

WITH(OUT) HOLDING TAX

A complicated and inefficient Withholding Tax (WHT) system costs the EU economy around €8.6 billion annually. A convergent WHT system would benefit investors, savers and pensioners alike. On 8 May 2019 Accountancy Europe organised together with PensionsEurope an event exploring practical solutions to improve WHT procedures in Europe.

The debate highlighted that tax administrations can address lots of structural issues by adopting new technologies and tapping into the potential that digitalisation offers.

At the event, the European Commission presented its Code of Conduct on WHT from 2017. The Code proposes best practices for EU Member States to adopt. With the Code, the Commission aims to promote convergence and the debate – without actual legislative harmonisation.

According to the Commission, compliance costs of inefficient WHT procedures for both taxpayers and tax administrations are a major concern. Even theoretically straightforward procedures such as providing the right information at the right time can prove cumbersome.

The Commission underlined that its work on WHT did not stop with the Code. Instead, the Commission is closely monitoring the Code's implementation by Member States and follow up accordingly to update the Code if needed. "Further action" is possible eventually, although for now no concrete plans are in the air.

In her presentation, Marlies De Rooter from EY underlined that trust, transparency and efficiency are key challenges to be addressed. She discussed the OECD's TRACE project which was designed to make WHT processes more efficient and create more trust. However, TRACE suffered from the economic crisis and has not yet been implemented.

Nevertheless, Marlies highlighted that Finland stands out and will hold on 28 May a webinar to present its project on the TRACE implementation. A spill over effect among Nordic countries could result from this Finnish initiative, Marlies opined. Belgium is also working closely with Finland and considers a future TRACE implementation.

Ultimately, both the Commission and Marlies agreed that Member States have the main responsibility in creating more efficient WHT procedures. But even if tax administrations are pivotal to develop and improve WHT procedures, Marlies underlined that for taxpayers coherence and standardisation are important in any system.

Digital refund, digital administrations and user-friendly documentation were flaunted as examples of a more efficient WHT system. The Commission highlighted that there are already European initiatives that can assist with the digital transformation.

To make a success of the digital transformation of not only the WHT system but the broader tax system, policy makers should embrace innovation from the private sector. This was one of the messages put forward by Valentina Ion, the Government Industry Director at Microsoft. In her presentation, Valentina reminded that digitalisation and blockchain can provide Member States with a single source of trustworthy information that would foster trust. Automated reconciliation delivers efficiency, and secures access to global parties in a protected environment.

Valentina underlined that tax administrations need to accept changes in public sector legacy systems. The use of cloud-based solutions in tax administrations is a way to improve the tax system. She also highlighted that such cloud and AI based innovations are designed to enhance human ingenuity, not to fully replace it. These innovations improve data sharing that is a key component in delivering improved services.

Niels Krook from the Dutch member of PensionsEurope, PGGM, welcomed the Commission's Code of Conduct. As a next step, he called for a pan-European web-portal to register and verify pension institutions. With such a portal, the WHT status of pension institutions could be easily identified, enabling for example WHT agents to easily retrieve data to apply the appropriate WHT relief, and provide all relevant information to the tax administration.

Niels also underlined that such a system should be complemented, among other things, by a single uniform EU definition of a recognised pension institution for tax purposes. As such, when an entity is recognised as a pension institution in one Member State, it should benefit from this status across the EU.

Eelco Van Der Enden, Chair of Accountancy Europe's Tax Policy Group, closed the discussion by underlining the need for stakeholders to think about digital transformation in a more holistic way. Costs of compliance as such should already incentivise improvements in the WHT system. He also stated that Digitalisation itself brings standardisation, and governments cannot ignore the social urge for more coherent tax systems. Changes and transparency ask for different behaviour that tax administrations need to accept.