cost in completing and submitting tax returns may be relatively low for an employee, compared compliance costs facing a self-employed individual, or the owner/worker of an incorporated company, which may grow as the complexity of the business operation expands.

3 In principle, possible effects of simplification measures on the amount of tax paid to government should be assessed on a present value basis. This approach would take into account savings from less frequent filing requirements which do not affect the total amount of tax paid, but the present value of the payments, owing to the time value of money.

4 Compliance costs may also affect business growth where they vary with firm size, for example where they adjust sharply when turnover or some other size-related threshold is crossed that influences tax burden. A particular example arises when moving from a simple presumptive system to a regular income tax. Recognizing this, policy makers generally aim for a relatively smooth transition in tax burden between regimes.
After considering first in section A the rationale for taxing small businesses under a simplified set of rules and procedures, various provisions to simplify compliance with a VAT are reviewed in section B, with a focus on measures reported by the survey countries. Section C discusses provisions to simplify compliance with income tax, while section D examines reported simplification measures in relation to social security systems (contributions by small businesses as employers and by the self-employed) and in other areas where small businesses play a withholding function. The country examples do not address provisions that may be applied by tax authorities in certain cases to assess and impose tax liability where a taxpayer is unable or otherwise fails to comply with the regular tax system (including cases of apparent tax evasion and avoidance).

A. Rationale for Simplification

Compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns, and the number of levels of government involved in levying and collecting tax. For example, in most countries, businesses must contend with a VAT system (unless the business falls under a VAT exemption threshold) not faced by an employee. Business income tax also introduces complexities not relevant to an employee that pays tax only on labour income and non-business investment income. Complexities may multiply where more than one level of government is involved in levying and/or administering a tax and rules and procedures are not well co-ordinated. Given differences across countries in the number and types of taxes on business, the complexity of the rules, and the levels of government involved, it is not surprising that compliance burden assessment is very much country specific and difficult to compare.

Compliance costs are difficult to measure (making difficult a comparison of the total tax burden), but certain comprehensive studies may be found. Recent studies of business compliance costs in the U.S. include Blumenthal and Slemrod (1992), Hall (1995), Slemrod (1996), and Slemrod and Venkatesh (2002). Studies by Ariff, Loh and Talib (1994), Ariff, Loh and Ismail (1997) and Chan, Cheung and Ariff (1999) consider business compliance costs in Hong Kong, Malaysia and Singapore. Pope (1995) and Sandford and Hasseldine (1992) study business compliance costs in Australia and New Zealand. As a broad finding, such studies systematically conclude that while total business tax compliance costs tend to be higher for large companies, as a percentage of sales they are significantly higher for SMEs. Another interesting finding is that tax-planning accounts for a larger proportion of total compliance cost for large firms.

While the compliance tax burden facing an SME is case specific and thus difficult to measure, a broad conclusion to be drawn is that the burden is high relative to large companies and relative to the tax compliance burden for payroll employees. This suggests that if the statutory tax burden on a given amount of labour and capital income is roughly the same for an employee as for a self-employed individual, then the higher compliance burden for the latter would mean that the tax system is non-neutral, tending to discourage SME creation.

By reducing tax compliance costs and thereby lowering the overall tax burden on small businesses, simplification provisions help achieve more neutral tax treatment of firms of varying sizes, implying efficiency gains, and encourage compliance with (adherence to) the tax laws of a country, including operating in the ‘formal’ rather than informal (underground) economy, and full reporting of all amounts required to determine the true tax base.

5 Difficulties are met in gauging the extent to which simplification translates into increased compliance with (adherence to) a tax system (e.g. increased participation in the formal economy, less underreporting of taxable income by those that file). While rough estimates can be made of the resource savings to taxpayers of a simplified set of procedures, measuring the impact of such savings on behaviour is exceedingly difficult, as the parameters...
A main efficiency concern associated with significant compliance costs incurred regardless of firm size, implying a higher burden (as a percentage of profit) the smaller the scale of the business, is that absorbing this cost requires a higher pre-tax rate of return on capital, the smaller the size of the business measured by capital. This outcome, with small businesses placed at a competitive disadvantage relative to larger firms, implies an inefficient allocation of capital, with underinvestment in small businesses relative to a situation where the fixed component of compliance burden on small businesses is lessened through simplification measures. Thus, reduced compliance costs can bring improved efficiency resulting from more uniform tax treatment (level playing field) of businesses. A second efficiency consideration is that increased compliance, when resulting in increased tax revenues, may enable reduced effective tax rates on one or more possibly more elastic tax bases, with possible efficiency gains.

More broadly, increased compliance is desirable taking into account the benefits to society of having all persons participate in the financing of programs supporting economic and social development (‘nation-building’). Indeed, addressing tax compliance costs facing small businesses, as a key strategy to encourage economic development, is highlighted in the OECD Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs, which states that SMEs require “enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector …. requiring tax systems that entail low compliance costs.” By lowering the tax burden on SMEs, simplification may improve the competitive position of small businesses and thereby encourage business creation and support business expansion. Entrepreneurs, when confronted with a tax system seen to be imposing too high a burden, in terms of the amount of tax to pay to government, and the compliance costs involved, may choose to operate in the informal economy to avoid these costs. Alternatively they may choose to not establish a business, deciding instead to seek or remain in employment (depending on reputation and monetary costs (penalties) associated with detection of tax fraud, the probability of detection, and after-tax returns from employment). Under reduced compliance costs, a decision to open up business might be taken instead.

Simplification provisions of various types can be expected to impact small businesses differently, given the heterogeneity of the small business population. In particular, certain measures may directly encourage business creation and tax compliance for some small businesses, but not others, suggesting the need to analyze a range of measures. For example, allowing simplified accounting or less frequent filing of tax returns may be of little practical consequence to small businesses with very low turnover (e.g. street vendors) that may regard the tax compliance burden of a relatively simple regular tax system as excessive.

impacting taxpayers’ decisions (including reputation parameters) are generally unknown and likely to vary across taxpayers and countries. Also unknown is the size of the pre-reform informal economy (implying no stock figure against which to apply estimates of the percentage change of informal workers to formal workers, making estimates elusive). Perhaps the best that policy makers can do is look to the experience of other countries that have introduced far-reaching simplification measures and observe whether tax revenues were significantly affected (taking into account other reforms and events that could also affect total revenues raised).

