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Improving tax accounting as a mechanism for achieving fiscal transparency in EU

Abstract. The article substantiates the importance of tax accounting for ensuring transparency, accuracy of calculation and fair distribution of tax revenues in the European Union. It is proved that the key function of tax accounting is to promote openness of financial information, proper control over budget revenues, minimisation of corruption risks and fight against tax evasion. Particular attention is paid to the harmonisation of tax standards and procedures within the EU, which is a source of adaptation of the tax systems of member states to modern economic challenges, including digitalisation. In this context, initiatives such as the Common Consolidated Corporate Tax Base (CCCTB) and the new BEFIT concept demonstrate the desire to ensure an effective and fair EU tax policy. The author also emphasises the importance of introducing financial reporting standards, in particular Country-by-Country Reporting (CbCR), which contribute to increasing financial transparency and counteracting aggressive tax planning. The article shows that the success of such initiatives largely depends on the political will of EU member states, coordination at the Union level and effective cooperation on a global scale. Despite the difficulties associated with differences in national tax systems and technical barriers, effective tax accounting can provide significant social and economic benefits. These include increased tax revenues, a more level playing field for businesses, and increased investment attractiveness of European markets. To achieve these results, it is important to continue unifying tax rules, actively implementing digital technologies, and expanding international cooperation.

Keywords: tax system; institutional framework; legal framework; tax harmonization; European Union (EU); tax policy; tax administration; fiscal policy.

Introduction. Tax accounting is a key element of the EU financial system, as it establishes the procedure for calculating and paying taxes, ensures openness of information and proper control over budget revenues, reduces corruption risks, prevents tax evasion and other types of financial non-transparency. The harmonisation of tax accounting rules and standards contributes to the quality and reliability of financial reporting, which in turn increases confidence in the financial system and facilitates economic decision-making at the level of both individual business entities and government authorities. In this context, the EU's initiatives to strengthen tax coordination and introduce common tax reporting standards play an important role.

Literature review. The issue of development of tax systems and tax accounting is not new in the scientific literature. Among foreign researchers, the works of J.Keynes [12], J.Arnold [1], R.Teather [15], J.Hodson [8], I.Wiredu [16], J.Hoops, L.Robinson [9], etc. attract attention. Among domestic scholars, aspects of the formation and functioning of tax systems, including in the EU member states, are considered by V.Bodrov [2], N.Syniutka [13], N.Hlebova [10], O.Hryhoriev, N.Petryshyn, A.Todoshchuk [11], O.Shapovalova [14], etc. Despite the existence of a significant number of studies on the functioning of tax systems and tax accounting in the EU, the issue of improving tax accounting in the EU to increase fiscal transparency is currently being addressed.

Purpose, objectives and methods of the study. The purpose of the article is to provide a theoretical and methodological substantiation of the key tools for improving tax accounting to achieve fiscal transparency in the EU. To achieve this goal, the following tasks were solved: to substantiate the need to introduce uniform financial reporting standards for EU member states; to identify the key differences between the corporate and general taxation systems in the EU; to identify prospects for further improvement of tax accounting in the EU. The study was conducted on the basis of a systematic approach to the study of economic phenomena and processes. The following methods were used to solve the identified tasks: system analysis; comparative analysis; induction and deduction - to formulate conclusions and recommendations on the issues under study; tabular and graphical - to visualise the results obtained.

Results and discussions. One of the key aspects of improving tax accounting as a tool for ensuring financial transparency in the European Union is the introduction of common tax reporting standards. The harmonisation of requirements for the preparation and submission of tax reports by business entities helps to improve the quality and comparability of financial information at the European level. The EU's initiatives in this area include the development and implementation of the Common Consolidated Corporate Tax Base (CCCTB), which provides for the unification of the rules for determining the tax base for corporate income tax. The CCCTB requires standardisation of tax accounting methods, in particular, the rules for recognising income and expenses, depreciation, provisioning, etc. The unification of tax reporting under the CCCTB contributes to its comparability and, consequently, to the transparency of financial information.

