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PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	18 January 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2018) 11 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT Accompanying the document 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

Delegations will find attached document SWD(2018) 11 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

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

{COM(2018) 21 final} - {SWD(2018) 9 final}

Executive Summary Sheet
Impact assessment on 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
A. Need for action
Why? What is the problem being addressed?
The current rules on the VAT treatment of SMEs result in 1) disproportionate compliance costs for small enterprises as compared to large enterprises (while SMEs spend on average 2.6% of their sales revenues on tax compliance costs, for large enterprises these costs represent only 0.02%), 2) lack of neutrality, in particular, in relation to suppliers from other Member States (MS) and 3) revenue losses for MS. The current VAT SME scheme does not reflect legal and economic reality in which SMEs function already now and will become even more inadequate when the evolution of the VAT system towards taxation at destination is completed.
What is this initiative expected to achieve?
The review will contribute to: • reduction of compliance costs, • creation of more level playing field for small enterprises and • fight against VAT fraud.
What is the value added of action at the EU level?
A modification in the Directive is necessary to change the current rules on the VAT treatment of small enterprises which have reached their limits.
B. Solutions
What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?
Option 1: Status quo, including e-Commerce changes (baseline scenario) **Option 2:** SME exemption extended to supplies from other MS and including streamlined simplified VAT obligations **Option 3:** Option 2 plus measures to reduce the negative impact of transition from exemption to taxation **Option 4:** Option 3 plus mandatory common treatment of occasional traders Option 3 is the preferred one.
Who supports which option?
There is broad support for Option 3 on the side of both stakeholders and MS. While small enterprises support more harmonisation of both SME exemption and simplification measures, MS remain more reserved.
C. Impacts of the preferred option
What are the benefits of the preferred option (if any, otherwise main ones)?
• Reduction in compliance costs of up to 18% • Increase in SMEs' cross-border trading activity of about 13% • Longer term positive revenue impact due to positive impact on SMEs' output and to positive effect on voluntary compliance
What are the costs of the preferred option (if any, otherwise main ones)?
Minor temporary negative impact on VAT revenue of MS due to the extension of application of the exemption (fraction of a percentage point). Environmental and social impacts are not significant.
How will businesses, SMEs and micro-enterprises be affected?
Overall compliance cost reduction for SMEs of up to 18%, more level playing field in the Internal Market. Positive impact on SMEs' output (about 16%) and on SMEs' cross-border activity (about 13%).

Will there be significant impacts on national budgets and administrations?
Minor overall effect on VAT revenue (fraction of a percentage point), no significant impacts on administrative costs, positive impact on voluntary compliance.
Will there be other significant impacts?
MS, stakeholders and the Commission will need to adapt to the new rules as regards implementation and control.
Proportionality?
The preferred option has been elaborated in a way to effectively address the original problems without going beyond what is needed to achieve the objectives.
D. Follow up
When will the policy be reviewed?
A retrospective evaluation of the functioning of the Directive will be carried out five years after its entry into force.