

Common system of value added tax: special scheme for small enterprises

2018/0006(CNS) - 08/11/2019 - Amended legislative proposal for reconsultation

The Council reached a general approach on the proposal for a Council Directive amending Directive 2006/112/EC on the common system of value added tax (VAT) as regards the special scheme for small enterprises (SMEs).

The European Parliament has been reconsulted on the amended legislative proposal.

As a reminder, the initiative aims to reform the VAT rules applicable to small businesses with a view to reducing the administrative burden and compliance costs for SMEs and contributing to the creation of a fiscal environment beneficial to SME growth and the development of cross-border trade.

While the current scheme provides that VAT exemption for small businesses is only available to national operators, the proposed reform will allow a similar VAT exemption to be applied to small businesses established in other Member States. The new rules shall improve the structure of the franchise system and encourage voluntary compliance with the rules, thereby helping to reduce revenue losses due to non-compliance with the rules and VAT fraud.

Simplification of the rules on VAT exemption for small businesses

The amended proposal for a Directive provides that small businesses will be able to benefit from simplified compliance rules if their annual turnover does not exceed a threshold set by the Member State concerned. This uniform threshold could not exceed **EUR 85 000**.

Under certain conditions, small companies from other Member States with cross-border activities, if they do not exceed this threshold, could also benefit from the simplified regime, provided that their total annual turnover throughout the Union does not exceed **EUR 100 000**.

Member States should be able to set their national threshold for the exemption at the level that suits their economic and political conditions best, subject to the upper threshold provided for under this Directive. Where a taxable person is eligible to benefit from more than one sectoral threshold, Member States should ensure that the taxable person can only use one of those thresholds. They should also ensure that their thresholds do not differentiate between the established and non-established taxable persons.

Prior notification

In order to allow an effective control of the application of the exemption and to ensure that Member States have access to the necessary information, a taxable person wanting to avail himself of the exemption in a Member State in which he is not established should be required to: (i) give prior notification to the Member State in which he is established; (b) be identified by an individual number in the Member State of establishment only. This number may be, but would not necessarily need to be the VAT number.

SMEs that meet the conditions may benefit from further simplifications in the fulfilment of their VAT obligations such as registration and declaration.

The new rules shall apply from 1 January 2025.