



European Commission
Taxation and Customs Union

SPECIAL REGIMES AND THRESHOLDS FOR SMEs TREATMENT IN THE EUROPEAN UNION

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SPECIAL VAT TREATMENT

- **Why ?**
 - To ease the burden of tax compliance for taxpayers and tax administrations
 - 80 % of VAT paid by 5 % of taxpayers !
- In 1973, EC member states have adopted VAT, each with a system for SMEs which is considered best suited to its individual circumstances
- In 1979, the Community VAT legislation has been adopted which provides for special arrangements for SMEs : common framework but flexibility for MS in order to cope with specific national problems posed to SMEs
- Transitional provisions : coexistence of different special national systems could hinder the abolition of fiscal frontiers



EU VAT LEGISLATION EXEMPTION SCHEME

- **Member states may :**
 - Grant exemption with a max. turnover 5000 €
 - Retain exemption :
 - Exemption < 5000 € may be increased till 5000 €
 - Exemption of 5000 € may be increased in order to maintain value
 - Grant exemption with different max turnovers for new member states (after 1 January 1978 – max = 35.000 €)
 - Grant a graduated tax relief
 - Retain graduated tax relief :
 - Ceiling may not be increased and conditions may not be made more favourable
- **Criteria chosen : turnover limit**



EU VAT LEGISLATION EXEMPTION SCHEME

- Some conditions :
 - **Applicable for supplies of goods and services by small enterprises**
 - **Not applicable to occasional transactions, or specific transactions like supply of new means of transport, the supply of new buildings and building land**
 - **Taxable person may not deduct input VAT**
 - **Taxable person may not show VAT on invoices**
 - **Specific for the calculation of the turnovers**
- Taxable person may opt for normal VAT scheme or simplified procedures



EU VAT LEGISLATION SIMPLIFIED SCHEMES

- **SIMPLIFIED PROCEDURE FOR CHARGING AND COLLECTING TAX**
 - **Member States may introduce or retain special arrangements for SMEs in order to reduce compliance costs**
 - **No details specified, considerable flexibility for Member States**
 - **One condition : must not lead to a reduction in tax (economic neutrality)**
 - **Application by MS of widely differing simplified procedures (registration or not for example)**



Simplified schemes

A. Flat rate scheme (forfait)

- **ESTIMATION OF SALES (TAX BASE) UNDER A FLAT RATE SYSTEM** :different system applied by Member States
 - **Collective flat rate amounts (sectors of activity)**
 - **Individual flat rate amounts**
 - **Simplified arrangements for calculating tax**



SPECIAL SCHEME SOME EU EXPERIENCES

- **Belgium**
 - General “forfait scheme” mainly for retail shops
 - Application of normal rules concerning right of deduction, keeping books, presenting simplified periodic returns...
 - Forfait for different sectors (+/- 22) : retail sectors
 - Specific conditions to be respected :
 - Nature of the company: mainly physical persons
 - For retail sales (without invoices, less than 25 %)
 - Turnover < 500.000 € (previous year)
 - Specific and individual “forfait” for specific situation is possible

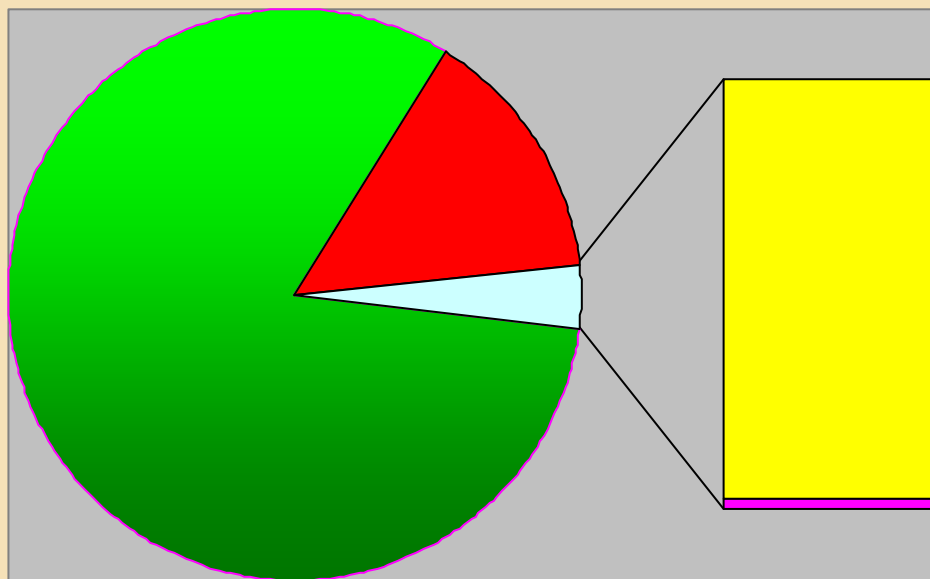


BELGIUM

- **3 KEY METHODS FOR CALCULATING THE TAXABLE AMOUNT :**
 - 1. FLAT RATE MARGIN APPLIED TO PURCHASES (food retail shops)**
 - 2. QUANTITIES OF GOODS PURCHASED WILL DETERMINE THE TAXABLE AMOUNT (bakers or bars)**
 - 3. NUMBER OF HOURS CARRIED OUT (hairstressers)**



