



PRESS RELEASE

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European Small Business Associations urge Europe to introduce a threshold on VAT for digital sales

Ahead of the Economic and Financial Affairs Council of 25 May 2016, four leading European Associations representing self-employed professionals, entrepreneurs, and micro businesses have called on the European Institutions to introduce an exemption of the new EU VAT rules on digital sales for those smallest businesses trading below a certain turnover threshold.

The new EU legislation on VAT for cross-border digital sales¹ will be disproportionately burdensome for small businesses. This is largely due to financial and time-wise compliance costs, which will have to be passed on to customers or absorbed internally. This would lead to a reduction in their profits, and will prevent them from expanding their business across Europe. In addition, micro businesses will have to pay high fees demanded by third party reseller platforms to keep trading, a factor significantly favouring large companies over small, local ones.

The European Commission has previously committed² to minimise the regulatory burden on SMEs through its Better Regulation agenda, the “Think Small First Principle” in particular.

Representing more than one million small businesses, 15 million employees and 10 million self-employed professionals, the signatories of a letter³ addressed to Dutch Prime Minister Rutte, Chair of The Netherlands Presidency of the Council, have put forward the following policy recommendations:

1. **Short-Term (Q2 2016):** Obtain a revenue exemption threshold, that could be set between €50,000 and €100,000, and applicable to all small and micro-businesses (<10 staff, <2 million turnover) doing cross-border digital sales and an immediate interim suspension of the current rules for small and micro-businesses trading below the threshold, so they can revert to their domestic VAT rules. This should be included in the forthcoming legislative proposal to modernise and simplify VAT for cross-border e-commerce that we urge the European Commission to publish without delay.
2. **Medium-Term (Q3-Q4 2016):** Progressively review and simplify the new EU VAT rules from the ground up, reworking them to be practical for all small, micro-businesses, even those trading above the €50,000 - €100,000 exemption threshold. This should include collecting only one piece of data (e.g. payment processor country code) and guaranteed home country-only audit control.
3. **Long-Term (2017):** Avoid the extension of the EU VAT rules to those small and micro-businesses selling physical goods, pending a proper impact assessment, the SME test and a

¹ Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services.

² COM(2011) 803 final: Report from the Commission on minimizing regulatory burden for SMEs Adapting EU regulation to the needs of micro-enterprises.

³ <http://www.euro-freelancers.eu/wp-content/uploads/Letter-ECOFIN-Council-25052016-Final.pdf>

public consultation with small, micro-business and self-employed professionals' representatives.

Chris Bryce, President of the European Forum of Independent Professionals (EFIP), commented: *“Small businesses and the self-employed are absolutely vital to the European economy. Considering the EU pledged to ‘think small first’ when developing legislation, it was extremely disappointing this VAT change was introduced without taking into account the impact on those who choose to work in this way. The Commission has acknowledged this problem and must now put in place an exemption threshold that would minimise the impact of this legislation. Our three simple recommendations allow for the European Institutions and Member States to act on this straight away. Too often independent professionals are being forced out of business by unnecessary red tape.”*

David Caro, President of the European Small Business Alliance (ESBA), commented: *“Though changes in VAT regulations are necessary, as they will have to accommodate the ever developing single market, it needs to be done in such a way that micro and small businesses can comply without being disproportionately burdened by the cost of compliance. We ask the Institutions to keep this in mind before making any further decisions”.*

The letter to Prime Minister Rutte will also be delivered in person to Mr Pier Carlo Padoan, Minister for Economy and Finances of Italy, at an event organised by European Entrepreneurs CEA-PME on 25 May in Brussels.

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Notes to the editor

What is the problem?

According to the Directive on the Place of Supply of Services⁴, from 1 January 2015, VAT on all telecommunications, broadcasting and electronic services will be taxed where the customer is based, rather than where the supplier is located.

In the 2008 impact assessment of the Directive, the EU Commission considered that most micro-businesses, such as developers of apps or digital downloads, trade through third party platforms, which have the infrastructure to handle the new tax regime. Where this happens, it will be the responsibility of the platform operator to account for the VAT. As a result, the vast majority of micro-businesses were not expected to be affected by the changes. However, in 2016 micro-businesses can also sell digital services directly to clients, which is becoming more and more the rule rather than the exception.

What is the solution?

The EU Commission has recognised this problem in its Digital Single Market Strategy⁵ and announced they will come forward with a legislative proposal introducing a EU-wide simplification measure (VAT threshold) to help small e-commerce businesses towards the end of the 2016.

However, this legislation will take years before it is formally adopted and implemented. Meanwhile micro-businesses are forced to stop doing digital sales across Europe. This is why small businesses

⁴ Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services.

⁵ COM/2015/0192 final: A Digital Single Market for Europe.

are calling for a revenue exemption threshold, and an immediate interim suspension of the current rules for small businesses trading below the threshold.

Additional Information

The letter addressed to Dutch Prime Minister Rutte, Chair of The Netherlands Presidency of the Council, is available [here](#).

The letter was co-signed by: [The European Forum of Independent Professionals](#) (EFIP), [European Entrepreneurs](#) (CEA-PME), [the European Federation of Umbrella Companies](#) (FEPS) and [the European Small Business Alliance](#) (ESBA).

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