



## Research Article

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# Tax-Related Burden on SMEs in the European Union: The Case of Slovenia

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## Abstract

*Small and medium enterprises (SMEs) are very important for the European economy. However, SMEs often encounter various barriers, whereby tax-related barriers are perceived as the most burdensome that affects their business operations and entrepreneurial activity in general. The aim of this paper is twofold. First, it attempts to identify SMEs perception on current state and measures to be carried out in order to reduce respective red tape. Second, it tries to establish the relationship between burdens imposed by tax policy and entrepreneurial activity. Using hierarchical cluster analysis and descriptive statistics two different datasets are analyzed for the European Union (EU) and Slovenia separately. The results provide evidence that tax burden is less influential than tax administrative burden among EU countries by considering their impact on new business density and total early-stage entrepreneurial activity. Additionally, the results for Slovenia reveal that the need for a stable tax system, with IT and procedurally related measures are highlighted.*

**Keywords:** Tax administrative burden, Red tape reduction, SMEs, European Union, Slovenia

## 1. Introduction

Small and medium enterprises (SMEs) represent one of the main pillars supporting the European economy, accounting for nearly 67% of employment and over 57% of value added (European Commission, 2018). In comparison with large enterprises, SMEs often face worse performance, reflected in lower profitability, higher staff turnover, lower rate of survival etc. (European Parliament, 2016). The main cause of the aforementioned problems arises presumably from a variety of barriers that SMEs encounter in the European Union (EU). Although literature highlights various barriers, most SMEs consider tax-related matters as the most burdensome field that affects them.

This is mainly because every SME, regardless of its form, size or sector, is legally bound to comply with all relevant legislation including taxation (Ravšelj & Aristovnik, 2018).

The barriers, which stem from the tax policy, can be divided into taxation and tax compliance costs and on the other hand. Tax compliance costs usually represent tax administrative burden that arise from tax rules. Tax red tape can be defined as everything that unjustifiably or excessively hampers business operations of enterprises, as opposed to broader term of burden, being imposed in public interest. Tax administrative burden includes all costs arising from administrative obligations that enterprises must fulfil due to the legislation. This implies that tax administrative burden is not strictly necessary for the achievement of the public interest fully, so part of it can be removed without any damage to collect necessary revenues (Ministry of Interior, 2013; Buckley, 2016). Tax administrative burden, which arises as a result of the complexity of the tax system, can be defined as indirect effects of the tax system. In fact, they represent operating costs that are independent from the profitability of SMEs (Block, 2016). Tax compliance is defined as the willingness of taxpayers or enterprises to act in accordance with tax legislation without the use of coercive measures (James & Alley, 2002). The fulfilment of these obligations thus includes reporting of the tax base, correct computation of tax liabilities, timely filling of tax returns and timely payment of the amount due as tax (Franzoni, 2000; Chattopadhyay & Das-Gupta, 2002). The aforementioned also closely relates to proper financial reporting. However, the more burdensome rules in terms of resources, expanded at rule implementation and compliance, the more likely are to be perceived as red tape, yet failure to achieve positive procedural outcome will be perceived as red tape just as higher burden (Kaufmann & Feeney, 2014). Hence, we need to analyze SMEs perception on tax burdens.

Tax related red tape reduction has been introduced in Slovenia already prior to 2014. For example, Tax Procedure Act (TPA) introduced in 2006 advance rulings, self-reporting, increased opportunities of deferral and payment in instalments, and in particular pre-filled personal income tax declarations. The majority of the institutes in TPA modernization in 2006 have had measurable effects in practice, so do realize the set goals, i.e. simplified procedures for taxpayers and tax authority and their shortened length from 245 hours vs. EU average of 185 hours for SMEs. Other measures may reveal more controversies since they seem to bring more costs in long run compared to short termed benefits, such as e-delivery fictions and later disputable enforcement procedures (Kovač et al., 2017).

