

Position Paper

UEAPME's¹ policy recommendations for a Special Scheme for Small Enterprises under the VAT Directive

Executive Summary

- UEAPME sees a need for an SME scheme and requests that a future scheme becomes mandatory for Member States, but SMEs should have the possibility to opt-out and to apply the normal VAT rules.
- UEAPME asks that all SMEs but also occasional traders should be covered by VAT and should have to register for VAT purpose.
- UEAPME sees the need to keep exemptions and Member States should be obliged to apply them. SME exemptions should be made available to suppliers from other Member States and for more harmonised thresholds.
- Simplified VAT obligations should become mandatory for Member States and should be available to all SMEs.
- Cash-accounting schemes, which are especially important for SMEs suffering from late payment, should be accompanied by simplified VAT obligations.
- UEAPME sees VAT returns every 12 month as appropriate for all SMEs, independently, if they are covered by SME exemptions or not. However, SMEs should be allowed to voluntarily submit their returns at a monthly frequency.

I. General comments

UEAPME welcomes and fully supports the intention of the European Commission to review the current special scheme for small enterprises under the VAT directive (VAT SME Scheme) as it has been already stated in [our position](#) on the VAT Action Plan in October 2016. There, *“UEAPME welcomed the recognition of the specific problems of SMEs in general and specifically of small enterprises with the current VAT regime. Any amendments to the scheme for small enterprises should build on the experiences with the current one and tackle the following issues:*

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 most important and used features of the current schemes are SME exemptions and graduated reliefs as well as cash accounting schemes. However, we see huge differences between national thresholds used for registration and compliance, creating problems for cross border businesses. In this area subsidiarity to set national thresholds seems to contradict the needs of the Single Market. Therefore, national thresholds for SME exemptions should be designed with the aim not to create additional burdens for cross border businesses and to avoid unfair competition between SMEs within the Single Market.*
- *Flat rate schemes for SMEs are only used in 7 out of 28 Member States, which is not a surprise because it is extremely complicated to prevent the risk of promoting “black markets”. Therefore, UEAPME is not pushing for any extension of such schemes.”*

In December 2016 the European Commission launched a **public consultation on the special scheme for small enterprises under the VAT Directive**. Many of UEAPME’s national member organisations and some of our European branch associations participated in the consultation, which ended in March 2017.

With this position paper, UEAPME wants to summarise the expectation of SMEs in Europe as regards the up-coming review of the VAT SME Scheme and to provide the European Commission, other policy makers and stakeholders with a coordinated and jointly agreed package on requests from SMEs as input for the up-coming review.

In general, European SMEs see the **need for an SME scheme** and assess the current scheme positively with room for improvement. Furthermore, our members **request that a future scheme becomes mandatory for Member States**, but the use of such schemes should be optional for SMEs. This means, SMEs should have the **possibility to opt-out from the scheme and to apply the normal VAT rules**.

II. Comments specific elements of a SME VAT Scheme

1) Registration for VAT purpose

UEAPME asks that **all SMEs** but also occasional **traders** should be covered by VAT and should have **to register for VAT purpose**. Such a measure can reduce VAT fraud and contribute to ensure fair competition.

Furthermore, if the SME exemption in a Member State is made available to all enterprises within the EU and a more harmonised threshold applies to the overall turnover, **UEAPME does not see the need that an SME has to register in others than its own Member State**.

2) SME exemption under the VAT Directive

The SME scheme currently allows, among others, to exempt SMEs from VAT provided that their turnover does not exceed certain thresholds. **UEAPME sees the need to keep this kind of exemption and Member States should be obliged to apply such an exemption. However, such exemptions**

should be designed in a way that it does not create unfair competition for not exempted SMEs and it should not incentives fraudulent behaviour. This is especially problematic in case of labour intensive services, where an exemption from applying VAT creates significant advantages.

Currently, SMEs can only benefit from the SME exemption in their own Member State, but not in other Member States where they are selling to. Here, UEAPME asks that an **SME exemption should be made available to suppliers from other Member States**, if it is mandatory for all Member States or if reciprocity is granted. Furthermore, the **overall turnover of a business should be below the threshold** for an exemption and not only the turnover of cross-border supply.

Exemption for small businesses providing cross-border supply is important to achieve a more level playing field for companies, to encourage SMEs to fully seize the potential of the Single Market and to sell in Member States other than their own and to reduce the tax burden and the administrative costs of SMEs selling in Member States.

In order to make cross-border application of exemptions feasible, UEAPME ask for some **harmonisation of the thresholds**, i.e. within a certain limits.

Finally, UEAPME asks to allow SMEs to profit further from the scheme for a **short transition period, if turnover exceeds the threshold temporarily** and only to a certain limit (i.e. 15%).²

3) Simplified VAT obligations

UEAPME requests that **simplified VAT obligations become mandatory for Member States**. UEAPME also asks for **further simplification measures** and for **some degree of harmonisation** of simplified obligations. However, further simplification measures should be strictly targeted to lower compliance and administrative cost, but **may not create unlevelled playing fields** for SMEs out of the scheme.

In addition, **simplified VAT obligations should be available to all SMEs** which fulfil the relevant criteria and not only to those covered by an SME exemption. Furthermore, UEAPME agrees that **cash-accounting schemes should be accompanied by simplified VAT obligations**, which are especially important for SMEs suffering from late payment..

4) Periodical VAT return

UEAPME agrees that small businesses should have to submit its periodical VAT returns in longer intervals and sees submissions of **VAT returns every 12 month as appropriate for all SMEs**, independently, if they are covered by SME exemptions or not. However, they should be allowed to voluntarily submit their returns at a monthly frequency.

² One member organisation (U2P) is strictly against any transitional period and would like to see exemptions to be limited to two years (start-up phase), in order to avoid unfair competition by using exemptions permanently.

5) Additional Comments

UEAPME recalls that access to information is one of the most important levers for companies who wish to export. This includes information on VAT declaration, invoicing rules, rates applicable rules, VAT refund arrangements, etc. **UEAPME considers that the introduction of a one-stop-shop for VAT - based on the experience of digital products - would be one of the most important simplification measures to encourage SMEs to export within the EU.**

Furthermore, a proper functioning of the VAT Information Exchange System (VIES) is crucial to reduce the burden and the complexity of the VAT system. **Registration to VIES should be completed within maximum on month.** Currently it takes up to unacceptable 5 month in some Member States according to our member organisations. In addition, UEAPME would like to see improvements as regards the homogenisation and the quality of data within VIES.

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