



Brussels, 5 October 2016
ANM/mve taxud.c.1(2016)6345606

**REVIEW OF THE SPECIAL SCHEME FOR SMALL ENTERPRISES
UNDER THE VAT DIRECTIVE 2006/112/EC – SME PANEL CONSULTATION**

REPORT ON THE RESULTS OF THE CONSULTATION

1. BACKGROUND

The European Commission is currently working on the review of the provisions of the VAT Directive¹ on the special scheme for small enterprises (hereafter: the SME scheme). The current provisions on the SME scheme are outdated, do not take the single market aspect into account and, being excessively complex, create an important administrative burden for small enterprises. In addition, the review of the SME scheme is necessary in view of the broader reform of the VAT system towards taxation at destination.

As already announced in the Communication on the upgrading of the Single Market² and confirmed in the VAT Action Plan³, the Commission is therefore preparing a comprehensive simplification package for SMEs aimed at reducing their administrative burden and at contributing to the creation of an environment favourable to their growth and cross-border trade.

The work on the review has started with the launch of a study which will provide an assessment of the status quo and deliver the data that will serve as the basis for the SME reform package. The works on the review focus not only on the exemption from VAT, but cover as well simplification measures relating to VAT obligations such as registration, reporting, invoicing and record keeping.

Through the Enterprise Europe Network⁴ the Commission wanted to reach out to SMEs in order to obtain their input. Thanks to our network partners we received more than 1 700 replies to the survey. They constitute an important contribution to the works on the SME reform package. The replies gathered through the consultation help us understand the experience of SMEs with VAT obligations and the compliance burden that these entail as well as SMEs' views on the most needed simplification measures.

¹ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (OJ L 347, 11.12.2006).

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the upgrading of the Single Market: more opportunities for people and business (COM (2015) 550 of 28.10.2015).

³ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on an action plan on VAT Towards a single EU VAT area – Time to decide (COM(2016) 148 of 7.4.2016).

⁴ <http://een.ec.europa.eu/>

2. SHORT SUMMARY OF THE RESULTS OF THE SURVEY

A. Respondents

Of the 1 704 replies received over 70% came from enterprises with a stated turnover up to EUR 2 000 000, i.e. microenterprises in the sense of the general definition as set out in the Commission 2003 Recommendation⁵. One-third of all respondents are enterprises with a stated turnover not exceeding EUR 100 000, which are the ones possibly most concerned with the issues linked to the SME exemption.

As regards the countries of origin of the enterprises participating in the survey, we received the most replies from Portugal (almost 20% of all respondents). Companies from Poland and Germany represent, as regards both groups, above 10% of the respondents (respectively 17.2% and 10.2%). We received no replies to the questionnaire from the following EU Member States: Croatia, Ireland, Malta, the Netherlands, Slovenia and Sweden. The only country outside the EU from which over 40 enterprises took part in the survey is the former Yugoslav Republic of Macedonia.

Suppliers of both goods and services are represented among the respondents: 50% indicated as their main activity sale of goods and 56% - sale of services other than electronic. Only limited group, below 10% of all respondents, have as their main activity sale of electronic services.

More than half of respondents carry out sales to other EU countries and almost 40% engage in supplies to markets outside the EU.

Out of companies that do not sell goods or services outside their national markets only 9% indicated that the reason for this is linked to too complicated VAT obligations and only 7% referred to too high cost of complying with VAT obligations as to the reason for not carrying out supplies outside their national markets.

B. VAT Obligations

Close to 90% of enterprises that replied to the survey register for VAT domestically, file VAT returns and pay VAT.

Above half of the respondents indicated that if it was not for VAT obligations, they would not keep records or would keep them in a simplified form. Close to half of respondents said the same about invoicing.

More than half of respondents use online services of their tax administration in an effort to comply with their VAT obligations.

Above half of all the respondents find the information services provided by their tax administration fairly or very useful. Also above half of them used services of an external consultant in the last financial year in order to get advice or to help them with their VAT obligations.

⁵ Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36):
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF>.

Almost one-third of the respondents consider complexity of VAT legislation as the main problem in ensuring compliance with VAT obligations. Above one-fifth indicate frequent changes in VAT legislation as problematic. As the most problematic VAT obligations almost 15% of respondents indicate filing VAT returns and over 12% deadlines for VAT payments.

C. *Simplification measures*

Only about 9% of respondents benefit from the SME exemption/graduated relief. The simplification measures used the most by the respondents are standard deduction (22% of respondents), annual recapitulative statements (EU sales lists – 14% of respondents), longer periods for paying VAT (14% of respondents), and simplified reporting (14% of respondents). Only a small group of respondents (7%) benefits from an SME flat-rate scheme.

Respondents generally indicated the following as useful simplification measures: further simplified reporting (67% of respondents), simplified record keeping (65%), simplified invoicing (61%) and longer periods for paying VAT (56%). As the three most useful ones 27% of them ranked simplified record keeping, 23% still longer periods for paying VAT and 19% further simplified reporting.

D. *General comments*

In their spontaneous, general comments enterprises that participated in the survey emphasise the need for further harmonisation, simplification and clarification of VAT rules across the EU. In particular, several respondents refer to the need for simplification of requirements regarding record keeping, invoicing and reporting. In addition, several SMEs expressed their support for cash accounting as a measure helping to handle cash-flow management problems.

3. NEXT STEPS

DG TAXUD will carry out a more in-depth analysis of the survey in the context of its works on the review of the special VAT scheme for small enterprises. This analysis will contribute to the preparation of the Commission's proposal to amend the VAT Directive's provisions on the SME scheme. The proposal is planned to be submitted by the end of 2017.

Annex: Questionnaire: Review of the special schemes for small enterprises under the VAT Directive 2006/112/EC.