Accordingly, the aim of this paper is twofold. On the macro level, this paper tries to assess the current state of tax-related burdens on SMEs in selected European countries and to establish the relationship between burdens imposed by tax policy and entrepreneurial activity. On the micro level, for Slovenia, the paper tries to identify the perception of tax-related administrative burdens and the most appropriate measures for their elimination or reduction. The remaining sections of this paper are organized as follows. In the next section, a literature review and hypotheses development are presented. The following section presents the data analysis methods applied and data acquired. In the fourth section, the empirical results are elaborated. The main findings are summarized and debated in the discussion section, followed by the conclusion.

## 2. Literature Review and Research Questions

Legislation and tax authority conduct upon it play a very important role in every country, since they determine overall business environment by defining the rules under which the enterprises have to operate. Nonetheless, the complexity of legislation creates also unnecessary administrative burdens and consequently hinders entrepreneurial activity. In terms of creating friendly business environment it is therefore of crucial importance that governments ensure clear, transparent, unambiguous and stable legislation. Namely, scientific literature notes that economies with better legislation and regulations grow faster (Djankov et al., 2006). Therefore, the predominant part of the EU member countries are seeking to reduce bureaucracy in order to establish better business environment (Aristovnik & Obadić, 2015; Kovač et al., 2017). Red tape, as well as its reduction, is characteristic of both national and broader settings, such as the EU and globally, as a horizontal administrative reform (see Kovač & Jukić, 2017). Especially the extensive legislation adopted in

recent years in the EU member countries is becoming increasingly burdensome for enterprises. There are various compliance costs of red tape that are, by definition, largely procedural, such as learning about a governmental policy and legislation, providing documents and other communications. Moreover, there are specific sectors procedures that can affect business-related administrative procedure and often cause regulatory costs, change and inconsistency (de Jong & van Witteloostuijn, 2015).

In the literature, it is well established that administrative burdens stemming from existing legislation and regulations hinder the performance productivity and growth of the private sector, which relates mainly to SMEs (Bartlett & Bukvić, 2011; Milavec & Klun, 2011; Ropret et al., 2018; Slabe-Erker & Klun, 2012). Some areas are even more sensitive, as analyzed by Doing Business on an annual basis, especially as regards starting a business, paying taxes, trading across borders, investments, labor and health conditions, etc. (see Braunerhjelm & Eklund, 2014; World Bank, 2016). Tax legislation is consequently a major concern of the private sector since taxes or tax policy often represent a central parameter defining the business environment.

Tax policy, which is defined by tax legislation, covers different tax-related matters, namely tax burden and tax administrative burden. On the one hand, tax burden relates to the amount of the tax paid and depends on the taxable profit and the tax rates. It can be defined as direct effect of tax system. On the other hand, tax administrative burden relates to the complexity of the tax system and it can be defined as indirect effect of tax system. There are some empirical studies on a macro level examining the impact of direct and indirect effects of tax system on entrepreneurship. In this context, Djankov et al. (2010) note that taxes have a considerable negative impact on entrepreneurial activity. Moreover, it was established in some empirical studies that besides taxes also high complexity of a tax legislation can hinder entrepreneurial activity (Block, 2016; Braunerhjelm & Eklund, 2014). According to the aforementioned studies, there are two main tax-related matters, which can inhibit entrepreneurship:

- tax burden (the amount of the tax paid); and
- tax administrative burden (complexity of tax system if a taxpayer follows tax rules to comply with them fully).

There are also some empirical studies, which reveal that tax compliance costs as tax administrative burden relative to sales are larger for SMEs than for large enterprises. Namely, European SMEs have a cost to tax revenue ratio (i.e. the ratio between total tax-related compliance costs and paid taxes) of 30.9%, whereby large companies on the other hand have a cost to tax revenue ratio of only 1.9% (European Commission, 2004, 2007). These results reveal disproportion of tax administrative burden on SMEs. However, it is necessary to emphasize that the EU represents a good example of heterogeneous countries with heterogeneous national tax systems (Bernardi, 2012). Based on the aforementioned issues, our first research question is:

- RQ1: What is the impact of tax-related burdens on entrepreneurial activity in selected EU member countries?