In parallel with the CCCTB, the EU is also implementing other initiatives aimed at harmonising tax reporting requirements. In particular, the Directive on the mandatory automatic exchange of information in the field of taxation (DAC6) introduces common rules for reporting cross-border tax schemes, which allows tax authorities of EU member states to receive comprehensive information on potentially aggressive tax optimisation schemes, which contributes to a more effective fight against tax evasion.

The previous CCCTB initiative is now being replaced by the new BEFIT (Business in Europe: Framework for Income Taxation) concept, which is intended to continue the process of corporate tax harmonisation. BEFIT covers large groups of EU resident companies, while the CCCTB was designed for voluntary application. Various options are envisaged, ranging from full compliance for all large groups to optional compliance with the possibility of voluntary choice. The tax base calculation proposed by BEFIT involves two approaches: either limited tax adjustments or a comprehensive set of tax base rules. Such approaches provide greater flexibility and the possibility of adapting the rules to the specifics of different jurisdictions. Similar to the CCCTB, the BEFIT provides for the consolidation of the financial results of a group of companies to determine a single tax base. However, the mechanisms for distributing consolidated profit (loss) among group members may differ.

Overall, the BEFIT initiative demonstrates the evolution of the EU's approach to corporate tax harmonisation towards greater flexibility and adaptability, while maintaining the key principles of consolidation and unification of rules. The goal of BEFIT is to create a simple and effective common corporate tax system in the EU. To achieve this goal, the tax base of each member of the BEFIT group will be determined by means of limited general tax adjustments to income. To ensure consistency, the entire BEFIT group will use the same financial accounting standard as a starting point. The tax adjustments will be made to the 'reconciled' financial statements of each group member, i.e. these statements will be adjusted to conform to the group's consolidated financial reporting standard. The list of such adjustments includes tax depreciation, profit distribution, deduction of business expenses, long-term contracts, bad debts, provisions and taxes paid (Table 1) [3].

The study shows that the main difference between BEFIT and previous initiatives such as CCCTB is the approach to determining the tax base. BEFIT is based on the rules established by the new Pillar 2 Directive, which uses financial statements as a starting point and subjects the annual financial result to a number of tax adjustments [4]. The final step in determining the tax base is to combine the tax results of all BEFIT group members to create a common tax base. Intra-group transactions will be neutralised to avoid double deduction or double taxation, with the exception of certain specific income, such as income from transport activities.

Table 1

Key differences between the Common Tax Reporting System (CCCTB) and the Corporate Taxation System (BEFIT)

Criteria	Features of CCCTB	Features of BEFIT	Differences
Main objective and context of implementation	The main objective of the CCCTB was to create a single system for calculating the corporate tax base for companies operating in the EU. It was aimed at eliminating double taxation, differences in national tax systems and artificial profit shifting. The CCCTB project was first initiated in 2011, but faced resistance from some member states due to the threat of losing control over national tax systems	The initiative was introduced in September 2021 to create a more modern and flexible corporate tax system adapted to the digital economy. It takes into account the need to update the tax base due to changes in the global economic environment, in particular after the COVID-19 pandemic, as well as the implementation of the global minimum corporate tax rate (under the auspices of the OECD)	CCCTB focuses on standardising the calculation of the tax base, while BEFIT takes a broader approach by integrating new global tax principles
Calculation of the tax base	The calculation was based on uniform rules for all EU countries. The system involved consolidating the income and expenses of companies within a single corporate group, after which the base was distributed among member states based on a formula that took into account three key factors: income (revenue); number of employees; and asset allocation	BEFIT aims to simplify the calculation of the tax base, taking into account not only traditional indicators but also new criteria related to the digital economy and transnational operations	CCCTB's formula was rigidly fixed, while BEFIT will take a more dynamic and multifactorial approach
Application area	The system was designed for large multinationals with a significant presence in several EU countries. Smaller national companies and small businesses were generally left out of the CCCTB	It has a potentially broader scope, covering not only traditional multinationals, but also digital platforms, financial institutions, and companies using new business models	BEFIT offers a wider scope of coverage, including companies that previously could avoid taxation due to digital business models
Harmonising tax rates	The system focused only on harmonising the tax base, leaving EU member states free to set their own tax rates	Although BEFIT also leaves the issue of tax rates to the discretion of member states, the initiative is linked to global OECD tax reforms, in particular the introduction of a minimum corporate tax rate (15%), which has an impact on the integration of international standards into EU tax policy	CCCTB avoids rate issues, while BEFIT takes into account global tax reforms
Political support	The project faced considerable opposition due to fears of a loss of state sovereignty in the field of taxation. Countries with low tax rates, such as Ireland and Luxembourg, were particularly critical of the initiative	The initiative has gained more support due to its flexibility and focus on global issues, but still faces resistance due to the difficulty of adapting to the different economic conditions of member countries	BEFIT has a better chance of being implemented due to the current context and closer integration with global initiatives
Business impact	The introduction of the CCCTB could significantly reduce administrative costs for companies operating in several countries, but also posed the risk of reducing flexibility in managing tax liabilities	BEFIT promises not only to simplify tax procedures, but also to take into account modern challenges such as digitalisation and environmental requirements	BEFIT is better adapted to modern business needs

