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**Technology Industries of Finland's submission to the public consultation:
Proposal for a Council Directive establishing a Head Office Tax System for micro, small
and medium sized enterprises (HOT)**

The European Commission (EC) has requested comments regarding the so called HOT-directive proposal. According to the European Commission the purpose of the proposal is to make it easier for SMEs to do business in the EU's internal market and ease the heavy tax administrative burden and reduce SMEs' compliance costs. This could also boost the competitiveness of the EU's single market and lift barriers to cross-border operations, as well as decrease the risk of double taxation and costly disputes.

The goal is to ease the administrative burden of SMEs by creating a system where a SME can continue to comply with the tax legislation of their home country and deal only with the tax authorities of the country where their head office is located, also concerning permanent establishments located in another EU Member State. A one-stop shop will enable in-scope SMEs to interact only with the tax administration of the Member State of their head office both for filing obligations and paying taxes.

Technology Industries of Finland (TIF) welcomes the opportunity to comment the HOT initiative.

- We agree with the Commission that tax compliance is too burdensome and complex at the moment. Thus, we welcome the idea to ease up the administrative burden of business, especially of the SMEs.
- TIF supports the principal idea of the proposal. It has potential to lighten the administrative burden of SMEs.
- When introducing new administrative models, it should be thoroughly analysed, whether the administrative burden will factually turn less burdensome, not just generate an extra layer of compliance. Thus, Teknologiateollisuus ry supports that the model is optional for the companies.
- Even though the majority of TIF's member companies are SMEs, there are very few that operate in a permanent establishment structure. Therefore, it seems that the significance of the model would be low. TIF suggests that the HOT-model would be extended to also apply to SMEs operating in a subsidiary structure.
- The model would only apply to corporate income taxation, and the SMEs would still have to obey the tax obligations of e.g. value added taxation. HOT should be so attractive that companies will prefer joining it rather than staying outside of the system. To increase the attractiveness of HOT, TIF proposes that the model would be gradually extended to cover all tax obligations of the SMEs.
- On a country level the HOT-proposal is more problematic, also affecting the companies. The tax base and tax rate would be defined in separate countries, which would limit the



possibility for Member States to regulate their own corporate income tax system. Taxation provides means for Member States to finance the most important functions, e.g. education, defense, health care. Decision making regarding EU taxation must require unanimity also in the future.

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Technology Industries of Finland (TIF) represents Finnish technology industries and has over 1,800 member companies, sizes varying from small SMEs and start-ups to world leading MNEs. The technology industry is comprised of five sub-sectors: electronics and the electrotechnical industry, mechanical engineering, metals industry, consulting engineering and information technology. Technology industry is the most important export industry in Finland, with operations constituting over 50 % of all Finnish exports and responsible for 65 % of all private investments in R&D carried out in Finland. Over 350,000 Finns work in technology companies, while a total of around 700,000 people work in the technology sector directly or indirectly (of a total population of 5,500,000).¹

¹ For further information of TIF's member companies, please see <https://teknologiateollisuus.fi/en>