Tax administrative burden or red tape is a very broad term and therefore can be perceived in a different way what may lead to different perception of tax administrative burdens. The perception might also differ according to the different administrative areas. Besides the perception of tax administrative burdens, the measures to ease them play an even more important role. Therefore, we have put forward two further research questions:

- RQ2: What is the perception of SMEs regarding tax administrative burden?
- RQ3: What are the most appropriate measures to reduce tax red tape on SMEs?

### 3. Data Analysis Methods

The empirical analysis is divided into two interconnected parts, based on macro (EU) and micro (Slovenia) data for 2016. The data for the first part of the research is collected from different publicly available sources: (1) Doing Business data, provided by World Bank; (2) Entrepreneurship Survey data, provided by World Bank, and (3) Entrepreneurial Behaviour and Attitudes data, provided by Global Entrepreneurship Monitor. All the aforementioned databases are merged into a

unique database. For the purposes of the empirical analysis on a macro level only data containing all necessary information regarding tax policy and entrepreneurial activity is included. In order to present the characteristics of tax systems in selected EU member countries, the tax system is considered from the perspective of tax burden and tax administrative burden. Further, with the aim of analyzing entrepreneurial activity within individual groups of selected EU member countries, this is viewed from the perspective of new business density (NBD) and total early-stage entrepreneurial activity (TEA). The variables included in the first part of the empirical analysis are presented in Table 1.

**Table 1:** Definitions of the variables involved in the first part of the empirical analysis

Variable	Definition
<b>Tax burden</b> (amount)	Tax burden is defined as total tax and contribution rate, which measures the amount of taxes and mandatory contributions borne by business in the second year of operation, expressed as a share of commercial profit.
<b>Tax administrative burden</b> (how to fulfil tax obligations)	Tax administrative burden is defined as time taken to comply with tax laws in an economy. Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay three major types of taxes and contributions: the corporate income tax, value added or sales tax and labour taxes including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable and to calculate the amount payable.
<b>New business density</b> (NBD)	New business density is defined as new registrations per 1,000 people ages 15-64. New business registered are the number of new limited liability enterprises registered in the calendar year.
<b>Total early-stage entrepreneurial activity</b> (TEA)	Total early-stage entrepreneurial activity is defined as a percentage of 18-64 population who are either a nascent entrepreneur i.e., actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than 3 months, or owner-manager of a new business i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.

**Source:** Global Entrepreneurship Monitor, 2016; World Bank, 2016; authors' elaborations.

For the purposes of assessing the current state of tax-related burdens on SMEs in selected EU member countries hierarchical cluster analysis is applied. This multivariate statistical technique allows creating the clusters of countries with similar characteristics of tax systems. Namely, cluster analysis seeks to group a sample of objects into homogenous classes based on their similarity on M variables (Bailey, 1994). For clustering, the Ward method in conjunction with the squared Euclidean distance is applied. Ward's method solves the principle of clustering by maximization of intragroup homogeneity and in many cases provides the best results (Gan et al, 2007). The impact of tax-related burdens on entrepreneurial activity in selected EU member countries is further assessed with descriptive statistics.

The data for the second part of the research is collected through a questionnaire. The content of questionnaire was formed by the academia legal and economic experts and practitioners, i.e. representatives of the Chamber of Craft and Small Business of Slovenia. It contains 39 questions, of which one is of an open type and covers different key fields, where SMEs, with the criteria of employing fewer than 250 persons and which have an annual turnover under EUR 29.2 million, and/or an annual balance sheet under EUR 14.6 million, can face administrative barriers. The questionnaire was distributed via two paths, namely through the web and field survey. The web survey has been running in five months until March 2017, promoted via: (i) Stop the Bureaucracy web portal; and (ii) e-mails sent to the members of the chambers, by using an online application EnKlikAnketa. Since the web survey resulted in 273 responses only, it has been accompanied with the (iii) field survey for three months until April 2017 with 652 responses gathered. In order to enable generalization of the results to all Slovenian SMEs, two criteria have been followed in the selection of enterprises included in the field survey: regional base and legal status. Altogether, 925

questionnaire survey replies has been received. For the purposes of the empirical analysis in this paper, only questions related to tax compliance and financial reporting are considered, whereas also other areas were covered such as labor relations, inspections burden etc. The sample for this papers is reduced to gain significant results, excluding SMEs that that either use full outsourcing for fulfilling of tax liabilities, e.g. accounting services; and those that either do not use e-portals for communication with authorities since the use of e-portals is obliged for financial reporting. Therefore, the final sample of SMEs in this empirical analysis includes 292 SMEs.