Source: Own research based on [3]

Whether the combined tax base of BEFIT is positive or negative, the profit or loss will be allocated to the relevant group members. The allocated portion of the profit or loss for each group member will be subject to a limited number of adjustments based on a list of items that will not be covered by the general rules. This includes research and development incentives, pension contributions, tax credits related to transactions with third countries, etc. As certain elements are of a national nature, it is important for Member States to allow national adjustments for a limited number of items. In general, the introduction of common tax reporting standards in the European Union is an important step towards increasing financial transparency and strengthening tax discipline, which not only improves the quality and comparability of financial information, but also creates additional levers to effectively counteract aggressive tax planning and tax evasion [3].

While the CCCTB was aimed at creating a unified system for calculating the tax base for EU countries, focusing on multinational companies and traditional business models. BEFIT takes into account the challenges of the digital economy and global initiatives aimed at combating tax evasion, and is more adaptive to the current economic environment, but its successful implementation depends on the coherence of the political will of EU member states.

The CbCR reporting mechanism was introduced by the European Union and other international organisations (e.g., the OECD) to increase transparency in the taxation of multinational companies (MNCs). The main goal of the CbCR is to provide tax authorities with detailed information on where and how MNCs earn their profits, pay taxes, and in which countries they operate [4]. According to the EU CbCR Public Reporting Directive, companies with revenues over EUR 750 million are required to publish reports on their revenues, taxes paid and economic activities in each country where they operate, which allows the public and relevant authorities to assess the objectivity of taxation [6]. The reports are filed in the country of the parent company and transmitted to the tax authorities of the countries where the group operates through an automatic exchange of information (Table 2).

Table 2

The impact of the CbCR on tax transparency in the EU

Criteria	Content
Positive aspects	
Transparency of TNCs' activities	Thanks to CbCR reporting, tax authorities are able to identify cases of profit shifting to low-tax jurisdictions (aggressive tax planning), which reduces the possibility of tax avoidance
Preventing tax evasion	More data on the activities of companies in different countries makes it possible to identify potential risks, such as the use of transfer pricing or artificial income shifting
Improving confidence in the tax system	The public is growing in confidence that large corporations bear fair tax responsibility
Reputational impact	For many companies, public CbCR has become an important aspect of corporate social responsibility (CSR). Investors and the public can analyse the extent to which a company adheres to the principles of transparency
Support for economic justice	Greater transparency prevents large corporations from unfairly reducing their tax costs while small and medium-sized enterprises pay the full rate
Criticisms and challenges	
Administrative burden	For some companies, preparing a CbCR can be costly and complex
Protection of confidential information	There are concerns that disclosure of financial data may affect competition
Insufficient coverage	The CbCR covers only large MNCs, while medium-sized companies can avoid such reporting