While addressing underreporting of taxable sales and profits is a challenge in dealing with certain businesses of all sizes, the problem of informality – that is, businesses operating outside the tax system – is a particular challenge in dealing with small firms, where remaining below the ‘radar screen’ of tax authorities is generally less difficult.

Simplification measures targeted at small businesses would benefit small businesses more than large (zero benefit to large). Similarly, generally applicable simplification measures that would reduce compliance costs by a fixed amount (i.e. reduce compliance hours by X hours) would also benefit small businesses more than large (disproportionately benefit small businesses, in the same way that a fixed compliance cost imposes a disproportionate burden on small businesses).

The OECD Istanbul Declaration was endorsed by OECD Ministers and government representatives in Istanbul, 3-5 June 2004.
and discouraging to participation in the formal economy. But the same measures may operate to encourage other larger scale small businesses to establish, and to comply.

For very low turnover businesses for the most part unaffected by simplified accounting and filing measures, tax compliance may call for the introduction of a simple replacement tax, for example a turnover-based presumptive tax, to replace regular income tax and/or VAT for firms with turnover below some (micro) business threshold. In such cases, a key design consideration is the setting of the tax burden under a presumptive (replacement) tax, and in particular the avoidance if possible of large upward adjustments in tax burden when a business size threshold is passed and the taxpayer is required to migrate from a replacement regime to the regular regime.

B. VAT Simplification Provisions

A number of approaches may be taken to reduce VAT compliance costs, in order to encourage small business creation and participation in the formal sector, with the questionnaire responses identifying approaches adopted by the OECD countries surveyed in this report. A range of innovative techniques have also been implemented in developing countries, often with assistance from the IMF, the World Bank and others. The main options include: introducing a VAT collection threshold; using a single VAT rate; allowing a simplified VAT remittance calculation for small firms; allowing cash accounting; and allowing less frequent filing of VAT returns.

1. VAT collection threshold

Many argue in favour of waiving VAT collection for firms with turnover below some small business threshold level, as an effective means to reduce tax compliance costs, while also containing the costs of tax administration. The case may be especially strong in the context of developing countries where small firms may collect very little VAT and tax administration is particularly challenging.

The IMF proposes that the output (turnover) threshold for VAT collection should be increased, at the margin, if the benefits to the taxpayer in terms of reduced tax payments and compliance costs, exceeds the net cost to government of the same increase in terms of reduced tax receipts less administration costs.

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9 In general, the country provisions reported in this note apply as of January 2007. In 2008, Italy introduced a new tax regime for self-employed individuals, available to those who in the previous year realized an annual turnover under $39,000, had no employees (sole proprietor) and made no exports. Furthermore, total capital assets purchased in the preceding three years must not exceed $19,500. Non-resident taxpayers and taxpayers benefitting from any special VAT treatment are excluded. Under the new regime, taxpayers may substitute personal income tax and related surtaxes for an alternative tax levied at 20 per cent on earned income, while at the same time are exempt from paying VAT and the Italian Regional Tax on Production Activities. Reduced compliance requirements also apply, implying a lower compliance burden for qualifying taxpayers. The new regime is optional (qualifying taxpayers may opt to pay ordinary income tax and VAT). Individuals opting for the regime, who are starting a new business activity, art or profession, are required to make a specific declaration.


11 A VAT collection threshold may be referred to alternatively as a VAT exclusion threshold. With a VAT exclusion, a firm is waived of the responsibility of collecting VAT (imposed on consumers).

12 In 2004, Tanzania increased its VAT exemption threshold from roughly US$15,800 to US$31,600. This resulted in deregistration for VAT purposes of about 7,000 firms, or almost half of the total of 15,320 VAT taxpayers. Interestingly, VAT revenues increased over the following two years by almost 50 per cent (See Ebril et al. (2001), The Modern VAT, IMF, Washington.)
weighted by the value of public funds.\textsuperscript{13} This condition may be expressed as follows: \(\tau vz+C>\delta(\tau vz-A)\), implying an optimal turnover level of \(z^*=(\delta A+C)/(\delta-1)\tau v\), where \(A\) measures tax administration costs per unit of output, \(C\) measures tax compliance costs per unit of output (declining with the level of output), \(\tau\) is the VAT rate and \(v\) measures value added per unit of output (so that tax paid at the turnover level \(z\) is \(\tau vz\)), and \(\delta\) measures the value of public funds. The optimal exclusion threshold is increasing with \(A\) and \(C\), while decreasing with \(v\) and \(\delta\).

Certain other issues, in addition to those captured in the preceding formula, arise when considering the optimal threshold level of turnover for VAT collection. First, with some firms being part of the VAT system (participating firms, above the threshold) and others not (non-participating firms, below the threshold), the VAT system can be expected to affect the relative competitiveness of firms. In particular, non-participating firms may be negatively impacted owing to their inability to claim input tax credits (i.e. credits in respect of VAT paid on inputs). Negative effects could be felt, for example, by non-participating firms that are intermediate producers, selling to participating firms unable to claim an input tax credit on purchases from non-participating suppliers.

On the other hand, non-participating firms may enjoy a competitive advantage when selling to final consumers, if they are able to sell their output at the same price as participating firms. This follows since, for participating firms, VAT paid on inputs is offset through their input tax credit, while the whole part of VAT charged on their (final) sales is transferred to government in VAT payments. For excluded (non-participating) firms, VAT paid on inputs is offset by inclusion in the output price of this VAT amount. But the part of the VAT inclusive price charged to consumers linked to final stage value added is retained by the firm (not transferred to government), implying a competitive advantage linked to this amount.

The fact that firms below a VAT threshold may in some cases be negatively impacted by an inability to claim input tax credits encourages some countries to allow voluntary VAT registration and participation in the system by firms below the threshold. Providing this option increases tax administration costs, and introduces compliance costs on those that elect to be in the system to protect their competitive position. But the trade-off may be viewed as necessary.

Another consideration is that a relatively high VAT threshold, by excluding possibly large numbers of firms, may frustrate policy efforts to have all persons actively participate in the formal economy, recognizing that once ‘outside’ the system it may be less likely that individuals would decide at some point to fully participate. However, this concern may be at least partly addressed if firms below the VAT threshold (and not opting into the normal system) are required to pay another, simpler form of tax (e.g. a simple lump sum patent, with minimal compliance costs) – and thus be part of the ‘formal’ economy.