We measured (a) perceptions and (b) measures (to be) taken. In order to assess the perception of tax-related administrative burdens, the questionnaire contains seven different administrative burden perceptions in the field of tax compliance and financial reporting, namely: (i) extra time, (ii) extra financial resources, (iii) frequent changes in the legislation, (iv) too many different procedures, (v) extra personal communication, (vi) too many different documents and (vii) need for outsourcing. SMEs were asked to choose up to three arguments of the seven offered representing the biggest administrative burdens for business activity. Each of the aforementioned administrative burden perceptions are defined as the sum of answers for the field of tax compliance and financial reporting and measured on a three-level scale: (0) it is not perceived as an administrative burden; (1) it is perceived as an administrative burden to a partial extent; (2) it is perceived as a substantial administrative burden.

In order to assess the appropriateness of measures to ease tax administrative burdens, SMEs were asked to specify their level of agreement on a five-level scale ((1) strongly disagree; (2) disagree; (3) neither agree nor disagree; (4) agree; (5) strongly agree) whether the existing measures have contributed to the reduction or elimination of tax administrative barriers. The following six different measures are examined: (i) informatization of applications and reports via "e-Tax" system, (ii) establishment of e-service on financial administration (e-Tax), (iii) introduction of a flat-rate taxation system, (iv) simplification of the tax payment system, (v) merger of tax and customs administrations into unified financial administration and (vi) increasing the effectiveness of enforcement procedures. Using descriptive statistics, the average values of these variables are presented in the form of average values of responses.

#### 4. Research Results

In the first part of the empirical analysis, a hierarchical cluster analysis is applied using the following cluster variables: tax burden (total tax and contribution rate) and tax administrative burden (time taken to comply with tax laws in an economy). The results of the hierarchical cluster analysis are presented in Table 2, revealing that the four-cluster option is optimal.

**Table 2:** The results of hierarchical cluster analysis

Cluster 1: <b>Excessive tax burden systems</b>	Cluster 2: <b>Excessive tax administrative burden systems</b>	Cluster 3: <b>Stimulating tax systems</b>	Cluster 4: <b>Burdensome tax systems</b>
Austria	Croatia	Estonia	Hungary
Cyprus	Germany	Finland	Italy
France	Latvia	Ireland	Poland
Netherlands	Slovak Republic	Luxembourg	Portugal
Spain			<b>Slovenia</b>
Sweden			
United Kingdom			

Note: Some EU member countries are not included due to lack of the representative data.

**Source:** Global Entrepreneurship Monitor, 2016; World Bank, 2016; authors' elaborations.

The first cluster, tax system with excessive tax burden, consists of seven countries that have tax systems with above-average tax burden and below-average tax administrative burden. The second cluster, tax system with excessive tax administrative burden, consists of four countries that have tax