Number of taxable persons involved



- Total = 708,531
- EXEMPT = 122,940
- FT = 31,321
- LA = 704

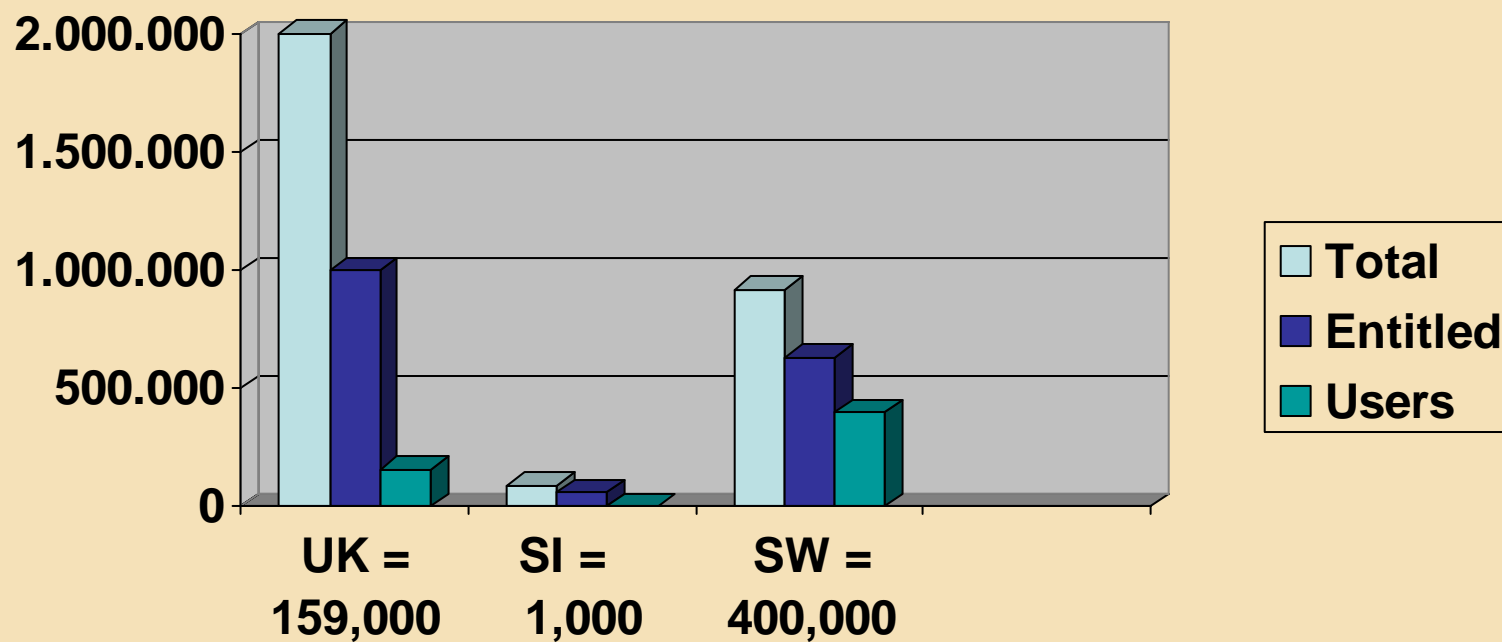


United Kingdom, Slovenia, Estonia, Sweden

- B. Cash accounting scheme : derogation granted to these Member states
- Tax is accounted for on the basis of cash paid
 - Postponement of the right to deduct input VAT for taxable persons who account for the output VAT for their supplies when they have received the payment of the price from the customers
 - Turnover limits are different: UK (1.350.000 GBP), SI (208.646 €), SW (3.000.000 SEK, +- 300.000€), EE (restricted to taxable persons classified as sole proprietors under Estonian law).