Finally, a relatively low VAT threshold, while encouraging participation by a greater number of firms in the regular tax system, and avoiding distortions to competition, may broaden the scope for taxpayer fraud, committed for example by firms forging false invoices to claim fictitious input tax credits. Where the number of taxpayers in the system tends to grow exponentially with lower threshold values, tax administration challenges may grow exponentially as well. However, such challenges would also be expected in systems with higher threshold values that permit voluntary participation for those below the threshold (but possibly with a reduced rate of fraud if taxpayers opting into a system can be more carefully screened, with fewer firms in the regular system).

\textsuperscript{13} See Ebril et al. (2001), The Modern VAT, IMF, Washington.
Country examples

With the exception of the United States, all of the countries that responded to the SME tax questionnaire ("survey countries") impose value-added tax. While Mexico, Spain and Sweden do not have a VAT threshold, the other sixteen countries do, normally based on turnover. Most responding survey countries provide an ‘opt-in’ that allows firms below a VAT collection threshold to participate in the VAT system and thereby obtain a tax credit for VAT paid on business inputs.

Chart 1 reports turnover thresholds, with additional detail provided in Table 4 of the summary of survey responses. As previously noted, all firms regardless of size are required to register and file VAT return in Mexico, Sweden and Spain (shown in Chart 1 with a threshold value of zero). At the other end of the chart, the U.K. stands out with a very high threshold relative to others, at $119,525. Between these examples, a range of values is observed.

Certain countries have more than one threshold, depending on the type of business. In the previous U.K. example, the VAT collection threshold is increased to $137,160 for distance sales. In the case of Greece, which distinguishes sales of goods versus services, the turnover threshold of $12,999 applies to businesses selling goods, or goods and services provided that turnover from services does not exceed $6,500. For business selling only services, the turnover threshold is $6,500. Threshold values in Ireland, which range between $45,497 and $90,993, also depend on the type of business (goods, services), and differ for mail-order inputs (as in the U.K. with its special threshold for distance sales).

14 The VAT system in Australia and Canada is referred to as a Goods and Services Tax (GST).

15 Unless otherwise indicated, threshold values are reported in this paper in U.S. dollars, and on an annual basis. Chart 1 shows standard threshold values for 2006, except for the case of Italy, where the threshold of $9,099 came into effect in 1 January 2007 (with the enabling legislation having been introduced in 2006). Austria reports that its tax-free turnover threshold increases to $38,997 as of 2007. Firms with turnover below the indicated VAT threshold are not required to collect VAT on sales. In some countries (e.g. Belgium), firms below the collection threshold are required to register for VAT purposes.
Different threshold values are applied in some countries for non-profit organizations and charities. For example, the VAT threshold is increased for non-profit enterprises in Australia to $78,360 and in Norway to $21,984. This higher threshold in Norway also applies to charities. In Canada, a higher threshold of $42,590 applies to public service bodies, including charities.

Countries differ in terms of registration requirements. For example, in Belgium where firms with turnover of $7,253 or less are not required to collect VAT, all firms are required to register. In Austria, firms with turnover less than $9,747 need not register. Registration is necessary for turnover in excess of this amount, with the option for tax-free turnover if under the threshold of $28,597.

For each of the countries presented in Chart 1 providing a VAT collection threshold, voluntary VAT registration is allowed, with the exception of Norway. Over one-third of VAT registrants in the U.K., Australia and New Zealand are small firms that have opted-in (roughly 36 per cent, 39 per cent and 44 per cent of total registrants, respectively). Interestingly, in Japan where the collection threshold is relatively high at $83,000, it is estimated that only 2 per cent of VAT registrants (roughly 80,000 firms) are voluntarily registered. The voluntary registration rate is estimated to be 10 per cent and 26 per cent in Belgium and the Slovak Republic.

2. Reliance on a simple (single) VAT rate structure

Studies suggest that a multiple rate VAT structure contributes considerably to VAT compliance costs. For example, a study of VAT compliance costs in Sweden estimates that compliance costs would be reduced on average by roughly 30 per cent if a single rate system replaced a multiple rate system. While a multiple rate system may satisfy public demands for lower rates on certain products, for a variety of reasons, adhering to a single or simple rate structure can both limit tax distortions to consumption, and production, and at the same time reduce compliance costs. However these advantages, including those tied to reduced informality, are difficult to measure and articulate to the public, implying considerable difficulty in imposing a simple VAT rate structure, and the need for policy makers to look for other means to bring down compliance costs.

3. Simplified VAT remittance calculation (‘presumptive’ taxation) for small firms

Given difficulties in introducing a single rate VAT system, and in adjusting away from a multiple rate VAT system, compliance costs may be lowered by allowing small firms with turnover above a collection threshold, but below some second tier ‘small firm’ turnover level, to calculate VAT payments to government under a simplified ‘presumptive’ approach. For example, certain small firms may be allowed to apply a single flat rate to turnover to determine the amount of VAT to remit to government (instead of requiring a detailed VAT calculation). In some country examples, flat rates may vary by sector. An alternative approach relies on simplified input tax credit calculations. VAT charged on sales would remain unchanged from the regular system, but the amount paid to government would be calculated differently.

Country examples

For example, a Flat Rate Scheme (FRS) in the U.K. allows eligible small businesses to calculate the amount of VAT to pay to government as a percentage of their VAT-inclusive turnover. The scheme is available to businesses with (expected) taxable turnover (taxable sales, excluding VAT) under $293,913

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16 In general, voluntary registration is not possible in Norway. However, special rules apply regarding the leasing of agricultural land and the maintenance of roads for use in forestry business, in which case registration is allowed irrespective of turnover.

and total business income (including VAT) under $367,392. A flat rate VAT system in Poland allows businesses providing tax services to determine VAT payments as 3 per cent of turnover.

