



“The voice of SMEs in Europe”

Press Release

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European Convention has to enable tax reforms

European SMEs demand a solution to tax policy incoherencies

Brussels, 07th February 2003. UEAPME, the European SME employers association, argues that an overhaul in tax policy affecting European SMEs is needed urgently if the EU is to be the best place in the world to start and grow businesses. On the occasion of a UEAPME meeting on tax policy last week, representatives of national SME organisations pointed out the various problems in European tax policy that hinder the prosperous development of SMEs and called on the Convention drafters to include instruments allowing tax policy reforms.

Firstly, there is an appalling difference between the level of effective tax rates paid by small businesses and large enterprises. An Economic Paper on sector and size effects on effective corporate taxation by Gaëtan Nicodème shows that SMEs have to bear a tax burden that is on average 23% higher than big corporations. The study demonstrates that loopholes in company taxation and different rules at national level give large international companies the possibility to shift the profits to different countries in order to avoid high tax burdens. Such an alternative is not feasible for SMEs because they are mainly active on national markets.

Secondly, SMEs have to handle higher compliance costs for company taxes, as the Commission’s communication of 2001 demonstrated, and in the VAT system as an on-going study by Price Waterhouse and Coopers proves.

Finally, the increase of non-wage labour costs, introduced as a response to the decreasing company taxation rates in Member States, has led to a situation in which SMEs have to face strong competition from the shadow economy. This situation favours the capital-intensive industry and threatens the survival of many SMEs in labour intensive sectors, who generally face fierce competition from the black market. Solving this problem implies reducing the tax wedge between declared and undeclared work in order to make the latter less attractive.

These persistent problems, resulting from poor policy making decisions, will continue to obstruct SMEs capacity to grow and employ and will impede the realisation of cross-border business especially within the internal market.

Given the urgency of the reform of taxation systems, UEAPME has decided to place tax policy very high on the lobbying agenda for the next years. Therefore, taxation policy will be at centre of the European Convention debate during the Second European SME Summit in Rome the 7th and 8th of March. Presidents and secretary-generals of national SME organisations as well as members of the upcoming Italian Presidency will attend the Summit.

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