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

2018/0006(CNS) - 02/03/2020 - Final act

PURPOSE: to amend the current VAT rules with a view to reducing VAT costs for small businesses (SMEs).

LEGISLATIVE ACT: Council Directive (EU) 2020/285 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises.

CONTENT: this Directive aims at reforming 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 to facilitate their growth and the development of crossborder trade.

The new rules shall improve the structure of the franchise system and encourage voluntary compliance, thus helping to reduce revenue losses due to non-compliance and VAT fraud.

While the current rules provide that VAT exemption for small businesses is only available to domestic operators, the approved reform extends VAT exemption to small businesses established in other Member States.

The new rules provide for the following:

- small businesses shall be able to benefit from simplified compliance rules if their annual turnover does not exceed a threshold set by the Member State concerned. This threshold may not exceed EUR 85 000. Under certain conditions, small enterprises from other Member States, if they do not exceed that threshold, shall also be able to benefit from the simplified scheme, provided that their total annual EU-wide turnover does not exceed EUR 100 000;

- Member States shall be able to set their national threshold for the exemption at the level which best corresponds to their economic and political conditions, taking into account the maximum threshold provided for in this Directive. If Member States apply differentiated thresholds for different sectors of activity, they must be based on objective criteria;

- taxable persons wishing to benefit from the exemption in a Member State in which they are not established shall be required to give prior notification to the Member State in which they are established. The taxable persons in question shall be identified by an individual number in the Member State of establishment only. This number may be the individual VAT identification number or any other identification number;

- small businesses making use of the franchise in their Member State of establishment shall, as a minimum, have access to simplified reporting obligations.

ENTRY INTO FORCE: 22.3.2020.

APPLICATION: from 1.1.2025.