



EXECUTIVE SUMMARY

Background

Each year, many millions of domestic businesses and over 100,000 cross-border businesses¹ comply with various standard government procedures, including business registrations and tax returns. These procedures differ widely in design and cost across Europe, increasing costs and barriers particularly for businesses operating across borders. Online procedures could reduce the costs of carrying out these procedures, especially for cross-border businesses, because visiting an office is more burdensome for them than for domestic businesses. In addition to simplification of procedures, digitization of procedures could create a more level playing field, and benefit domestic businesses as well. However, even online procedures that are available to domestic businesses are not always equally accessible to foreign businesses for a variety of reasons, including availability of the procedure in the English language, acceptance of non-national data, and availability of e-identification. Digitization should be considered along with a wider array of reforms.

Objective and scope

The objective of the study is to identify and compare the formalities associated with ten common administrative procedures affecting domestic and cross-border businesses to assess the significance of potential additional burdens on cross-border actors. This information provides input for an Impact Assessment (IA) for a new "Single Digital Gateway" initiative. This study assesses the costs related to such formalities and procedural steps.

The study is focused on formalities and procedural steps faced by legal entities (i.e. companies) in the EU going through ten administrative procedures:

- Four business registration procedures: general; VAT; business income tax; as employer;
- Three tax returns: VAT; business income; wage related (payment of social security and employee income withholding tax);
- Three other procedures: VAT refund request; notification of the start and the end of employment relationships.

An inventory of the formalities and procedures is made for all 28 EU Member States. Data on associated costs were collected through a business survey in 14 Member States and then extrapolated to the EU28.

Overview of methodology

An inventory of administrative formalities was made by, first, collecting online available information to complete as far as possible a descriptive template on the formalities included, and, second, by requesting responsible authorities from all EU countries to validate and complete the templates.

To obtain information on the costs of the administrative formalities, a survey of 61 businesses was conducted, of which 43 were domestic and 18 were cross-border. Costs examined were the time spent by staff and actual expenditures on:

- Gathering information about procedures (including advice);

¹ Businesses established in one Member State and doing business in another Member State.

- Collecting data and documents;
- Translation of documents;
- Certification of documents;
- Submitting documents (including travel time and ticket costs if applicable).

Based on the survey, costs of various activities and expenditures were classified in up to five categories of "complexity" (simple, medium, complex, very complex and highly costly), with greater complexity corresponding to higher costs. Complexity was then linked to characteristics of the administrative formalities. This approach enables allocation of similar costs to similar formalities and mitigates the impact of outliers on the results. Lastly, the costs of both domestic and cross-border businesses were extrapolated to the EU level.

Below, first the key findings on costs are presented, then options to reduce costs and last a summary of the formalities.

Key findings on costs

A key finding of this analysis is that even if the costs of formalities per occurrence are limited to a few hundred euros, the aggregate annual cost at the EU level can run into billions when considering that millions of (domestic) businesses go through these procedures and that businesses must go through some procedures every month.

On an annual basis, business registrations for tax purposes (VAT, business income tax) and as employer, the business income tax return and the wage related return are the least costly procedures for businesses as they are in the range of EUR 300-700 per procedure for both domestic and cross-border businesses. As for all costs reported in this study, these costs exclude fees. The general business registration, the VAT return and the notification of the start of employment relationships are more costly, in the range of EUR 1,200-1,400 in a year for domestic businesses and EUR 1,200-2,800 for cross-border businesses. In those few countries where the notification of the end of employment relationships is not integrated with wage payment reporting, it appears this can almost double the cost.

Up to 17 million domestic businesses go through procedures, resulting in yearly aggregate costs of EUR 52.7 billion. The number of cross-border businesses is significantly smaller. Up to 67,000 cross-border businesses go through various procedures and incur yearly aggregate costs of EUR 348 million.

However, when the costs of cross-border businesses are compared with those of the same numbers of domestic businesses, the additional costs are EUR 131 million annually, or over 50 per cent higher. Almost half of the additional costs for cross-border businesses are caused by translations (EUR 60 million), followed by additional costs for gathering information about procedures (EUR 30 million, mostly advice), submitting documents (EUR 22 million, mostly travel costs if submission in person is required), certification (EUR 11 million) and collecting data and documents (EUR 7 million).

