

EBC position on Commission proposals 2018/0006 (CNS) regarding the special scheme for small enterprises

About EBC

Established in 1990, the **European Builders Confederation (EBC)** is a European professional organisation representing national associations of micro, small and medium-sized enterprises working in the construction sector. EBC is a member and partner of UEAPME, the European association of SMEs, and Small Business Standards (SBS), the European association representing SMEs in standardisation.

The construction sector is of vital importance to the European economy. With 3.4 million enterprises and a total direct workforce of 18 million, the construction sector contributes at around 9% to the GDP of the European Union. 99.9% of the European construction sector is composed of micro, small and medium-sized enterprises, which produce 80% of the construction industry's output.

Special scheme for small enterprises: Exemptions should not lead to a distortion of the market

On 18 January 2018 the European Commission presented the awaited third part of its value added tax (VAT) package. The draft guidelines on the special scheme for small enterprises include the following new/adapted elements:

- VAT exemptions for small enterprises in a specific Member State shall be made available to small enterprises established in another Member State, as long as the turnover does neither exceed the national threshold in that respective Member State nor the overall EU turnover of EUR 100 000.
- The maximum threshold for an exemption of small enterprises is capped at EUR 85 000 at the Member State level.
- Small enterprises that temporarily exceed the threshold set by a Member State can continue to use the exemption for a maximum duration of 1 year, if the threshold is not exceeded by more than 50%
- Small enterprises are defined on the basis of a European Union wide annual turnover no higher than EUR 2 000 000. Enterprises that fall within this threshold have access to simplified VAT obligations, whether they are exempt or not. The respective set of simplified VAT obligations will be defined by the Member States.

EBC welcomes the proposal by the European Commission because it intends to further reduce the administrative obligations for small enterprises that bear proportionately higher VAT compliance costs due to their limited resources. Hence it is important to set out provisions that intend to ease the burden on small enterprises dealing with VAT.

Within this frame, **EBC fully supports the possibility for micro enterprises (threshold of EUR 2 000 000 annual turnover according to the SME definition) to profit from simplification measures.** Micro enterprises are the most vulnerable enterprises in the European Union and thus need specific support, because they experience the same challenges as other market actors (e.g. administrative burdens; access to finance, innovation or public markets) but have less capacities to deal with them.

EBC equally supports the proposed 1 year transitional period which allows small enterprises, whose annual turnover exceeds the applicable threshold by a maximum of 50%, to continue to be exempted for that period of time. However, it should be ensured that respective checks are in place to avoid a further distortion of competition and minimise fraud.

In contrast to this, EBC considers the national maximum threshold of EUR 85 000, under which enterprises can be exempted from VAT obligations, as too high. Except for the United Kingdom, which will leave the European Union in the foreseeable future, all existing national thresholds are explicitly lowerⁱ. A maximum national threshold of EUR 85 000 could incentivise other Member States to increase their currently applicable threshold and thus open the door to unfair competition and a distortion of the market. Thus, **EBC proposes a national maximum threshold of EUR 50 000, under which enterprises can apply for a VAT exemption.** This amount would equal to the currently highest applied threshold (with the exemption of the United Kingdom), minimise incentives for Member States to increase the existing threshold and reduce the risk of fraud, because the number of enterprises falling within the threshold will be sufficiently lower through which a fair market playing field can be remained.

Recommendation

- **Decrease the national maximum threshold, under which enterprises can be exempted from VAT obligations, to EUR 50 000.**

ⁱ In the case of persons supplying services, as applicable in the construction sector.