

Basic information

2018/0006(CNS)

CNS - Consultation procedure
Directive

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

Amending Directive 2006/112/EC 2004/0079(CNS)

Subject

2.70.02 Indirect taxation, VAT, excise duties
3.45.02 Small and medium-sized enterprises (SME), craft industries

Procedure completed

Key players

European Parliament	Committee responsible		Rapporteur	Appointed	
	ECON Economic and Monetary Affairs		VAIDERE Inese (EPP)	18/11/2019	
			Shadow rapporteur SANT Alfred (S&D) NAGTEGAAL Caroline (Renew) JURZYCA Eugen (ECR)		
	Former committee responsible		Former rapporteur	Appointed	
	ECON Economic and Monetary Affairs		VANDENKENDELAERE Tom (PPE)	23/01/2018	
	Former committee for opinion		Former rapporteur for opinion	Appointed	
	IMCO Internal Market and Consumer Protection		The committee decided not to give an opinion.		
	JURI Legal Affairs		The committee decided not to give an opinion.		
	Council of the European Union	Council configuration		Meetings	Date
		Economic and Financial Affairs ECOFIN		3749	2020-02-18

European Commission	Commission DG	Commissioner
	Taxation and Customs Union	MOSCOVICI Pierre

Key events			
Date	Event	Reference	Summary
18/01/2018	Legislative proposal published	COM(2018)0021 	Summary
08/02/2018	Committee referral announced in Parliament		
11/07/2018	Vote in committee		
16/07/2018	Committee report tabled for plenary, 1st reading/single reading	A8-0260/2018	Summary
11/09/2018	Decision by Parliament	T8-0319/2018	Summary
11/09/2018	Results of vote in Parliament		
08/11/2019	Amended legislative proposal for reconsultation published	13952/2019	Summary
14/11/2019	Formal reconsultation of Parliament		
12/12/2019	Vote in committee		
13/12/2019	Committee report tabled for plenary, reconsultation	A9-0055/2019	Summary
15/01/2020	Decision by Parliament	T9-0004/2020	
15/01/2020	Results of vote in Parliament		
18/02/2020	Act adopted by Council after consultation of Parliament		
18/02/2020	End of procedure in Parliament		
02/03/2020	Final act published in Official Journal		

Technical information	
Procedure reference	2018/0006(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Amendments and repeals	Amending Directive 2006/112/EC 2004/0079(CNS)
Legal basis	Treaty on the Functioning of the European Union TFEU 113
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/01865 ECON/8/12096

Documentation gateway
European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE621.115	17/05/2018	
Amendments tabled in committee		PE623.645	06/06/2018	
Committee report tabled for plenary, 1st reading/single reading		A8-0260/2018	16/07/2018	Summary
Text adopted by Parliament, 1st reading/single reading		T8-0319/2018	11/09/2018	Summary
Committee draft report		PE644.767	26/11/2019	
Committee final report tabled for plenary, reconsultation		A9-0055/2019	13/12/2019	Summary
Text adopted by Parliament after reconsultation		T9-0004/2020	15/01/2020	

Council of the EU

Document type	Reference	Date	Summary
Amended legislative proposal for reconsultation	13952/2019	08/11/2019	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2018)0021 	18/01/2018	Summary
Document attached to the procedure	SWD(2018)0009 	18/01/2018	
Document attached to the procedure	SWD(2018)0011 	18/01/2018	
Commission response to text adopted in plenary	SP(2018)724	13/11/2018	
Commission response to text adopted in plenary	SP(2020)43	11/02/2020	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	DE_BUNDESRAT	COM(2018)0021	06/02/2018	
Contribution	ES_PARLIAMENT	COM(2018)0021	05/03/2018	
Contribution	PT_PARLIAMENT	COM(2018)0021	15/03/2018	
Contribution	RO_SENATE	COM(2018)0021	28/03/2018	
Contribution	CZ_SENATE	COM(2018)0021	30/04/2018	

Additional information

Source	Document	Date

EP Research Service	Briefing	
European Commission	EUR-Lex	

Final act	
Directive 2020/0285 OJ L 062 02.03.2020, p. 0013	Summary

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

2018/0006(CNS) - 18/01/2018 - Legislative proposal

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

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow the opinion of the European Parliament.