Different ‘flat’ rates may apply depending on the particular sector that the firm operates in. For example, under the ‘Quick Method’ system in Canada, businesses with turnover (taxable sales) above a VAT registration threshold but less than $170,400 may calculate their VAT liability by applying reduced VAT rates to taxable goods and services. Application of reduced rates to taxable sales, with rates differing across businesses engaged in different activities (e.g. businesses purchasing goods for resale, businesses providing services), substitutes for detailed calculations that would factor in input tax credits. (INCLUDE reference to sectors)

VAT calculations are simplified in Japan for businesses with turnover under $415,144, in that a deemed input tax credit is calculated as a percentage of VAT payable on taxable sales. The percentage depends on the particular industry or trade of the business, and varies from 50 to 90 per cent. In Austria, input tax calculations are simplified for businesses with turnover under $285,978 by allowing input tax on purchases other than goods to be calculated as 1.8 per cent of inputs. Lastly, flat rate enterprises in Belgium, consisting of businesses dealing mainly with private individuals, active in certain sectors (e.g. bakeries, butchers, hairdressers) with turnover no greater than $974,925, have their annual taxable turnover set under special regulations, with the deduction for VAT on inputs determined according to normal rules.

4. Cash accounting for small firms

VAT systems are normally accrual based, requiring that VAT be remitted on taxable sales where the cash has not yet been received (accounts receivable). Under cash accounting, VAT is paid on sales only when the cash is received and similarly, input tax credits are claimed only when cash is paid on a purchase. Cash accounting systems targeted at SMEs, based on daily cash entries of payments and receipts, may significantly reduce compliance costs, to a degree depending on the additional supporting documentation that taxpayers are required to assemble and maintain (e.g. sales and purchase invoices, bank and possibly other financial statements).

Country examples

Businesses in Australia with a turnover of $783,600 or less may account for VAT on a cash basis, with other simplified accounting methods available for qualifying businesses with a turnover of $1,567,200 or less. In Ireland, businesses with a turnover no greater than $1.3m (effective from 1 March 2007) may account for VAT on a cash basis.

In Germany, the small invoice threshold, determining the obligation to keep small invoices, was recently raised from $130 to $195. It is anticipated that this adjustment will affect reporting requirements for 170 million invoices.

5. Less frequent filing requirements for small firms

One approach that reduces tax compliance costs, while at the same time provides firms with a cash-flow advantage (i.e. savings in present value terms, owing to the time value of money), is allowing small firms to file (declare) VAT returns on a less frequent basis, typically with a small business test based on taxable turnover in the prior year. Most countries with VAT systems require (large) firms to file VAT

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18 The base (reference) year for the taxable sales threshold ($415,144) is two years preceding the current year.

returns on a monthly basis. Where small firms are allowed to file and pay less frequently, for example quarterly, semi-annually or annually, compliance costs may be significantly reduced. Cash-flow savings realized by less frequent payments of tax may be viewed as a form of subsidy to help defray remaining compliance costs.

Country examples

Under basic VAT provisions in most of the reporting countries, businesses are required to file (declare and pay) VAT returns on a monthly basis, with exceptions being Ireland and Norway where the standard filing requirement is every two months. In the Slovak Republic, Poland, Belgium, the Czech Republic and Spain, quarterly rather than monthly filing of VAT returns is allowed for businesses with turnover under $374,000, $1 million, $1.3 million, $1.9 million and $7.8 million respectively. Canadian businesses with turnover under $5.1 million qualify for quarterly filing and payments; those with turnover under $425,900 but above $1,278 qualify for annual filing with quarterly payments; while those with turnover under $1,278 may file returns and make payments only once a year. In the case of Denmark, quarterly filing is allowed for businesses with turnover under $2.6 million, while firms with turnover under $174,389 are required to file declarations only twice a year. Similarly, businesses in New Zealand may submit a VAT return every six months if their turnover is less than $173,793, or was higher than this amount (in the prior year) but is unlikely to exceed this threshold over the next 12 months. For turnover above this amount but below $16.7 million, returns may be filed every two months rather than on a monthly basis.

Austria and Sweden allow an annual rather than monthly filing for firms with turnover under $129,990 and $143,200 respectively. In Norway, a request for an annual declaration may be made for businesses with turnover under $157,030, while in the U.K., an annual declaration is available for businesses with taxable turnover of up to $2.6 million. Voluntary VAT registrants in Australia have the option of filing (reporting and paying) VAT on an annual basis.

In Ireland, thresholds for less frequent filing are now determined on the basis of estimated VAT liability. In particular, as from July 2007, businesses with an annual VAT liability of $3,900 or less have the option of filing returns every six months (half-yearly basis). Returns may be filed every four months where VAT liability exceeds this threshold level, but falls below $18,720. It is estimated that over 76,000 traders are eligible for these new arrangements.


Various measures are also observed in countries to reduce the compliance requirements on small business of (self-assessed) regular income tax, in support of the creation and tax compliance of small businesses. This section of the paper reviews approaches identified by the surveyed OECD countries, including: exempting firms with turnover under a small business threshold from regular income tax, replaced by some form of ‘presumptive’ tax; allowing cash accounting and other simplified accounting procedures; and less frequent filing requirements.

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20 Figures are approximate and refer to taxable turnover. In Belgium, the turnover for quarterly returns is reduced to $259,980 for certain businesses, including suppliers of mineral oils, mobile telephone equipment, computers, computer peripherals, accessories and components, and motorized land vehicles. Similarly, Poland reduces the turnover for quarterly returns to $38,997 for certain specific cases.
I. Replacement of regular income tax with a presumptive tax

As in the case of VAT, allowing firms with turnover below some threshold level to opt out of the regular income tax system may be an effective means to reduce tax compliance costs and costs of tax administration. At the same time, strong arguments may apply to tax exempted firms with some simpler replacement tax, despite the (not insignificant) compliance and administration costs that such a system could entail. Aside from contributing to tax revenues and supporting good governance by aiming to include participation by all, including the very small, domestic businesses in the tax system, imposing a replacement tax may ease the transition of firms into a country’s regular income tax regime when a small business turnover threshold is crossed (and thereby encourage continued participation in the formal economy).

Additionally, to the extent that the economic incidence of regular income tax falls on business owners, providing an income tax exemption for firms under a small business turnover threshold may place them at a competitive advantage relative to firms just over the same threshold. Non-neutral treatment implies welfare (efficiency) losses, and may encourage businesses subject to regular income tax to operate in the informal economy. Such considerations encourage policy makers to assess the pros and cons of levying some alternative replacement tax on firms exempt from regular income tax.

Replacement taxes for an income tax are generally referred to as ‘presumptive’ taxes, as they rely on a base that in principle acts as a proxy for the base of the tax that they replace (in the current context, regular income tax). As reviewed below, presumptive tax bases and tax burdens may differ significantly from those under a regular income tax, to a greater or lesser extent depending on the type of presumptive tax and its design features (and the taxpayer’s profit position).