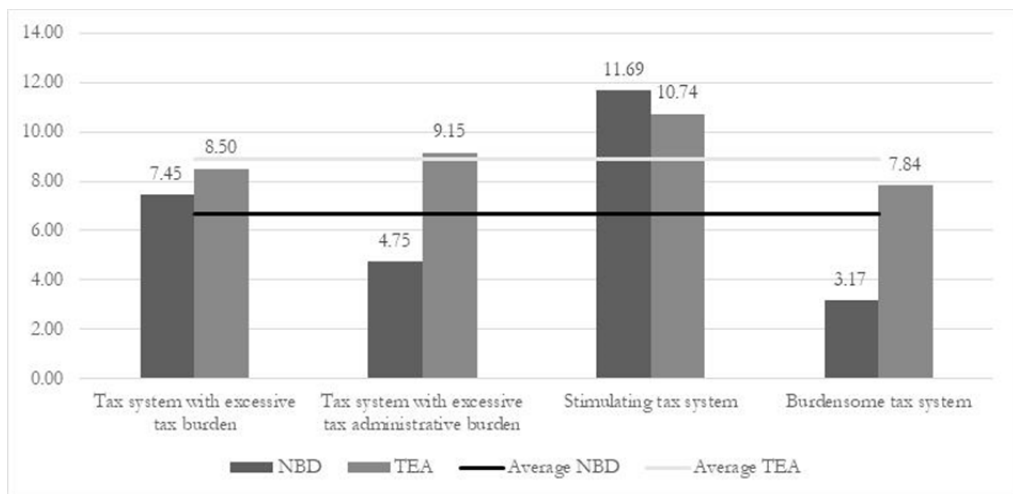
systems with below-average tax burden and above-average tax administrative burden. The third cluster, stimulating tax system, comprises of four countries with both under-average tax burden and tax administrative burden; and the fourth cluster, burdensome tax system, comprises of five countries with both above-average tax burden and tax administrative burden. The interpretation of the cluster characteristics is derived from Table 3, which represents the average values of cluster variables for each cluster.

**Table 3:** Average values of cluster variables by each cluster

	Cluster				Total
	1	2	3	4	
<b>Tax burden</b>	<b>44.21</b>	39.10	33.48	<b>45.08</b>	41.26
<b>Tax administrative burden</b>	131.93	<b>201.25</b>	77.75	<b>267.40</b>	168.83

**Source:** Global Entrepreneurship Monitor, 2016; World Bank, 2016; authors' elaborations.

In order to establish the relationship between burdens imposed by tax policy and entrepreneurial activity, a descriptive statistics is applied. The average values of entrepreneurial activity indicators for each cluster are presented in Figure 1.



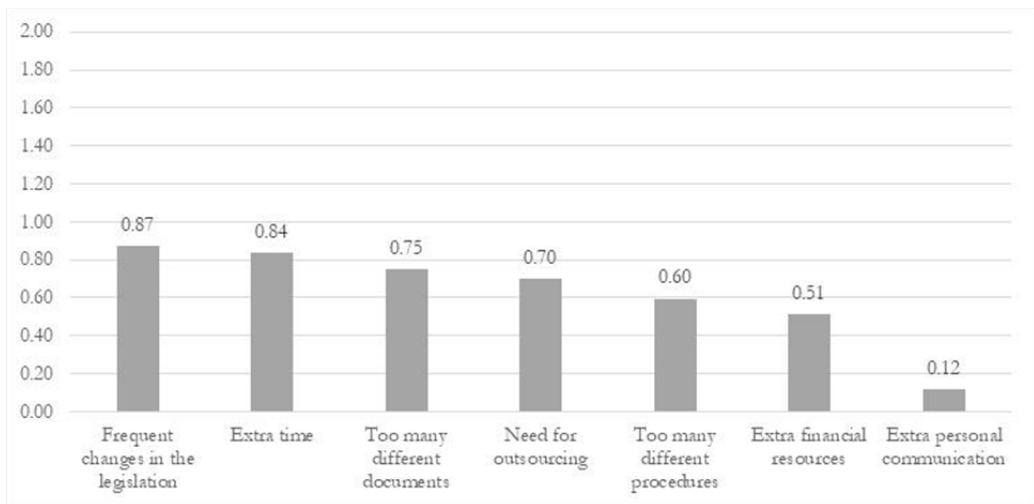
**Figure 1:** Average values of entrepreneurial activity indicators by each cluster

**Source:** Global Entrepreneurship Monitor, 2016; World Bank, 2016; authors' elaborations.

From the Figure 1, it is evident that average values of entrepreneurial activity indicators vary depending on characteristics of tax systems in selected EU member countries. Countries with stimulating tax systems have the highest and above-average values of both entrepreneurial activity indicators. On the contrary, countries with burdensome tax systems have the lowest and below-average values of these indicators. The results of two opposite tax systems clearly show that tax-related burdens hinder entrepreneurial activity in selected EU member countries. However, there are also tax systems with mixed characteristics. On the one hand, countries, which have tax system with excessive tax burden, have above-average value of new business density and below-average value of total early-stage entrepreneurial activity. This implies that tax burden does not inhibit entrepreneurial activity in terms of SME establishment phase as it hinders in terms of early-stage SME activity. In this case, irrespective of the level of tax burden, SMEs are still being set up. However, later in the first 3-4 years of business operating, many SMEs realize that tax burden is too

