

# Company law: annual accounts of micro-entities

2009/0035(COD) - 26/02/2009 - Legislative proposal

**PURPOSE:** to amend the 4th Company Law Directive (Directive 78/660/EEC) to simplify the business environment and particularly the financial reporting requirements for micro-entities in order to enhance their competitiveness and release their growth potential.

**PROPOSED ACT:** Directive of the European Parliament and of the Council.

**BACKGROUND:** the European Council of 89 March 2007 underlined that reducing administrative burden is important for boosting the European economy, especially considering the potential benefits this can bring for SMEs. In this context, it called on the Commission to identify new "fast track" legislative proposals in order to reduce administrative burdens. Accounting and auditing have been identified as key areas for reducing administrative burden for European companies.

Furthermore, the [European Parliament](#) encourages the Commission to continue its activities with regard to the simplification of company law, accounting and auditing, in particular the 4th and 7th Company Law Directives, and explicitly [calls on the Commission](#) to come forward with a legislative proposal that allows Member States to exempt local and regional undertakings from the scope of the Accounting Directives.

The 4th Company Law Directive was adopted in 1978 in order to create a harmonised set of requirements for the external reporting of all limited liability companies in the EU.

**IMPACT ASSESSMENT:** the impact assessment covers six options:

- **Option 0:** No change to the Directives;
- **Option 1:** Encourage a full use of existing options in the Accounting Directives;
- **Option 2:** Obligatory exemption of micro entities from the scope of the Directives;
- **Option 3:** Member State option to exempt micro entities from the scope of the Directives;
- **Option 4:** Introduction of a simplified accounting regime for micro entities;
- **Option 5:** Amendments to the Accounting Directive without introducing the micro category.

The Commission considers that the option that provides the biggest burden reduction is **Option 3** (option to exempt micro entities). This option can also be implemented within the shortest timeframe.

**CONTENT:** the Commission suggests establishing an option for Member States of removing the micro-entities from the scope of the 4th Company Law Directive and, by doing so, relieving them from the requirement to draw up annual accounts. Accordingly, the Commission proposes to add a new Article 1a to the 4th Company Law Directive extending the discretion of Member States to relieve the micro-entities from the scope of the 4th Company Law Directive.

According to that Article, Member States may provide for an exemption from the obligations under the Directive for companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 500 000;
- net turnover: EUR 1 000 000;
- average number of employees during the financial year: 10.

However, it needs to be recalled, that companies, including micro entities, keep records of sales and transactions for their own management purposes and for tax reporting. The Directive will enable Member States to align the financial reporting to such other reporting needs to avoid unnecessary administrative burden. Micro entities can on a voluntary basis still draw up annual accounts, have them audited and send them to the national register.

These changes should lead to reduced administrative burden while safeguarding adequate protection and information to stakeholders and enable alignment of the micro-entities' reporting requirements with the real needs of users and preparers.

**BUDGETARY IMPLICATION:** the proposal has no implication for the Community budget.