

## **Single Market Strategy Consultation: Technology Industries of Finland Submission**

### General

The Single Market has been the cornerstone of the European Project. It provides the setting for the economic dynamism of the continent, yet only 8 – 10 percent of European companies are taking advantage of that. To make things worse, the Single Market has been eroding during the last years: national RRF plans, *sans* centred data access point, have been a sad departure from the competitive Single Market, where best solutions prevail. The bloated practice of state aid schemes has further accelerated the erosion.

Below, we offer our solutions for the development of the Single Market that is based on the idea of competitive, responsible, and ecologically sustainable industrial European Union.

### Digital Transformation

Europe needs new digital companies, offering services to our industries to make use of the industrial data and to deploy AI-based solutions to ramp up productivity. To accelerate this development, the approach to data processing has to be revised. Especially the application of the underlying GDPR should be made more risk-based *de facto*. And a great deal. In practice, this would mean new approach from the supervisory authorities to define the risk levels of processing, and to be very clear on what kind of solutions are expected from e.g. manufacturing companies processing very basic set of data of their customers and employees. This would need more uniform approach to the enforcement mechanism of the GDPR.

Clarification of the interplay between different elements of the EU digital acquis, promised under the Data Union Strategy, will be of key importance. Our detailed solutions for that are [here](#).

To balance increased freedom of processing of data, the data has to be protected from malicious intent. Protecting European data is a matter of Strategic Autonomy. Europe has a viable, trusted and capable ecosystem to provide modern digital resilience on a global scale. However, the solutions are much too difficult and costly to provide cross-border in the Single Market. This is because there are too many variants of regulatory frameworks both in different industry segments as well as Member State jurisdictions. Hence, it is necessary to prevent different implementations of directives as well as enacting additional national frameworks, such as minimum cybersecurity requirements.

Furthermore, cybersecurity must be understood as a continuously evolving set of risk management measures that protect data and computer systems. The responsibility for preventing, investigating, and mitigating the effects of data breaches largely lies with the holders of data and computer systems. Member state authorities and Union institutions certainly have roles in the aforementioned tasks (such as prosecuting crimes, transmitting threat identification information, and monitoring administrative requirements), but from the

perspective of ensuring continuity and protecting information assets, such tasks are secondary to what data and computer system owners do. It is necessary to support the capabilities of companies and organizations to manage their cybersecurity through policy measures.

### Green Transformation

The horizontal Single Market Strategy comes months after the Clean industrial Deal Communication. It is of utmost importance that the principles of competitive single market are deeply ingrained in that. In TIF view, the best way to turn the green transformation to an economic agenda is to accelerate demand for advanced solutions. To facilitate this, we have developed the concept of [Carbon Handprint](#). If standardised on the European level, this would create a robust base for market-driven comparison of different solutions' climate effect in a way that is business-relevant and light in administrative sense.

Competitive Single Market principles should be elementally ingrained in the Clean Industrial Deal, especially on the elements that drive decarbonisation and reform of industries.

### Defence, Security, Resilience

Europe will put more resources to the development of resilience and security. These policies should follow the Competitive Single Market principles in order to drive the demand for the most advanced solutions.

In terms of digital resilience, level single market in terms of cloud policy and level application of cybersecurity requirements would pave way for functioning single market on cyber security, bridging competitiveness and security.

### Advancing the access to the Single Market: taxation

For companies, predictability and simplicity of taxation are important factors. Reporting and paying their fair share of taxes should not result in tax disputes, double taxation, excessive and administrative burdens, especially hitting the SMEs hardest as the relative administrative burden is heavier on them.<sup>1</sup>

Tax registrations to all Member States, burdensome reporting, 27 different sets of national rules or taxation, tax disputes. We support the aim to build a horizontal single market strategy and trust that EU can be a more competitive place for businesses to locate and

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<sup>1</sup> The Commission has stated in its "Identifying and addressing barriers to the Single Market that compliance costs related to business taxation for SMEs can be as much as 30% of taxes paid. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Identifying and Addressing Barriers to the Single Market, SWD/2020/54 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020SC0054>

grow.