high and consequently are often forced to close their enterprise. On the other hand, countries, which have tax systems with excessive tax administrative burden, have below-average value of new business density and above-average value of total early-stage entrepreneurial activity. This implies that tax administrative burden has a substantially negative impact on SME establishment, whereby early-stage SME activity is relatively high. In this case, potential entrepreneurs face the first administrative burdens already in the phase of SME establishment and discourage them from establishing the enterprise. The most persistent entrepreneurs who break through the administration procedures in the phase of SME establishment, later in the phase of early-stage activity, do not face tax administrative burden due to the outsourcing of financial accounting services.

In the second part of the empirical analysis, a descriptive statistics is applied in order to assess the perception of SMEs regarding tax administrative burden and appropriateness of measures to ease them. The results are presented in Figure 2. From the results, it is evident that frequent changes in the legislation and extra time are identified as the most burdensome, whereby extra personal communication the least. The SMEs' perception of these areas in practice is subjective yet relevant (cf. Kaufman & Feeney, 2014). Nevertheless, to add objective insight, Slovenia is hereby comparatively rather competitive as revealed by Doing Business ranking, i.e. with 24th placement in comparison to 35th in 2016 (see also European Commission, 2018).

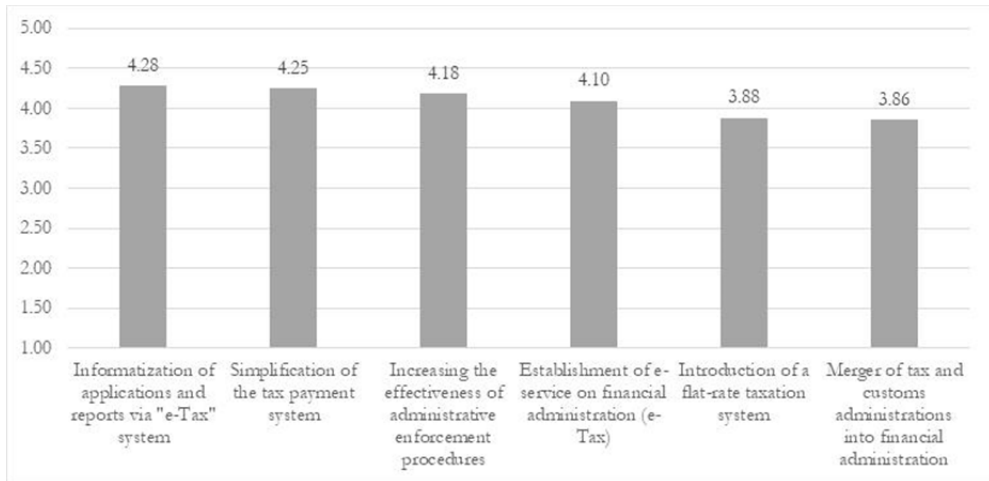


**Figure 2:** Perceptions of tax administrative burden by Slovenian SMEs

**Source:** Questionnaire Survey, 2017; authors' elaborations.

The results of descriptive statistics regarding measures to ease tax administrative burdens are presented in Figure 3. The results reveal that informatization of applications and reports via "e-Tax" system and simplification of the tax payment system are assessed as the most appropriate measures to ease tax administrative burdens. On the other hand, Introduction of a flat-rate taxation system and merger of tax and customs administrations into financial administration are assessed as the least appropriate measures to ease tax administrative burdens.





**Figure 3:** Measures to ease tax administrative burdens

**Source:** Questionnaire Survey, 2017; authors' elaborations.

Among the measured perceptions and positively evaluated measures for red tape reduction, several connections are revealed, confirming the impact of exposed elements to increased or decreased SMEs' activity. Parallel to the first ranked too frequent changes in tax legislation, the outstanding importance is given to (more) stable tax legislation. These results go in line with the macro cluster analysis in selected European countries from the first part of our research.