Source: compiled by the author based on [6]

While the CbCR is a powerful tool in the fight against tax evasion and to increase financial transparency, it requires global cooperation, improved data exchange standards and a balance between transparency and protection to maximise its effect. An important component in achieving tax transparency in the EU is the EU Directive on Administrative Cooperation (DAC), which was adopted in 2011 to facilitate the exchange of information between tax authorities of EU member states [5]. Over the years, the Directive has undergone several amendments (DAC2-DAC8), adding new categories of information, including data on digital platforms (DAC7) and crypto assets (DAC8) [7]. Currently, tax authorities of EU member states automatically exchange data on personal and corporate income, such as salaries, pensions, real estate income, etc. The DAC promotes

the unification of information exchange standards, which allows EU countries to detect tax evasion more effectively, increases trust between countries and contributes to a better functioning of the single market.

Despite the existence of effective tools and mechanisms, certain problems remain in the EU tax accounting system. Each member state has its own rules, which make it difficult to unify and harmonise accounting. Some countries, such as Ireland, Luxembourg and Hungary, fear a loss of competitiveness due to the introduction of common rules and are delaying the harmonisation and unification of tax accounting and reporting. There are still problems with accounting for digital companies. Companies doing business online (e.g. Google, Amazon) often avoid taxes due to legal loopholes in national systems. Not all Member States are ready for full information exchange due to technical or political constraints.

Despite the existing problems, it is worth noting that an effective tax accounting system can provide a positive socio-economic effect for the EU, including increased budget revenues, a level playing field for business, increased public confidence in tax systems, simplification of multinational companies' operations, and increased attractiveness of EU markets for investment. Efforts to improve tax accounting should include the development of a universal digital tax platform for the EU, further unification of tax rules and regulations, expansion of international cooperation, etc. (Table 3).

Table 3

Prospects for further improvement of tax accounting in the EU

Area of focus	Expected results	Challenges
Creating a single digital platform that would automate the exchange of tax data in real time between all EU member states	Reduction of administrative burden for companies and tax authorities. Quick access to accurate data for analysis and verification. Ensure better integration with new technologies such as artificial intelligence and blockchain to analyse complex transactions	Ensuring cybersecurity and protection of confidential information
Adaptation to new challenges	Recent initiatives, such as DAC8, include crypto assets in the tax reporting system, which will allow states to better monitor transactions in this area and reduce the risk of tax evasion. An update to the rules for digital platform operators (DAC7) has already allowed for the inclusion of income generated through platforms for renting housing, selling goods and services. Further steps include the integration of small and medium-sized digital platforms and international transactions into a single regulatory framework	Problems with accounting for digital companies, which often avoid taxes due to legal loopholes in national systems
Tougher sanctions for tax evasion	Introduce a single minimum level of fines for companies that do not comply with tax reporting requirements. Publishing lists of companies that systematically avoid taxation to create reputational pressure. Increase liability for financial intermediaries that facilitate aggressive tax planning	The introduction of new sanctions may increase the number of audits and complaints, which will complicate the work of the tax authorities
Expanding international cooperation in the field of taxation	Harmonised global rules (e.g., minimum corporate tax) reduce the incentive for multinationals to shift profits to low-tax jurisdictions. Expanding the rules for taxing the digital economy will allow countries to collect more revenue from companies that generate revenue from the local market but do not have a physical presence. Harmonisation of tax rules reduces administrative barriers for businesses and helps attract investment. Joint efforts contribute to the growth of tax revenues, which can be used to finance social and environmental programmes	For many countries, upgrading technology and training staff to implement international standards is costly. Large-scale information exchange systems create risks of leakage of confidential data on companies and individuals

Source: Own research based on [3]

