

Position Paper

UEAPME's¹ comments on the special VAT scheme for small enterprises

Executive Summary

- UEAPME supports the proposal in general and welcomes especially the possibility to make VAT exemptions available also for cross border activities of small enterprises and to allow micro enterprises to profit from simplification, even if they are not exempted.
- At the same time, UEAPME is concerned about additional risks to create unfair competition between SMEs, which can profit from exemptions and those that cannot. This is especially a problem for locally provided labour intensive services, where exempting from VAT provides a significant cost advantage.
- As regards a maximum European threshold for national exemptions, UEAPME is concerned that it may create political pressure for an increase in Member States, which have currently relative low national thresholds, which would lead to additional distortion of competition. Therefore, UEAPME recommends not introducing a national threshold next to the overall threshold for the European Union of € 100.000.
- Contrary to the Commission proposal and for reasons of simplification, UEAPME suggests to allow small enterprises whose annual turnover exceeded the threshold by the end of a business year by not more than a certain percentage (maximum 50%), to apply the exemption for another business year.
- UEAPME fully supports the proposal to allow all enterprises with an annual turnover below € 2 000.000 to benefit from a defined set of simplified VAT obligations such as simplified registration, simplified record keeping and longer tax periods.
- Finally, UEAPME underlines the importance to give any enterprise which may benefit from exemptions and simplifications the possibility to opt-out from the scheme or from single measures and to apply the normal VAT rules.

1. General comments

The European Commission has published on 18 January 2018 amendments for the VAT Directive as regards the special scheme for small enterprises (COM(2018) 21).

The current initiative is part of the reform package announced in the VAT action plan. The aim of the proposal is to establish a modern and simplified system for small enterprises which have to bear proportionally higher administrative burdens than larger companies. The goal of the proposal is to simplify the cross-border activity of small enterprises by (1) decreasing the costs of SMEs that arise from VAT regulation, (2) decreasing distortion of competition between small enterprises and large corporates in Member States and the internal market, (3) decreasing the negative impacts of thresholds and (4) securing

¹ UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

the possibility of SMEs to follow the rules, while at the same time enabling tax administrations to monitor compliance with the rules.

The proposal includes the following elements:

- VAT exemptions for small enterprises in a specific Member State should be available also for small enterprises established in another EU Member States as long as the turnover in that Member State does not exceed the national threshold and the overall turnover in the EU is below € 100 000.
- The maximum threshold for an exemption of small enterprises should be an annual turnover at national level of € 85 000.
- Small enterprises, which temporarily exceed the threshold set by a Member State, can continue to use the exemption for the current year as long as the threshold is not exceeded by more than 50%.
- The new SME scheme no longer provides the possibility of a graduated tax relief.
- The proposal includes an annual turnover threshold of € 2 000 000 (Union wide), which defines 'small enterprises'. These enterprises should have access to simplified VAT obligations independent of the application of the exemption. Therefore, Member States should define a set of simplified VAT obligations available also for non-exempt small enterprises including simplified registration, simplified record keeping and longer tax periods.

UEAPME supports the proposal in general and welcomes especially the possibility to make VAT exemptions available also for cross border activities of small enterprises and to allow micro enterprises to profit from simplification, even if they are not exempted. At the same time, UEAPME is concerned about additional risks to create unfair competition between SMEs, which can profit from exemptions and those that cannot. This is especially a problem for locally provided labour intensive services, where exempting from VAT provides a significant cost advantage.

2. Specific Comments on the different elements of the proposal

a. Exemptions for small enterprises established in another Member State

UEAPME welcomes the possibility for small enterprises to benefit from exemptions, even if the enterprise is established in another country, because it can stimulate their cross border activities. This will enable these enterprises to start being active in cross border businesses.

At the same time, UEAPME fully support the provision of a threshold for an overall annual turnover of € 100 000, which ensures that large companies cannot take advantage of such exemptions.

b. Threshold on national turnover to benefit from exemptions

UEAPME had asked for more harmonised thresholds to make cross border application feasible. With the overall turnover of € 100 000 Euro for the whole European Union, this aim has been achieved. However, the distortion of competition and the national business structures vary significantly. Therefore, it seems to be difficult to progress with harmonisation in reality. Furthermore, a high European threshold may create political pressure for an increase in those Member States having currently relative low

national thresholds, which would lead to additional distortion of competition. In addition, applying rather high thresholds for exemptions may lead to unjustified distortion of competition, especially in sectors with high labour intensity such as local services.

Therefore, UEAPME recommends not introducing a national threshold next to the overall threshold for the European Union of € 100.000.

c. Transitional period for SMEs using exemption

UEAPME supports the general idea to allow small enterprises, whose annual turnover exceeds the applicable threshold continuing to apply the exemption, if the turnover does not exceed the threshold by a certain percentage. However, the way the transitional period is defined in the proposal may not be practicable for small enterprises, because it would force them to permanently control their annual turnover and possible to apply the normal VAT rules during a business year. Small enterprises may assess their turnover only at the end of a business year in an accurate way.

Therefore, UEAPME suggests to allow small enterprises whose annual turnover exceeded the threshold by the end of a business year by not more than a certain percentage (maximum 50%), to apply the exemption for another business year.

d. Simplification measures for SMEs

This provision relates to all enterprises whose annual turnover in the EU is no higher than € 2 000 000 and allows simplifications, even if their turnover exceeds the exemption threshold. These enterprises are still very small and their turnover threshold is in line with the definition for micro enterprises.

Therefore, UEAPME fully supports such a provision, which may allow these enterprises to benefit from a defined set of simplified VAT obligations such as simplified registration, simplified record keeping and longer tax periods, which would allow small enterprises a less frequent filing of VAT returns.

As a **final comment**, UEAPME underlines the importance to give any enterprise which may benefit from exemptions and simplifications the possibility to opt-out from the scheme or from single measures and to apply the normal VAT rules. Furthermore, SMEs should be allowed to file their VAT return monthly, in order to profit from a speedy tax refund.

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