The following types of presumptive taxes may be used to proxy a regular income tax: a patent, an indicator-based tax, a gross-basis turnover tax, and a net (adjusted) turnover tax. A number of variants may be observed for each of these categories of tax. The following reviews main design considerations, with some country examples.

a) Patent

The simplest presumptive tax to replace regular income tax is a patent, levying a uniform lump sum amount on firms regardless of their size. In practice, a patent may indirectly target small businesses when imposed on types of activities (e.g. hairdressers, mechanics) that typically involve relatively low levels of turnover. The main advantage of a patent is its simplicity, implying low tax compliance and administration costs.

However, being a lump sum fixed amount, a patent imposes a relatively high tax burden on firms with relatively low turnover, tending to distort competition amongst firms of different sizes subject to the patent. For the same reason, it imposes a relatively high tax rate on profits during downturns in business activity when profits are low or negative (tending to reinforce rather than counter business cycles), and may thus create cash-flow problems for firms.

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21 Small businesses may be exempted from regular income tax, and/or excluded from VAT (not required to collect VAT). The term ‘exemption’ is used in the case of income tax, as income tax is levied on businesses. The term ‘exclusion’ may be used in the context of VAT, as VAT is imposed on consumers. Under a VAT exclusion, small businesses are waived of the responsibility of collecting this tax.

22 As considered in the previous section, firms falling under a VAT collection threshold may be placed at competitive disadvantage due to loss of input tax credits, creating pressure for possibility of opting-in.
Country examples

None of the OECD countries included in the survey reported taxation of small businesses under a simple patent system.

b) Indicator-based tax

Another relatively simple presumptive tax is one based on indicators of firm size, other than turnover or income. Examples of such indicators include total number of employees, floor space, inventory values, electricity consumption and other variables that may be correlated with income. The base of an indicator-based tax is generally less easy to misreport than turnover or income, and may offer significant savings in tax compliance and tax administration costs.

A particular feature of this type of tax is that it is effectively a tax on the indicators that form the base. An indicator-based tax that is increasing in the amount of floor space and/or total employment would tend to discourage investment in buildings and/or the hiring of additional workers by taxing these factor inputs. On the other hand, unlike an income tax, an indicator-based tax does not tax revenues and thereby discourage income growth accompanying increased work effort, or more generally, does not discourage increased utilization of factors of production falling outside the tax base (i.e. the marginal tax rate on revenue is zero).

Certain other positive effects of indicator-based taxes may also be observed, depending on the components of the base. For example, where increasing in the amount of electricity consumption (a type of environmentally-related tax), an indicator-based tax would tend to encourage investment in technologies consuming less electricity per unit of output.

Country examples

An example of an indicators-based tax is provided by the ‘tax card’ system in Poland, where the amount of tax liability specified by statute depends on the form and scope of activity performed, the number of employees, and the number of inhabitants of the place where the economic activity is performed. Another example is Spain where presumptive tax applied to unincorporated businesses engaged in one or more of nine business activities is based on a number of “modulos” (i.e. parameters including the number of employees, electric power consumption, number of tables (for restaurant services)).

c) Turnover tax

A common form of presumptive tax is a turnover tax, levied on gross revenues. Unlike a patent or indicator-based tax, a turnover tax varies directly with firm size measured by turnover, and thus goes some way towards avoiding the competitive distortions of profit-insensitive taxes. However, turnover taxes impose a relatively low effective tax rate on businesses that are more profitable than others. For example, where two firms have turnover of 100, firm A realizes a profit of 20, while firm B realizes a profit of only 10, a 5 per cent turnover tax implies a 25 per cent tax rate on profits of firm A, compared to a 50 per cent tax rate on profits of firm B. Thus turnover tax, in addition to imposing a higher tax burden on less efficient firms, would tend to discourage the allocation of capital to business activities where profit margins are relatively thin.

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23 While the marginal tax rate on revenue is zero, the marginal tax rate on investment in buildings, inventories or machinery (more specifically, the METR on profit from these investments) is positive where the indicator base includes an amount that increases with investment in buildings, inventories or machinery.
Turnover taxes may be applied to firms’ gross revenue below a small business threshold using a single flat rate or a tiered rate schedule, and may be uniformly applied or vary by type of business sector. While introducing some degree of complexity, one potential advantage of a tiered rate structure that applies a relatively low rate on low turnover, is encouraging tax compliance amongst young start-up firms. Low compliance costs under a turnover tax, together with a relatively low tax rate on low turnover in initial years, may provide an effective combination to encourage participation in the tax system. Once in the system, firms may decide to remain operating in the formal economy, a decision encouraged where the top tax rate of a tiered rate structure is set to avoid, on average, large upward adjustments in tax burden when the small business threshold is crossed.

Given that a tax based on turnover tends to impose a higher tax rate on profits of businesses with low profit margins, some countries apply reduced tax rates to turnover of businesses in sectors where profit rates on average are relatively low. With sector differentiation, complexity may be contained by applying a flat rate rather than tiered rate schedule, with the rate set lower (higher) in sectors where profit margins on average are lower (higher). Under a flat rate system, with variable flat rates across sectors, the effects of a graduated (tiered) rate structure to encourage tax compliance amongst start-ups may be introduced by relying on standard deductions from the turnover base.

In addition to providing a better proxy to income than patent and indicator-based taxes, with a turnover tax base going some way towards avoiding competitive distortions of profit-insensitive taxes, turnover taxes also facilitate the adjustment of firms to a regular income tax system by requiring the maintenance of cash accounts measuring turnover. And, as with other presumptive taxes, by reducing tax compliance costs (and possibly reducing for some firms tax liability), small business creation and compliance with the tax system is encouraged.

Country examples

In Mexico, small unincorporated businesses (‘Repecos’) with turnover under $91,200 in the previous tax year are taxed at the rate of 2 per cent of gross revenues. For taxpayers deciding to opt instead for taxation under regular income tax, the decision is irreversible.

Unincorporated businesses in Poland have the option to be subject to regular income tax, or be taxed under a presumptive tax based on gross turnover (no deduction for costs) with turnover rates varying by type of business activity. The rates are 20 per cent on revenue raised by liberal professions; 17 per cent on revenue raised from providing car rental services, hotel services, or agency services involved in wholesale trade; 8.5 per cent on revenue raised from service activities including the sale of alcoholic drinks; 5.5 per cent on revenue raised from production and construction activities; and 3 per cent on revenue raised from service activities in the scope of trade and catering.