Improving tax accounting in the European Union is a key tool for ensuring financial transparency and more effective fight against tax evasion, aggressive tax planning and economic crime. Through the introduction of digital platforms, automation of information exchange processes, and the expansion of international cooperation, the EU is creating conditions for transparent, fair and balanced taxation that meets the current challenges of a globalised economy. The unification of tax standards, increased control over new sectors such as crypto assets and digital commerce, together with sanctions mechanisms for unscrupulous taxpayers, increases confidence in the tax system and promotes sustainable development, providing member states with the necessary resources to finance social, economic and environmental initiatives. Despite challenges such as differences in tax systems and rapid technological change, improved tax accounting in the EU lays the foundation for a more transparent and effective fiscal policy that supports integration and stability within the Union.

Conclusions and prospects for further research in this area. Thus, the study proved that tax accounting in the European Union is an important element of the financial system, which plays an important role in ensuring transparency, accuracy of calculation and fair distribution of tax liabilities. It is proved that its main purpose is to promote openness of financial information, proper control over budget revenues, and minimisation of corruption risks and tax evasion. It is substantiated that the harmonisation of tax standards and procedures within the EU, including such initiatives as the Common Consolidated Corporate Tax Base (CCCTB) and the new BEFIT concept, reflects the EU's desire to adapt the tax system to modern challenges, including the digitalisation of the economy.

The implementation of standards such as the CbCR allows for increased financial transparency and effective combating of aggressive tax planning. It is established that the successful implementation of these initiatives depends on the political will of the Member States and coherence of actions both at the Union level and in the global context. Despite the existing problems, such as differences in national tax systems and technical challenges, effective tax accounting can provide a significant social and economic effect, including increased budget revenues, creation of a level playing field for business and increased investment attractiveness of EU markets. In order to achieve these goals, it is important to continue to unify tax rules, introduce digital technologies, strengthen international cooperation and develop new mechanisms for adapting the tax system to the rapidly changing conditions of the global economy.

Further research will be related to determining the state of taxation and tax accounting in EU member states.

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Грицишен Д., Абрамова І., Ісламлі Д.

Удосконалення податкового обліку як механізм досягнення фіскальної прозорості в ЄС

Анотація. У статті обґрунтовано важливість податкового обліку для забезпечення прозорості, точності обчислення та справедливого розподілу податкових надходжень у Європейському Союзі. Доведено, що ключовою функцією податкового обліку є транспарентність фінансової інформації, належний контроль за справлянням податків, мінімізація корупційних ризиків та боротьба з ухиленням від сплати податків. Окрему увагу приділено гармонізації податкових стандартів та процедур у межах ЄС, як інструменту адаптації податкових систем країн-членів до сучасних економічних викликів, зокрема цифровізації. Акцентовано увагу на такі ініціативи, як Спільна консолідована база корпоративного оподаткування (CCCTB) та нова концепція BEFIT, які демонструють прагнення забезпечити ефективну та справедливую податкову політику ЄС. Також наголошено на важливості впровадження стандартів фінансової звітності, зокрема Country-by-Country Reporting (CbCR), які сприяють підвищенню рівня фінансової прозорості та протидії агресивному податковому плануванню. У статті встановлено, що успіх таких ініціатив значною мірою залежить від політичної волі держав-членів ЄС, координації дій на рівнях Союзу та ефективної співпраці у глобальному масштабі. Вказано на проблеми податкового обліку, пов'язані з відмінностями у національних податкових системах країн-членів ЄС. Аргументовано, що ефективний податковий облік здатен забезпечити суттєві соціальні й економічні переваги для ЄС. Серед них – підвищення податкових надходжень як до спільного бюджету ЄС, так і до бюджетів країн-членів, створення рівних умов для бізнесу, підвищення інвестиційної привабливості європейських ринків. Для досягнення цих результатів важливо продовжувати уніфікацію податкових правил, активно впроваджувати цифрові технології, розширювати міжнародну співпрацю.

Ключові слова: податкова система; інституційна база; правова база; гармонізація податків; Європейський Союз (ЄС); податкова політика; податкове адміністрування; фіскальна політика.

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