BACKGROUND: small businesses (SMEs) face proportionately higher VAT compliance costs than larger businesses. The VAT Directive ([Council Directive 2006/112/EC](#)) therefore lays down a number of provisions aimed at reducing the burden on SMEs dealing with VAT matters. In particular, it allows Member States to grant a VAT exemption to small businesses provided that they do not exceed a certain annual turnover, which varies from one country to another.

Despite the fact that Member States may exempt SMEs from VAT – an option that is widely used – SMEs continue to suffer from disproportionate VAT compliance costs due to how the SME exemption is designed. In particular, SMEs involved in cross-border trade cannot benefit from the SME exemption in Member States other than the one in which they are established

The current system has distortive effects on competition on both domestic and EU markets. This issue is set to worsen with the shift towards destination-based taxation under the proposed definitive VAT system; many SMEs may have to charge their customers VAT that differs from that of the Member State in which they are established.

As a follow-up to the 2016 [VAT Action Plan](#), this review aims to create a **modern, simplified SME scheme** by reducing VAT compliance costs for SMEs both domestically and at EU level and reducing distortions of competition both domestically and at EU level.

IMPACT ASSESSMENT: the impact assessment for the proposal was considered by the Regulatory Scrutiny Board on 13 September 2017. The Board issued a positive opinion on the proposal together with some recommendations, which have been taken into account. The Commission considers that compliance costs for SMEs are expected to be **reduced by 18 %** under this initiative compared to the baseline scenario outlined in the impact assessment (EUR 56.1 billion per year, compared to EUR 68 billion per year at present). Cross-border trading activities by SMEs within the EU are also expected to **increase by 13.5 %**. It should also have a positive impact on both voluntary compliance and on business competitiveness.

CONTENT: the main provisions of the proposed amendment to the VAT Directive are as follows:

- define various concepts necessary for applying the provisions of the special scheme: the definition of "small enterprises" would cover all enterprises whose Union annual turnover in the single market is **no higher than EUR 2 million**;
- the possibility for Member States that decide to implement the SME exemption to set their threshold at the level that best reflects to their particular economic and legal context. **The exemption will be available to all EU eligible businesses**, whether or not established in the Member State where they carry out supplies subject to VAT;
- for any small enterprise able to avail itself of the exemption in a Member State where it is not established, two conditions must be met: (i) the enterprise's annual turnover in that Member State should be below the exemption threshold applicable there; and (ii) its overall turnover in the single market (Union annual turnover) should **not be higher than EUR 100 000**;
- introducing a **transition period** for small enterprises making use of the SME exemption whose turnover exceeds the exemption threshold in a given year;
- define a set of **simplified VAT obligations** for non-exempt small enterprises. Such a set should include simplified registration, simplified record keeping and longer tax periods, which would result in less frequent filing of VAT returns. Non-exempt small enterprises should also be able to opt for the application of normal tax periods.

The amendments will only take effect once the definitive VAT system has been introduced.

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

2018/0006(CNS) - 11/09/2018 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 618 votes to 40, with 24 abstentions, following Parliament's consultation procedure, a legislative resolution on the proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises.

The European Parliament approved the Commission proposal subject to the following amendments:

Reducing VAT costs for small businesses (SMEs): the provisions of Council Directive 2006/112/EC that allow Member States to continue to apply their special schemes to small businesses are obsolete and do not meet their objective of reducing the compliance burden for small businesses.

The amendments highlight that small businesses in the Union are **particularly active in certain cross-border sectors**, such as construction, communications, catering services and retail trade, and can therefore be an important source of employment. The achievement of the objectives of the VAT Action Plan therefore requires a **review** of the special scheme for small businesses.

VAT exemption threshold: the proposal provides for a transitional period for small businesses benefiting from the exemption whose turnover exceeds the franchise threshold in a given year. Members propose that these enterprises should be allowed to continue to benefit from the exemption for two more years (instead of one year), provided that their annual turnover does not exceed the SME threshold by more than 33% during these two years (instead of 50% in the proposal).