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24 Whether a turnover tax reduces the tax liability of a small business, relative to that under regular income tax, depends on the specific design features of both taxes, and the level of turnover and profit (or loss) of the business (including the flexibility of business loss provisions of the regular income tax).

25 As in other OECD countries, unincorporated business income of individuals is subject to personal income tax. In Poland, unincorporated (non-agricultural) businesses may elect for taxation of business income under a flat 19 per cent rate (equal to the corporate income tax applied to profits of incorporated businesses), or for turnover-based taxation (‘lump-sum’ tax rates applied to registered revenues). (The turnover tax rates are referred to as ‘lump-sum’ tax rates as they are prescribed under the Lump-Sum Income Tax Act which governs both the turnover tax and the ‘tax card’ system). The presumptive taxes substitute only for personal income tax on unincorporated business income (not for VAT or social security contributions).
Unincorporated business in Spain performing agricultural activities may apply for taxation under a turnover-based system provided that turnover does not exceed $389,970. The turnover rate is set at X [check with the Spanish Delegate]. As noted previously, Spain applies an indicators-based tax to other (non-agricultural) business activities under a small business threshold.

d) Net (adjusted) turnover tax

Closer in design and effect to a regular income tax are presumptive taxes that adjust turnover tax base (gross revenues) in respect of business costs. Given the goal of replacement taxes to contain tax compliance costs, the cost adjustments tended to be ones that can be readily measured. Rather than capitalize capital costs, for example, firms may be allowed to expense capital cost (i.e. full and immediate deduction).26 Similarly, rather than require that firms track inventory costs, a simple ‘lump sum’ deduction may be provided in respect of input costs, determined as a percentage of turnover.27 Deductions in respect of wages, and possibly other costs and taxes may also be factored into the base definition, on the presumption that the relevant information is required for other purposes (e.g. calculation of employee social security contributions) and therefore available for presumptive tax purposes.

Country examples

Austria provides an example of this type of presumptive tax, applied to unincorporated businesses only, where the tax base is measured as turnover, minus wages, cost of goods (inputs) and related taxes (including VAT on inputs), less ‘deductible expenses’ measured simply as 12 per cent of turnover (up to a maximum of $34,317).28 The simplified regime applies to businesses under a turnover threshold that varies by business sector, with the general threshold being $288,578.29 Where a business decides to opt out of the regime, the decision is binding for 5 years.

2. Simplified financial accounting for small firms

Income tax systems in most OECD countries are accrual based. Under cash accounting, income tax is paid on revenues only when cash is received, and input costs are claimed only when cash is paid out. Cash accounting systems targeted at SMEs, determining taxable profit based on entries of revenues actually received and costs actually incurred (including immediate expensing of capital purchases), may significantly reduce compliance costs, to a degree depending on the additional supporting documentation that taxpayers are required to assemble and maintain. Other simplification measures may include simplified book-keeping requirements.

26 Adjusted (net) turnover taxes may be viewed as similar in certain respects to cash-flow taxes (e.g. by providing immediate expensing of capital costs, denying deductions for interest expense, and excluding interest income from the base). At the same time, adjusted turnover taxes differ when allowing simplified calculations for certain business costs (e.g. as in the Austrian example which provides a standard deduction equal to 12 per cent of turnover).

27 Some policy makers refer to a simplified deduction for input costs determined as a percentage of turnover as ‘lump sum’ deduction, even though the deduction is not a fixed amount (instead variable with turnover).

28 Modified ‘lump sum’ deductions apply to restaurants, hotels, food retailers and certain other business activities (e.g. for free professionals, deductible expenses are calculated as 6 per cent of turnover).

29 For restaurants and hotels, the turnover threshold below which the presumptive tax applies is $331,475. For drug stores and food retailers, the turnover threshold is $519,960 and $779,940 respectively, assessed in the 2 preceding years.
Country examples

In Austria, unincorporated businesses with turnover under $519,960 (€350,000 to €500,000) are not required to file full financial accounts (only revenues and expenses need to be reported). Small businesses in Belgium with turnover (excluding VAT) under $649,950 benefit from simplified accounting rules that stipulate that all transactions must be fully registered in a treasury book, a purchase book and a selling book. Additionally, an inventory (list) should be made at least once a year indicating all credits, debts and resources used in the business.

For companies in Germany under certain turnover or profit thresholds, cash accounting may be used for tax purposes, in place of full financial reporting (profit and loss account, and balance sheet). The turnover threshold determining the obligation to keep accounts and records for tax purposes was recently raised (again), from €350,000 to €500,000.

In Greece, simplified accounting rules and procedures apply to businesses with annual turnover thresholds under €300,000 for trading companies and €150,000 for services companies. In Spain, investments in ‘low value’ assets, defined as assets with a value under €782, may be expensed (‘freely depreciated’), up to an overall ceiling in the tax period for such immediate expensing of €15,630.

Similarly, in Japan, small assets, defined as assets acquired at a cost less than $2,490, may be immediately expensed. A ceiling of $24,900 applies to the total amount of immediately expensed small assets in a given year.

Small, sole proprietorships in Norway (with assets up to $3.1 million or not more than 20 employees) or general partnerships (with turnover no greater than $785,150, and no more than 4 employees) are exempted from preparing annual accounts. However, businesses in this group must prepare an annual report for income tax purposes, to determine taxable income and assets for the year.

In Poland, unincorporated businesses with turnover under $1 million may keep a tax book of revenue and expenses (corporate taxpayers, and unincorporated taxpayers with turnover in excess $1 million must keep regular financial accounts).

Australia provides an example of simplified depreciation rules for SMEs. In particular, under the Simplified Tax System (STS) small businesses with turnover no greater than $1.6 million are allowed to pool depreciable assets for depreciation purposes, and to claim an immediate deduction for low-cost assets (assets whose costs are less than $784). Assets with effective lives of less than 25 years are allocated to the general small business pool, depreciated at 30 per cent, while assets having effective lives of 25 years or more are allocated to the long life small business pool, depreciated at 5 per cent.

Simplified accounting procedures are provided in Spain for unincorporated and incorporated businesses with turnover under $2,599,800, total assets not exceeding $1,299,900, and no more than 10 employees (on average over the year).