- **Complex taxation procedures and reporting:** Taxation procedures are burdensome and unclear and cause high compliance costs. All Member States ("MS") have their own tax models and processes, for each tax (corporate income taxation, VAT, withholding taxation, personal income taxation etc.)
- **Overlapping EU and national legislation and requirements:** The Draghi report<sup>2</sup> well describes this problem, also referring to tax legislation as a topic often affected by this phenomenon called "gold-plating":
  - EU directives just set policy goals, but each MS decide the exact measures
  - MS's national legislation is stricter than the minimum level set in the directive, because EU legislation deliberately leaves flexibility in the level of harmonization: fully harmonized vs. minimum level with no ceiling.
  - MSs leave national legislation in place on matters regulated by EU law, creating a dual regulatory regime.
- **Lack of harmonization:** Taxation procedures would be simpler and more effective by using digital taxation tools, harmonising and digitalising the tax reporting & process. Quick wins could be reached for example by harmonising reporting processes:
  - legislation coming into force at the same time in all MSs,
  - similar type of reporting templates
  - similar understanding of the content of the data points
  - similar due dates,
  - always accepting reporting in e.g. English and French,
  - ensuring same reporting format (XML, XBRL) to enable use of similar reporting tools.
- **Globally interoperable:** Global corporate income taxation rules should be pursued. Globally different tax models (e.g. BEFIT) make it more difficult to reach a well-functioning single market:
  - it is an extra layer of taxation rules to companies doing international business, causing more compliance costs to SMEs as well
  - makes EU less appealing for companies to reside due to administrative burden and tax uncertainty
  - might cause counter actions from EU's trading partners (e.g. the proposal of EU's digital services tax lead to a risk of additional tariffs set by the US to EU)
- **Interoperable within the EU:** similar problem is included in the introducing totally different set of tax rules in the EU level. Introducing additional taxation, especially without detailed impact assessment, using recent economic data will lead to tax

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<sup>2</sup> Draghi report, pg. 320: Gold-plating is the "process by which a Member State, which has to transpose EU legislation into national law or implement EU legislation, imposes additional requirements, obligations or standards in its national law that go beyond the requirements or standards of EU law – thereby imposing additional and avoidable regulatory costs."

uncertainty and administrative burden for years to come and not even reach the target it is supposed to tackle.

- **Minimum taxation** is addressing the same issues that have been partially tackled with previous legislation. A similar discussion of need to deregulate is ongoing in the OECD (Pillar 2, GloBE rules which form the base for EU's minimum tax directive). Therefore, unnecessary overlapping legislation should be eliminated, such as:
  - Controlled Foreign Corporation legislation
  - Hybrid mismatch rules
  - Interest deduction limitations
- **Interest deduction limitations** set in the ATAD (Anti-Tax Avoidance Directive) restrict investments in the EU. The multiple crises worldwide have depleted companies' equity, forcing them to rely more on loans for investments. On the other hand, industries with heavy tangible assets have no other option but to use loans. Obtaining reasonably priced loans for investments has become more challenging. The recent high interest rates are also causing increased interest costs. Due to the strict interest deduction limitations, companies' financing costs are unreasonably high, leading to the transfer of financing functions outside the EU. Interest deductions should be fully lifted for bank loans, and the limit for corporate group loans should be significantly increased from the current 3 million euros.
- **Removing economic employer concept:** The free movement of workers is a core principle of the EU. EU citizens have the right to reside and work in another EU country without a work permit and to be treated equally with the country's own citizens. This principle is important for enhancing the EU's competitiveness and attracting workers to the EU area. However, personal income tax legislation is overly complex.

The concept of an economic employer is used in many EU Member States, resulting in significant administrative costs and additional work. Due to this, group-level guidelines have been implemented, banning employees from traveling to countries with economic employer rules to mitigate risk of administrative burden and double taxation. Employees are also personally refusing to travel to such countries due to the same effects in their own personal income taxation.

The concept should be eliminated within the EU, at least concerning intra-group business trips. In large international groups, thousands of internal business trips are made annually, and the economic employer concept is requiring new reporting systems, internal guidelines, assessments (whether the legislation applies) ordered from consultants and causing expensive tax disputes.

