

20 March 2018

Proposed amendment to VAT-treatment of SMEs

KEY MESSAGES



- 1** We welcome the Commission's proposal to broaden the VAT-scheme for small enterprises, under which SMEs are exempt from paying VAT not only on their domestic sales, as is allowed today, but now also on their intra-EU sales, as long as the operating SME stays below the proposed threshold of €100 000 of annual turnover in the EU and below the national exemption threshold of the Member State they are supplying to. This extension of the VAT-scheme to include intra-EU trade would further enhance the Single Market.
- 2** We support the European Commission's proposals to simplify VAT obligations as businesses often face difficult challenges when trading across borders, with diverse, disproportionate and complex VAT-rules across the EU, which may hamper their growth and discourage them from engaging in cross-border trade. These proposals to simplify VAT-compliance can provide a boost to (cross-border) trade and decrease the administrative burden.
- 3** The proposed threshold of €2 million turnover in the EU, covering micro-enterprises, related to the administrative simplification measures, is too restrictive. The EU should take a more ambitious approach to ensure that small and medium enterprises can benefit from the proposed measures to decrease their administrative burden.

WHAT DOES BUSINESSEUROPE AIM FOR?



- We support the Commission's efforts to modernise the EU's VAT-system, reduce administrative burden and the VAT-gap. The current system is highly fragmented, complex and subsequently reduces and distorts trade and investment by creating unnecessary extensive administrative burden and trade barriers to businesses.
- Further VAT-reforms however should also take into account the fast-changing digitalised economy which blurs the line between goods and services and upcoming technologies which may also be helpful in closing the VAT-gap and simplifying VAT-reporting.
- Regardless of the design of the final system on rates, businesses, and in particular SMEs, are currently in dire need of getting quick and accurate access to the relevant information about the implementation of the VAT system in the different Member States. We encourage the EU to establish an EU VAT Web Information Portal for businesses with a particular focus on SMEs.



Introduction

The European Commission presented in January 2018, as part of its Fair Taxation Package 3, new simplification rules to help reduce VAT-compliance costs for small businesses. Under current rules, Member States can exempt sales of small companies from VAT provided they do not exceed a given annual turnover threshold, set by the Member States separately. This exemption is available only to domestic players. The Commission's proposal would introduce a €100,000 threshold below which companies operating in more than one Member State would now be able to benefit from the VAT exemption as well. The Commission's proposal would also introduce a €2 million revenue threshold across the EU, under which small businesses would benefit from simplification measures, related to invoicing, VAT-returns, etc.

Simplification measures

According to the Commission's impact assessment, the average cost for SMEs to account for VAT in another Member State is estimated to be €4100 annually per Member State they supply to. Moreover, research shows that on average a firm trading in two Member States would have to deal with 11 differences in VAT-related procedures. It is safe to say that SMEs are currently in dire need of simplification measures. The fewer differences in terms of administration, reporting, collecting and different application – the easier it will be for SMEs to do business in Europe. We therefore welcome the Commission's proposed simplification measures, regarding registration, invoicing, etc, which can significantly reduce the administrative burden of both VAT-exempt small businesses and non-exempt small businesses.

However, the current threshold, of €2 million, covering micro-enterprises, set by the Commission's proposal is too restrictive, and would leave many companies unable to benefit from the important simplification measures. In view of the overhaul of the EU-VAT system, the EU should take a more ambitious approach to ensure that small and medium-sized enterprises can benefit from the proposed measures as well.

Additionally, SMEs often have difficulties to understand the different VAT-rules in the different Member States. There is an urgent need for quick and accurate access to the relevant information about the implementation of the VAT system in the different Member States. Part of the digital agenda should be aimed at finding ways of providing this information swiftly, easily and in a language that SMEs can understand. We therefore urge Member States to establish an EU VAT Web Information Portal for businesses with a particular focus on SMEs.

SME Exemption and Thresholds

While the current SME VAT-exemption in the different member states works relatively well from a domestic trader's point of view, it still has a distortive effect on competition, as the current exemption is not available to cross-border traders. In this regard, we welcome the Commission's proposal to extend the current SME-exemption to cross-border trade, as this can deliver a more level-playing-field for EU-businesses. Additionally, this can also reduce the current administrative burden SMEs face when they trade in other Member States than their own. Restricting the exemption to SMEs with an annual turnover of less than €100,000 in the EU is a considerate starting-point, but it



would be helpful if the thresholds are also accompanied by a 'soft landing' approach to ensure that SMEs can grow into the system and make a smooth transition in order to avoid a 'glass-ceiling effect'.

We support the introduction of an EU maximum national exemption threshold of €85 000. The thresholds set out by Member States below which the exemption applies vary substantially from one Member State to another and we hope that the introduction of an EU-wide maximum national exemption threshold can be a first step towards a full harmonisation of a VAT-exemption threshold across all Member States in the long term.

Annex:

In addition, the Commission's recent proposal on increased administrative cooperation between tax authorities of different Member States may also be helpful in reducing the VAT-gap. Regarding this, we welcome in particular the legal basis of the Transaction Network Analysis (TNA), an IT-tool which we believe can be very effective in identifying international fraud networks