In Sweden, which relies on a strong connection between the tax base and financial accounts, simplified accounting rules apply only to sole traders with a turnover under SEK3 million.

30 Simplified accounting rules requiring double-entry accounting and an annual inventory also apply in Belgium to SMEs meeting the following tests: no more than 50 employees on average over the year; annual turnover (excluding VAT) no greater than $9,489,270; and total assets no greater than $4,744,635.

31 STS taxpayers also have access to simpler trading stock rules.
In the U.K., unincorporated businesses with profits under $29,389 are allowed to use a simplified self-assessment return. Similarly, a simplified corporation tax return may be used by companies with simplified tax affairs.

In the U.S., the cash method of accounting (rather than accrual accounting) may be used by businesses with less than $1m in average turnover (annual gross receipts) over the past 3 years, and by businesses with average turnover in excess of $1m but less than $10m that are not in trade, manufacturing, mining, or the information industries. Additionally, businesses with no more than $10m in average turnover are exempt from regular capitalization requirements to capitalize the direct costs and part of the indirect costs of production or resale activities.

3. Less frequent filing requirements for small firms

One approach that reduces tax compliance costs, while at the same time provides firms with a cash-flow advantage (i.e. savings in present value terms, owing to the time value of money), is allowing small firms to file their income tax returns on a less frequent basis, typically with a small business test based on taxable turnover in the prior year. Most countries require (large) firms to submit business income tax returns on a monthly basis. Where small firms are allowed to report less frequently, for example quarterly, semi-annually or annually, compliance costs may be significantly reduced. Cash-flow savings realized by less frequent payments of tax may be viewed as a form of subsidy to help defray remaining compliance costs.

Country examples

Under the PAYG instalments system in Australia, which collects progressively throughout the year a taxpayer’s estimated tax liability (on income not subject to the withholding system), most taxpayers pay income tax instalments quarterly. Taxpayers whose previous years notional tax amount was less than $6,269 may make annual instalments (if certain other requirements are met). As from 1 July 2007, small business owners with turnover of less than $1.6m have access to these arrangements.

Canada reports that corporate tax instalments may be made less frequently for small businesses. In the Czech Republic, simplified ‘tax evidence’ is allowed for taxpayers with turnover under $0.7 million, to limit the amount of detail required in reporting income and expenses. In Poland, small taxpayers, defined (since 2007) as taxpayers with turnover in the prior year no greater than $1,039,920 are entitled to quarterly based tax advanced payment. As from 2006, SMEs in Denmark are exempted from supplying full tax accounts with their income tax return (with more detailed tax accounts possibly required under a tax audit).

D. Other Simplification Provisions

This section of the paper reports simplification provisions in relation to payroll deductions, where SMEs are required to withhold social security contributions and/or income tax on wages paid to employees. Other simplification measures of particular benefit to SMEs, including the wider use of information technologies to assist taxpayers in understanding and complying with the tax system, are also briefly discussed.

32 In countries with social security systems, individuals owning an unincorporated business are typically required to pay self-employed social security contributions on their own behalf levied on business income, and employee social security contributions on wages paid to workers. For an incorporated SME, employer and employee social security contributions are typically imposed on the wage income of all workers, including wages of a business owner/worker.
1. Facilitating compliance with social security plans

The questionnaire asks countries to report whether special social security contribution provisions apply to SMEs to simplify tax compliance procedures or otherwise reduce taxpayer costs.

The country responses report a limited number of simplification measures in this area, presumably given the need to rely on SMEs to accurately withhold social security contributions (and personal income tax) on wages and other amounts paid to workers. Most of the measures reported by the surveyed countries (measures currently in place or planned) seek to facilitate information gathering and reporting, for example through internet access to forms and electronic filing of returns, rather than to reduce or otherwise simplify the information required for tax calculations, or simplify tax calculation themselves. Reduced contribution payments benefiting small businesses are however reported, in one country example (Poland) for calculating social security contribution liabilities for new businesses, and in another (U.K.) for self-employed businesses with very low profits (with both measures only indirectly related to firm size).

Most surveyed countries report not having introduced special social security provisions targeted at the self-employed or incorporated small business employers. Exceptions include Poland and the U.K, which report provisions to ease compliance through reduced contribution amounts. In the case of Poland, the base of self-employed social security contributions is declared income from self-employment, which may be no less than 60 per cent of self-employment income in the previous quarter. Similarly, the base of social security contributions for employees and employers is declared income from employment, which may be no less than 60 per cent of employment income in the previous quarter. However, in the case of a person (self-employed individual, or employee) commencing economic activity, the base of social security contributions is reduced by half (50 per cent reduction) during the first two years of activity. The reduced contribution rates do not affect eligibility for social security benefits. In the U.K., the self-employed may apply for an exception to pay if their business profits in the year are less than $8,748. These special provisions in Poland and the U.K., while not reducing compliance costs, operate to lower the amount of contributions paid, and thus the overall tax burden on the small business employers and the self-employed, tending to encourage small business creation and compliance.

The U.S. indicates no difference in employment tax liability rules for small employers. However, the frequency with which employment tax deposits are required to be made by employers in the U.S. (payments of social security and Medicare taxes, unemployment insurance, and personal income tax) depends on the size of the firm’s payroll. Thus small businesses in the U.S. benefit from less frequent payment requirements.

The questionnaire asks countries to report whether self-employed individuals are allowed to opt-out of social security schemes. None of the OECD countries surveyed, with the exception of Mexico, indicate that full exclusion from the social security system is an option for the self-employed. In some country

33 Australia reports that payroll taxes levied on wage/salary costs at the sub-central level (by State and Territory governments) generally have thresholds aimed at excluding small businesses from these taxes. Thresholds are usually based on annual turnover and/or the number of employees.

34 Australia and New Zealand do not have a separate social security (social insurance) scheme. Health and unemployment benefits are funded out of general government revenue.

35 The self-employed are required to pay ‘Class 2’ contributions on profits above $8,748, and may make payments on business profits under this threshold to secure entitlement to benefit. Payment of Class 2 contributions counts toward the basic state pension, maternity allowance and incapacity benefit. The self-employed also pay Class 4 contributions of 8 per cent on profits between $9,865 and $65,713, plus an additional 1 per cent on profits above $65,713.
examples, participation by the self-employed in certain elements of the social security system is optional, while coverage under certain other plans is denied.36

For example, in Canada, the self-employed are required to pay the employee and employer share of the Canada Pension Plan contributions (no opt out provision). However, the self-employed are not covered by the employment insurance (EI) system. In Germany, while in general the self-employed may choose to not participate in the social security system, participation in the public pension system is compulsory for some free-lance occupations.37 In the Czech Republic, only sickness insurance is completely voluntary for the self-employed. In contrast, in Mexico, the self-employed can opt out of social security (i.e. can decide whether they want to participate in the social security system or not).