The economic employer concept hinders free movement, innovation, and investment. For example, an R&D expert traveling to another site would be required to file a tax return and pay taxes to that Member State, then apply for the removal of double taxation.

- **International remote and mobile work should be encouraged:**

- Remote/mobile work within the EU should not constitute double taxation for the employee.
- Remote/mobile work within the EU should not constitute a permanent establishment for a company located in another country than the employee.
- EU should gather, analyze and provide information on EU taxation and social security framework for cross-border remote/mobile work.
- The EC could also provide model rules and agreement templates for cross-border remote/mobile work situation.

### **Real-time economy could provide solutions:**

Real-Time Economy (RTE) is an environment where financial and administrative transactions connecting citizens, businesses and public sector entities are in structured standardised digital format, generated automatically and completed in real time. RTE and digitalisation of taxation could lead to notable savings in process and compliance costs both to companies and tax administrations. Lower administrative burden allows the companies to concentrate on their core business and contribute to boosting growth, increase employment and tax revenue. There are also huge opportunities and value of structured, standardised data on transactions that could serve as a unique European basis for financial and other digital services.

Although real-time economy is being enhanced in various EU Member States, the implementation of the RTE building blocks is different in each country. The EU should take a leading role and ensure coherent development of practices. But to do so, the EU should have a clear vision and ability to lead the process to develop the building blocks together with the businesses to reach interoperability and competitive, multi-player market in elements of real-time economy in the EU.

- Several of the EU building blocks are already existing or in the works, but a **comprehensive study** of the on-going and envisaged policy initiatives would be beneficial to allow interoperability.
- A **thorough examination of the benefits and costs** of real-time economy within the single market should be conducted. Such analysis would be followed by **creating a "RTE for the EU" task force**.
- Digitalisation of taxation and RTE elements **cannot be created only from the tax administration's point of view** but engaging the customers (taxpayers) and the service providers (software companies, auditors, bookkeepers, consultants) to the development process from the very beginning.
- Real-time, transaction-specific, structured data must **also be usable by companies and move as seamlessly as possible through interfaces** between systems and organizations. The goal is that the company's own financial management systems automatically produce the necessary reporting information, when possible.

- The work of the expert group should result in a **concrete RTE roadmap** including solutions and timelines towards real-time economy in the EU. Such steps should include e.g.
  - Coherent, harmonised implementation of the **VAT in the Digital Age directive**.
  - Rapid standardisation and adoption of **eReceipt** and general set of rules, data and communication models and codes of conduct for networks of companies involved in transfer of financial information.
  - A **centralised reporting method** for corporate income taxation, including required APIs and data models.
- **A regulatory overview** to be done for determining possibilities of boosting development by regulation and guidelines. Changes must be as harmonised as possible, without domestic deviations. Legal changes must be agreed well before the implementation and there must be a sufficient transition period before the legislation comes into force.
- A holistic **EU model should be built on the best practices of all Member States'** such as the Nordic<sup>3</sup> and Baltic<sup>4</sup> states' work with digitalisation and automation of taxation as well as RTE. The EU should **encourage, observe and coordinate** Member State actions, investigate experiments and ensure financial support for development, when needed.
- EU could lead the way also in **international development**, for example by actively participating and co-creating with the OECD's Forum on Tax Administration's project work.
- The various reporting models used in the EU Member States result in significant costs for companies. However, it must be noted that changes in the digitalisation also incur considerable costs for companies and tax administrations, especially in the initial stage. **Companies must be supported in the transition.**

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<sup>3</sup> Nordic countries: Nordic Smart Government & Business <https://nordicsmartgovernment.org/>  
Finland: Real Time Economy -project <https://www.yrityksendigitalous.fi/en/>

<sup>4</sup> Estonia: <https://www.realtimeeconomy-bsr.eu/>

Technology Industries of Finland (TIF) represents Finnish technology industries and counts over 1,800 member companies, ranging from SMEs and start-ups to world leading MNEs. The technology industry is comprised of five subsectors: electronics and the electrotechnical industry, mechanical engineering, the metals industry, consulting engineering, and information technology. Technology industry is the most important export industry of Finland, with operations constituting over 50 % of all Finnish exports and accounting for 70 % of all private investments.