Number of taxable persons involved





CONCLUSION on current situation in EU VAT law

- EU VAT legislation offers Member States a considerable flexibility, especially in relation to the special schemes.
- For applying simplified schemes, the Member have the possibility to apply national schemes provided they do not lead to a reduction of tax
- Concerning exemption scheme, the EU VAT Directive lays down some fairly strict arrangements. Nevertheless, numerous derogations from these provisions have been granted during the successive enlargements, creating a situation where Member States are not at all on an equal footing. For “old” MS, the turnover limits are too low to have any real significance
- Examples of turnover limits : EL, ES, PL, FI, SW, PT (10.000 €)
AT, HU, CZ and SK (35.000 €) - EE (16.000 €) – CY (15.600 €)
MT (37.000 €) - SI (25.000), UK (87.678)



Exemption scheme Need for more flexibility?

- **Considering the potential economic development and competitive position of SMEs, the Commission considers that Member States should have more flexibility in determining the threshold under which taxable persons can be exempted**
- **Therefore, a maximum of 100.000 € has been proposed (2004), which should give Member States the autonomy to set up a regime they consider the most appropriate in view of the structure of their national economy.**
- **Moreover, it should be clarified in the legal text that Member States are able to apply different thresholds, for instance in order to differentiate between taxable persons making supplies of goods and those making supplies of services. This differentiation would be applied on a non discriminatory basis taking into account objective criteria.**



COMMON FLAT-RATE SCHEME FOR FARMERS

Why a specific scheme for farmers ?

- Alternative to SMEs scheme provided by EU VAT law for small farmers unable to comply with the obligations imposed by the normal Community VAT system
- EU legislation provides a common flat rate scheme (optional for Member States)
- The farmer does not need to register for VAT
- The farmer does not need to issue invoices.
- VAT on input paid is compensated by a flat rate increase charged to taxable customers



COMMON FLAT-RATE SCHEME FOR FARMERS

- Flat rate compensation is a macro-economic calculation (common method for all MS) made by each MS. Figures of total output directly derived from agricultural production and input needed to achieve this production.
- The ratio of VAT on inputs to farm output represents the flat rate compensation percentages; different rates possible for specific sectors
- Examples of compensation rates: BE(2 and 6 %), FR (3.5 for eggs, poultry, pigs, 2.9 for wine, fruit) etc...



COMMON FLAT-RATE SCHEME FOR FARMERS

- **The EU Commission is responsible for monitoring the appropriateness of the flat rate compensation (to avoid over-compensation: subsidy to the agriculture sector, to prevent distortion between MS)**
- **No turnover limits fixed in the EU legislation, scheme widely applied, also by large farmers, depending of the level of the flat rate (realistic, attractive)**
- **Flat rate compensation paid by taxable purchasers can be deducted like VAT**



Common flat rate scheme for farmers

Conclusion

- Widely applied by Member states (few exemptions)
- Sometimes too generous, extended to large farmers (no turnover limits in the EU legislation)
- The flat rate cannot compensate all farmers accurately (depending of particular type of farming)
- Could be seen as a subsidy to agriculture (depending of the level of the flat rate)
- The scheme should be restricted to small farmers (turnover limits or production limits), large farmers should be treated as a business



INCENTIVES FOR SMEs : LIMITS : EU STATE AIDS RULES

- General rules
 - EC Treaty prohibits State aid : advantage given by a State
 - Transfer of State resources (ex. Tax reliefs)
 - Confers an economic advantage to the recipient on a selective basis(different from a general measure (nation-wide fiscal measures)
 - Competition has been or may be distorted
 - Intervention is likely to affect trade between Member States



EU STATES AID RULES

– Specific Exceptions :

- **Some circumstances : government interventions can be authorised for a well-functioning and equitable economy**
 - **De minimis aid : not considered as an aid if under the ceiling of 200.000 € (cash grant equivalent)**
 - **Specific treatment of SMEs :**
 - » **SMEs : MEs - >250 employees and > 50 million € annual turnover**
 - » **SEs - >50 employees and >10 million annual turnover**
- Aid intensities : 15% (SEs) and 7.5% (MEs) of tangible and intangible investment and cost of outside consultants and the costs of the 1st participation in a particular fair or exhibition**



DIRECT TAXATION HOME STATE TAXATION

- **Main difficulties for SMEs doing business across borders : compliance costs**
- **Commission's Communication (2006) : reduce the costs and facilitate the intra-community trade : suggestion : concept of Home State taxation for SMEs**
 - **Def. of SMEs : >250 staff and >50 millions € turnover**
 - **SMEs wishing to establish subsidiary or branch in an other Member State will be able to use the familiar tax rules of its Home State when calculating its taxable profits**



Home state taxation

- **Voluntary for Member States and companies**
- **SME tax base would be calculated in accordance with the rules of the Home State. Each participating Member State would then tax it own corporate tax rate its share of the profits determined according to its share of the total payroll and/or turnover**
- **Time-limited : 5 years (test practical merits of the concept**
- **If Member States agree, could be do so via bilateral or multilateral agreements**