2. Simplification provisions for other payroll deductions

In general, SMEs are required to withhold and remit to government not only social security contributions, but also personal income tax on wages paid to employees. While simplification options in this area would appear to be limited, some relief is provided where the frequency of remittance payments is reduced. Under the Pay As You Go (PAYG) withholding system in Australia, ‘small withholders’ (withholding $19,590 or less per year) may make quarterly remittances of income tax withheld from wages of employees.38

In Ireland, where a number of measures have been introduced in recent years to ease compliance with tax and duty systems, small business employers are subject to less frequent remittance requirements for withholding of income tax and social security contributions, as of 2006, under the PAYE (pay-as-you-earn) and PRSI (pay-related social security) systems. In particular, quarterly filing arrangements apply to employers whose annual PAYE/PRSI liability was $38,997 or less in the prior year, reducing the administrative burden for roughly 76,000 SME employers.

Under recently introduced tax simplification initiatives targeted at SMEs in New Zealand, subsidies are provided to small employers to help defray the cost of using external payroll providers to comply with PAYE (pay-as-you-earn) tax obligations. In additional, the timing of payment requirements of provisional income tax has been aligned with payments of VAT (Goods and Services Tax) in order to reduce the number of tax payment dates. At the same time, small businesses are allowed to base their provisional income tax payments on VAT sales. In addition, a partial tax rebate is provided for early payment of provisional tax in the first year of a business.

36 The compliance implications of opt-out provisions are complex. Where the self-employed are able to opt out of a social security system, and choose to not participate, or where they are excluded from the system, the burden of social security contributions is eliminated (i.e. no compliance costs or contribution payments associated with this system, other than possibly notifying an opt-out decision). However, the burden of a public system may be replaced by the burden of complying with requirements under a private system, where an individual wishes insurance coverage (public or private), whether self-employed or employed. Overall compliance costs may be increased where self-employed are only partly excluded from the social security system (given the need to report and pay contributions to government for the public component, and to the private sector for private coverage).

37 Germany reports that the self-employed may opt in for public health insurance (sickness funds). As from 1 April 2007, cancellation of public health insurance requires proof of alternative coverage.

38 Under the Australian PAYG system, the frequency with which taxpayers must remit payments depends on the amount withheld in the previous year. Entities that withheld amounts exceeding $783,600 are required to remit within six to nine days after the amount was withheld. Medium withholders (those who withheld between $19,590 and $783,600 per year) must remit monthly.
Canada also reports that, depending on the size of payroll remittances, small businesses are permitted to remit payroll source deductions less frequently than large corporations. Similarly, in the U.S., as noted above, the frequency with which employers must make employment tax deposits (including payments of personal income tax) depends on the size of the firm’s payroll, thus with the greatest relief provided to small businesses.

3. Further simplification measures

This final section reviews a number of other measures taken by the surveyed countries to reduce tax compliance costs. In particular, a number of countries report having implemented efficient electronic platforms to facilitate business access to information on how to comply with payroll, income tax and social security systems, and to ease the transfer by business to government of relevant information (forms) and contribution amounts. While in general such measures are not specifically targeted at small businesses, they are reported as being of particular benefit to smaller businesses (having relatively low turnover and limited profit to defray the cost of compliance requirements having a significant fixed cost component). A recent initiative reported below that is specific to small businesses is one reported by Australia, which has standardized its small business definition used to direct small business concessions.

In Germany, new software (ElsterLohn) is provided to employers to allow them to transfer data contained on a ‘certificate of wages tax deduction’ electronically to the tax administration. This saves SMEs in Germany the need to process and dispatch some 30 million hard-copy certificates, significantly reducing tax compliance costs. In addition, the tax administration provides the software package ElsterFormular as a free service, which supports the filing of the income tax return, the VAT return, the trade tax return, the provisional VAT return, the wages tax return and the certificate of wages tax deduction.

In Canada, the creation of the “My Business Account” service allows businesses to access their business information online 7 days a week, 21 hours per day. Also provided are electronic services and forms for business making it easier to register a business, file tax and information returns (subject to eligibility), file tax remittances and to receive refunds and make payments. Similarly, in Belgium, the introduction of electronic tax returns for filing of VAT declarations, corporation tax, individual income tax, and withholding taxes on wages and salaries, can be expected to provide compliance savings of particular benefit to SMEs.

New business models and related IT systems have been introduced in Ireland to streamline the PAYE system and minimize the necessity for customer contacts with revenue authorities. Use of the Revenue On-line Service has promoted to the public, explaining the efficiencies and benefits in reduced time and effort for the completion of returns, on-line validation, immediate processing, quicker turnaround times where repayments are due, and on-line access to current year and historic returns and accounts. Moreover, systems are in place to identify disincentives to taxpayers dealing with Revenue electronically, so that these impediments may be addressed.

In Japan, the National Tax Agency (NTA) has taken a number of steps to reduce taxpayer compliance costs through tax education programmes and tax counselling, public relation activities to explain the importance complying with the tax system and to provide information on tax law and procedures, and through enhanced convenience for filing.

In Poland, efforts to reduce tax complication costs are focused primarily on providing better access to tax information, through the use of brochures and websites with information on taxes and compliance requirements. The U.S. reports multiple efforts within the Internal Revenue Service to address costs
incurred by taxpayers to meet their tax obligations. Offices with specific responsibilities in this area are the Office of Taxpayer Burden Reduction, Electronic Tax Administration, and the Taxpayer Advocate.

A final simplification initiative to highlight is that introduced by Australia. As of 1 July 2007, eligibility criteria in Australia are standardized for all small business tax concessions. Previous to this, separate eligibility tests applied for small business concessions – in particular, the definition of small business varied across different areas of the tax law. As a result of new legislation, one eligibility test applies to determine access to a range of small business concessions. It is estimated that a single definition of small business will result in reduced compliance costs for some 2m Australian small businesses, or over 90 per cent of all Australian businesses.