Translation requirements place additional burdens on cross-border businesses. Cross-border businesses also incur additional costs of gathering information when, for example, different requirements apply to foreign businesses but no online information about these differences is available (20% of the procedures) or information is unavailable in English (43% of procedures). Additional costs of submitting document are caused by requirements to submit documents in person (9%). The cost difference is smaller when

documents must be submitted by post (10%), but also when e-identification is not available to foreign businesses (8%) or data can be filled in online but some or all fields accept domestic data only (29%). Costs of certification and collecting documents can be higher for cross-border businesses if the document must be issued or certified in the host country (20%) or even be collected in person in the host country (less than 1%). These differences in costs could be reduced in part by coordinated action at the EU level.

Options to reduce costs of administrative formalities

Several options exist to simplify procedures and reduce costs. Some of these are different alternatives to reduce the same costs, so that maximum savings are less than the sum of all individual options.

Certification costs offer the greatest potential for cost reduction. Eliminating certification costs could reduce costs by yearly **EUR 55 million for cross-border businesses** and **EUR 18 billion for domestic businesses**. For each procedure, multiple countries require no supporting documents, which eliminates the need for certification of documents altogether. This gives reason to reflect on which supporting documents are really necessary, and, if they are needed, on how to verify their authenticity in a more efficient and less costly way.

Translation costs only affect cross-border businesses and full elimination could reduce costs by yearly EUR 60 million, or **EUR 58 million** if translation costs for the general business registration are considered unavoidable. Of course, translation requirements serve clear purposes, but the following could be considered to reduce costs: requiring supporting documents only once per year; requiring translations only if necessary (for example, for invoices with the VAT return); and developing standard EU certificates in English (for example, to prove the existence of a business in the home country). The latter option may require coordination at the EU level.

E-procedures could reduce costs by yearly **EUR 19 million** for cross-border businesses and **EUR 810 million** for domestic businesses. The greatest gain would be achieved for countries and procedures where currently submission in person is required (EUR 11 and 516 million for cross-border and domestic businesses respectively). E-procedures would also eliminate transactions by post (EUR 5 and 294 million). This option assumes that e-procedures would be available to both domestic and cross-border businesses. In a few countries where e-procedures are currently in place but only for domestic businesses, a further cost reduction of EUR 3 million could be achieved for cross-border businesses.

Online information and/or personalized assistance about procedures are available to some extent in most countries and procedures. As noted above, online information has various shortcomings, which impact negatively on cross-border businesses in particular, in up to 43 per cent of the current procedures. Making this personalized assistance universally available or providing perfect online information (better than current average quality of information) could reduce costs by yearly **EUR 18 million** for cross-border businesses, who use an advisor if information is not clear. There would be few cost-savings for domestic businesses. The savings potential of better online information and assistance services depends in part on their quality, reliability and usability. Businesses are likely to keep paying intermediary service providers to help them complete certain procedures when in doubt about the trustworthiness and completeness of the available online information. Intermediary service providers know procedures in their own country but may need to check information on cross-border procedures and charge their clients

for it. The study does not speculate about how high quality and complete online information could change how likely a business is to pay for advice in future.

Integrating procedures, where this is not already done, could reduce costs by yearly **EUR 14 million** for cross-border businesses and up to **EUR 18.5 billion** for domestic businesses. One example of integrating procedures is the assumption of a job start or end when social security contributions and employee income withholding tax are paid for the first and last time respectively, potentially saving **EUR 11 million** and **EUR 17.5 billion** for cross-border and domestic businesses respectively. If, instead, only the forms for job starts and ends are combined, cost savings would be reduced to **EUR 2 million** and **EUR 6.4 billion** respectively. Another example with particular cost savings for domestic businesses is a one-stop-shop (OSS) for all business registrations, where typically the authority for the general business registration forwards the necessary information to tax and social security authorities. However, cross-border businesses only need to register their economic activity if they seek a permanent (secondary) establishment in the host country and still may need to register for other tax purposes if doing business in the host country without secondary establishment. Hence, integrating registration procedures with an OSS affects only the small number of cross-border businesses applying for secondary establishment, resulting in aggregate potential savings of **EUR 3 million** compared to **EUR 1.0 billion** for domestic businesses.