In order to facilitate cross-border business, the list of national thresholds for exemption should be easily accessible to all small enterprises willing to operate in several Member States.

Administrative simplification for SMEs: in order to reduce the compliance burden for small businesses, it is proposed that the Commission:

- set up an **online portal** through which small enterprises willing to avail themselves of the exemption in another Member State shall register;
- put in place a **one-stop shop** through which small enterprises can file VAT returns of the different Member States in which they are operating. The Member State of establishment shall be responsible for VAT collection.

Member States shall also ensure that they have sufficient knowledge of the status of small enterprises and of their shareholding or ownership relationships, so as to be able to confirm their status as small enterprises. **The VAT information exchange system (VIES)** shall specify whether or not eligible small enterprises avail themselves of the VAT exemption for small enterprises.

Annual VAT return: Member States shall release **exempt** small enterprises from the obligation to submit a VAT return or they shall allow such exempt small enterprises to submit a simplified VAT return – which includes at least the following information: chargeable VAT, deductible VAT, net VAT amount (payable or receivable), total value of input transactions and total value of output transactions – to cover the period of a calendar year.

Entry into force: Members consider that VAT simplification measures for SMEs could be implemented more quickly than the definitive VAT system. They propose to bring forward the date of implementation of the proposal to **31 December 2019** (instead of 30 June 2022).

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.

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

2018/0006(CNS) - 13/12/2019 - Committee final report tabled for plenary, reconsultation

The Committee on Economic and Monetary Affairs adopted, under the consultation procedure, the report by Inese VAIDERE (EPP, LV) on the draft Council directive 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.

The committee recommended that the European Parliament approve the Council draft on the further simplification of value added tax (VAT) rules for small enterprises.

As a reminder, the Council decided to consult the European Parliament again on its general approach, since the text indeed differs substantially from the Commission's original proposal of 18 January 2018.

The Council's general approach :

- maintains the Commission proposal to extend the VAT SME exemption to non-established SMEs, in line and in the spirit of the Single Market;
- extends, as foreseen in the Commission proposal, the transitional period for SMEs switching from an exemption to the regular VAT regime.

The provision for a "single window for SMEs" (One Stop Shop) which was developed in the Council's general approach, and the further detailed provisions on the administrative cooperation for exchange of information between Member States, are in line with the European Parliament's requests in its previous report on this proposal.

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

2018/0006(CNS) - 16/07/2018 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted, following Parliament's consultation procedure, the report by Tom VANDENKENDELAERE (EPP, BE) on the proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises.

The committee recommends that the European Parliament approve the Commission proposal subject to the following amendments:

VAT exemption threshold: the proposal provides for a transitional period for small businesses benefiting from the exemption whose turnover exceeds the franchise threshold in a given year. Members propose that these enterprises should be allowed to continue to benefit from the exemption for two more years (instead of one year), provided that their annual turnover does not exceed the SME threshold by more than 33% during these two years (instead of 50% in the proposal).

In order to facilitate cross-border business, the list of national thresholds for exemption should be easily accessible to all small enterprises willing to operate in several Member States.

Administrative simplification for SMEs: Members propose that the Commission:

- set up an **online portal** through which small enterprises willing to avail themselves of the exemption in another Member State shall register;
- put in place a **one-stop shop** through which small enterprises can file VAT returns of the different Member States in which they are operating. The Member State of establishment shall be responsible for VAT collection.

Annual VAT return: Member States shall release **exempt** small enterprises from the obligation to submit a VAT return or they shall allow such exempt small enterprises to submit a simplified VAT return – which includes at least the following information: chargeable VAT, deductible VAT, net VAT amount (payable or receivable), total value of input transactions and total value of output transactions – to cover the period of a calendar year.

Lastly, Members consider that VAT simplification measures for SMEs could be implemented more quickly than the definitive VAT system. They propose to bring forward the date of implementation of the proposal to **31 December 2019** (instead of 30 June 2022).

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

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

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 consulted 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.