## 5. Discussion and Recommendations

Tax burden and administrative compliance to it are without doubt key areas to address when reforming administrative systems since they represent the most exposed barrier for SMEs success on the market (Aristovnik & Obadić, 2015; Braunerhjelm & Eklund, 2014; Djankov et al., 2010; Ravšelj & Aristovnik, 2018, etc.). Also, according to the Global Competitiveness Report, administrative burdens are costly for enterprises in terms of time and other resources (World Economic Forum, 2015). These resources may refer to finances, personnel with appropriate knowledge and skills as well as infrastructure to implement existing regulation. But a one-size-fits-all definition or understanding (tax) red tape is not possible – it is therefore quite common to lack evaluation and further databased decision-making if policy values, principles and goals have not been defined in the first place (Buckley, 2016). Instead, a cross-disciplinary and inter-regional dialogue is necessary to address issues, such as governmental tax policies (Kovač & Jukić, 2017). While some governance levels and environments understand red tape and its reduction primarily as a macroeconomic set of (neo-liberalistic) measures, others consider it within a regulatory and legally oriented framework. But over time, prescriptive reforms are replaced with performance or process based standards, especially for taxes or SMEs entering the market (Braunerhjelm & Eklund, 2014). This is of special importance since SMEs represent usually over 90% of all enterprises registered, e.g. in Slovenia even 99%.

To address initially set research questions, our analyses reveal several important findings. Taxation is, however, imposed to gather resources for public interest determined activities but there are different ways how to collect even the higher set tax burdens. The comparisons in the EU show that taxation according to it amount is less relevant for SMEs activity as compared to tax administrative burden. This is explicitly obvious regarding entrepreneurial activity of SMEs while less evident for business density. The model of four clusters as represented in Table 2 has been applied especially in order to distinguish the tax burden criterion as opposed to tax administrative



burden criterion since literature review offered findings that the two of them differ regarding SMEs perceptions and actual impact. Obviously, the most stimulating tax systems from the SMEs view are the ones that impose the lowest values in both criteria (e.g. some Scandinavian countries), and contrary, that the most burdensome systems are the ones with the highest values in both indicators (Slovenia and other Eastern or Southern EU MS included). Both criteria do affect SMEs in such a way that results of business density and entrepreneurial activity are below results of cluster 3 but above cluster 4. What is the important finding of our research, are the differences between first two clusters.

Through descriptive statistical analysis, we can establish that tax administrative burden is more influential for SMEs activities as tax burden itself. In other words, tax administrative burden affects SMEs more negatively as tax burden. However, density related value is above-average in cluster 1 with excessive tax burden (7.45) whereas it is significantly under-average in cluster 2 (4.75). This figure can be explained due to SMEs becoming liable to taxation only after an initial period (several months or in some countries even years) of entrepreneurial activity. More importantly, TEA related values, expressing entrepreneurial activity of SMEs in 3-4 years, show still above-average results in cluster 2 (9.15) while under-average in cluster 1 (8.50). When analyzing red tape, it is consequently necessary to distinguish between (i) adequate legal, procedural and organizational rules to protect public interest and (ii) excessive or counterproductive regulation and behavior (Kovač & Jukić, 2017).

Based on this main finding, the micro research for Slovenia paid an attention to sub elements of tax administrative burden. Results, as presented for Slovenia in Figures 2 and 3, reflect a rather significant differentiation among perceptions, which issues impose a tax administrative burden upon SMEs. Therefore, also measures to be adopted are not the same but are supposed to address the elements perceived as the most burdensome. If we elaborate some results more in depth, we can establish that procedural aspects, such as number of proceedings, how many documents is required to submit, extra-personal communication, are not the ones with the highest values. Namely, the maximum impact to reduce SMEs activity is given to frequent changes in tax legislation (0.87; cf. the same emphasized by Milavec and Klun, 2011). Such a perception has been expected since only Tax Procedure Act (TPA), changed in last few years one or even twice annually, regardless of reforms led in the more stimulating way (Kovač et al., 2017). The second exposed administrative burden is timing required to comply with tax rules (0.84). Among the next perceptions, there is a group of issues assessed in-between 0.75 and 0.50 regarding their negative impact to SMEs activity, mainly addressing procedural elements. Interestingly, compliance costs (6th rank out of 7) are not as influential as compliance time (2nd rank). The lowest factors as perceived by Slovenian SMEs is clearly extra-personal communication (only 0.12), even though solely SMEs that interact with official directly, without out sourcing have been include in the analysis. These results are a bit specific compared to global ones, where studies reveal their interoperability (cf. de Jong & van Witteloostuijn, 2015). In order to clarify specific understanding of the respondents, we could in future conduct more in-depth analyses, albeit further results on Slovenian tax red tape measures already show a higher consistency.