Administrative formalities – integrated procedures

The study covers ten potential procedures in each EU28 Member State resulting in a total of 280 procedures. However, the actual number of procedures covered in this study is 195 because 85 are integrated into other procedures, such as OSS registrations, combining forms for related procedures, or requiring information on job characteristics to be included in the payment of social security contributions and employee withholding taxes instead of separately reported.

Administrative formalities – preliminary procedures and deadlines

For the 169 actual procedures on which information is available, businesses must go through a preliminary procedure in 57 per cent of the cases. Going through procedures sequentially instead of in parallel may be expected to increase the overall time of the procedure, but also seems to reduce handling times in later procedures. This study also revealed that some countries require registration before the business can start its economic activity while others do not, giving reason to reflect on the potentially high opportunity cost of ex ante requirements. Reducing these kinds of costs would require action at Member State level.

Administrative formalities – fees

Fees are charged only for the general business registration, if at all, with standard registration fees (excluding turnover based fees) ranging from EUR 21 to EUR 500. However, fees are excluded from the cost calculations because they are the same for cross-border and domestic businesses.

Administrative formalities – types of data and documents

For about one in four actual procedures, data can be provided online but some fields only accept national data: such as an ID number or address of the host country. The implication is that an ID number must be requested first, and sometimes off-line. If only an address of the host country can be entered online, it typically implies that cross-border businesses must submit documents by regular post. Supporting documents are typically required for registration procedures (70 to 92 per cent of these procedures) and

less often for tax returns. Frequently required documents include an excerpt from the register of the home and/or host country, specimen signatures, copy of passports or ID cards, proof of payment of the fee and (depending on the legal form) articles of association, power of attorney, a certificate of the appointment of managers and proof of capital deposit. The highest numbers of documents, up to 20, are typically required for general business registration. There is wide variation in supporting documents. For each procedure, two or more countries do not require any supporting documents at all.

Administrative formalities – certification and translation requirements

Where documents are required for the procedures covered by this study, originals and certified copies are required most often, but 17 per cent of all actual procedures accept simple copies. Certification includes an upload to an e-portal by notaries or accountants. The country of issuance is not always relevant, but documents must be issued or certified in the host country in 20 per cent of all actual procedures, sometimes implying additional travel costs for cross-border applicants in particular. Examples include a requirement to have articles of association certified by a notary of the host country, or specimen signatures certified at the office of any local authority in the host country. Documents in English are accepted in about one-fifth of all actual procedures (excluding Ireland and the UK but including Malta). Documents from the home country typically must be translated. In procedures where translation is required, it must be certified by a translator of the host country in more than half of the cases, and by any translator in the EU in more than one third of the cases.

Administrative tools – online procedures and e-identification

Almost all procedures (92%) are at least partly online, including for businesses from other EU countries. A majority of procedures is fully online (71%). Where the procedure is not fully online, delivery by regular post and delivery in person are required about equally frequently. About one third of actual procedures is available online without e-identification. Where e-identification is required, an e-signature is needed in half of the cases, and login/password and an e-ID in other cases. E-identification is usually available to both domestic and foreign businesses (83%). If not, the foreign business may need to send documents by regular post, or to give someone in the host country power of attorney to submit documents in person.

Administrative tools – information about procedures

Personalized assistance to assist businesses in going through procedures is almost always available (94% of all actual procedures), often even if no information about administrative formalities is available online (contact details for personalized assistance are available online in these cases).

Online information about procedures may be expected to help businesses and in particular cross-border businesses, although a great part of standard administrative procedures are currently done via intermediary service providers such as notaries and accountants. No online information was found for 21 per cent of actual procedures. Where it exists, online information about procedures almost always includes contact details (91% of cases where online information is available), requirements on the applicant (70-80%), and, less often, requirements on responsible authorities such as a handling deadline within which the authority must process the application, whether a delivery notice will be sent and accepted languages (40-50%).

For cross-border businesses from other EU countries, 47 procedures across the EU are different from those for domestic businesses, excluding translation requirements.

Differences include differences in access to online document submission, e-identification, and certification requirements. In about one third of the cases with different cross-border procedures, no online information about these differences is available, for example because the procedure is not online in the first place or because non-availability of e-procedures for cross-border businesses is not clearly stated. In more than half of all actual procedures, information about them is available in English, and rarely in other non-national languages. Hence although online information about procedures is generally available, this is less often tailored to cross-border businesses from other EU countries.



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