Among measures to reduce tax red tape, flat-rate or taxation system with decreased amounts do not appear to be that significant. Contrary, the most emphasized measure as proposed by our respondents to be effective in tackling tax administrative burden is informatization of tax procedures. This result is important since it provides a confirmation for Slovenian reforms to follow the right trend in this respect (Kovač et al., 2017). Legal and economic stability are in a direct interest of businesses, even though certain rules impose tax burden upon them as taxpayers. However, these are legitimate as long as they are predictable and non-discriminatory and excessive in terms of the way how to comply with them. The second rank is given to a general simplification of tax payment system. In the following group of measure one can find a measure of more efficient enforcement procedures, which is relevant from SMEs perspective to enhance tax equality and certainty. The lowest value is provided for merger of tax and customs authority in 2014 what can be interpreted as a rather internal effect not impacting tax payers. These estimations collide with other research findings on procedural, informatization-oriented and organizational simplifications to be the most often, that is approximately 50% of all reforms analyzed globally in

last three years, and efficient as opposed to public interest threatening deregulation and substantive criteria reduction (Kovač & Jukić, 2017; see also Buckley, 2016). Such red tape reduction programs are, to our belief, among the most effective tools to tackle economic slowdown and administrative bureaucracy as an obstacle to higher national and regional competitiveness. Therefore, European and national legislation must enable tax liability fulfilment in smooth and alternative ways, simplified enough to run effective tax policies and not unnecessarily burden neither taxpayers in general nor SMEs in particular.

## 6. Conclusion

Tax policy determines a set of rules defining the amount of tax obligations on the one hand and the way to fulfil them on the other. Related to latter, many EU countries are facing the challenges of modern tax legislation, which is often excessive, complex and designed in a way that allows their application to enterprises of all sizes, even for operations that are only carried out by large enterprises. Consequently, tax-related administrative burdens may be challenging especially for SMEs due to their disproportionate nature. Therefore, it is very important that the responsible authorities recognize the aforementioned.

The EU and national legislatures should clearly define the goals, the procedural and substantive elements and the effects of tax policies. As established by our research, the impact of tax burden is less prominent than administrative burden among EU countries when measuring their impact on entrepreneurial activity. Hence, appropriate legal and organizational measures should be adopted primarily to simplify tax administrative burden. The results of the empirical analyses for Slovenia show that a stable tax system, with IT and procedurally related measures is needed. A principle of legal certainty is a key for developing trust, equality and legality in tax matters and public administration in general, therefore a strive for more stability in tax burden and procedures to collect it is to be continued systematically. Only such systemic effort can lead to tax stability and stimulating business environment as well as to evolving a sustainable society.

The paper has some limitations. First limitation concerns macro data (EU), which is often focused on a specific legal form of SME, generally on a limited liability enterprise of a specified size, and may not be representative of the regulation on other SMEs (for example, sole proprietorship). Moreover, the measure of time (tax administrative burden) involve an element of subjective judgment by the expert respondents. Second limitation concerns micro data (Slovenia). The research is restricted to a sample of SMEs in Slovenia, which limits the general applicability of the results. Moreover, this data is based on a subjective survey data collected with a questionnaire, which may be biased by measurement error. Regardless, the findings of this paper provide an interesting insight to the issues related to tax policy in the European context. The results of this paper will be useful for EU and national legislatures in the formulation and improving of tax policy in the future.

## 7. Acknowledgments

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