



Special scheme for small enterprises under the VAT Directive 2006/112/EC - Options for review

Final Report
Volume II

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Annex A – Overview of SME Schemes

A.1 Information on the return filing simplification provisions

Information on the return filing simplification provisions is set out in the table below.

Note: This information was collected in March 2016.

Table 1 – Information on the return filing simplification

| Country | Eligibility | Return frequency filing or simplification | Notes |
|----------------|--|--|--|
| Belgium | < EUR 2.5 million | Quarterly | For some fraud sensitive sectors (such as mobile phones) turnover is reduced to EUR 250,000 |
| Czech Republic | < CZK 10 million > CZK 6 million | Quarterly No obligation to e-file | Conditions apply. Firms must be natural persons. |
| Denmark | < DKK 5 million DKK 5 - 50 million | Six-monthly Quarterly | |
| Finland | <EUR 25 000 < EUR 50 000 | Annually Quarterly | |
| France | < EUR 783 000 (goods) < EUR 236 000 (services) VAT < EUR 15 000 pa | Annually Annually Quarterly | Construction sector including cleaning, repairing, maintenance, demolition and transformation services excluded. |
| Hungary | | No obligation for filing | Full exemption from filing if no VAT due and no obligation to file ECSL. |
| Ireland | | Annually, otherwise bi-monthly | |
| Italy | < EUR 400 000 (services) < EUR 400 000 (goods) | Quarterly Quarterly | |
| Luxembourg | < EUR 620 000 < EUR 112 000 | Quarterly Annually | All taxpayers with turnover above EUR |

| Country | Eligibility | Return frequency or simplification | filing or Notes |
|-----------------|---|---|---|
| | < EUR 25 000 | No return required | 112 000 have to file electronically. |
| Poland | | Quarterly | |
| Portugal | < EUR 650 000 | Quarterly | |
| Slovak Republic | < EUR 100 000 | Quarterly | |
| Spain | SMEs under simplified scheme | Quarterly Annually: the final VAT return | |
| Sweden | < SEK 1 million | Annually | Not applicable to limited partnerships. |
| United Kingdom | < GBP 1.35 million and annual accounting scheme | Annually | |

Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016)

A.2 SME exemption scheme¹

The Deloitte tax network was provided with a list of the most common elements per scheme and asked to provide input on the availability of the element and, if applicable, further information on this element in their Member State. In the body of the text the below input has been summarised.

For the SME exemption scheme, the following (comprehensive) list of elements was provided to the tax network:

- ☑ The SME is exempt from the obligation to charge VAT on supplies covered by the scheme;
- ☑ The SME has no right to deduct input VAT on purchased goods and services.
- ☑ The SME exemption scheme is only applicable to domestic businesses;
- ☑ The SME exemption scheme only covers domestic supplies;
- ☑ The SME covered by the scheme is not required to register for VAT purposes;
- ☑ The SME covered by the scheme is required to register for other purposes such as commercial or tax purposes;
- ☑ The SME covered by the scheme is released from obligation to submit periodical VAT returns;
- ☑ The accounting obligations of the SME covered by the scheme are simplified;
- ☑ The SME covered by the scheme can opt-out and apply the common VAT rules; and
- ☑ The SME has the obligation to issue VAT invoices.

Additionally, we asked whether any other fundamental elements were present that were not mentioned in this list.

In what follows, all of the above elements will be discussed separately.

¹ This analysis does not include the Swedish SME exemption scheme, implemented from 1 January 2017, as the information was collected in March 2016, when the Swedish scheme was not yet in force

Exemption from the obligation to charge VAT and no right to deduct input VAT

All Member States have implemented this element of the scheme. An SME in scope of this exemption has no obligation to charge VAT. The consequential downside is that no input VAT deduction is available for the relevant SMEs.

Nevertheless, it should be mentioned that some countries inserted the rule that in case the exempt company does charge VAT on an invoice, it becomes liable to pay the VAT. Such a rule is a reflection of the safeguard laid down in Article 203 of the VAT Directive, which provides that *“VAT shall be payable by any person who enters the VAT on an invoice”*.

Applicability to domestic businesses and/or domestic supplies

With regard to this element, the schemes start to get more mixed. In 80%² of the relevant Member States³, the SME exemption only applies to domestic businesses, meaning that these Member States only exempt supplies of goods and services by taxable persons who are established in their Member State. SMEs not established in the relevant Member State where the transaction takes place for VAT purposes cannot benefit from the exemption. In the remaining Member States a non-established taxable person performing taxable transactions in a certain Member State can benefit from the SME exemption.

Additionally, when asked whether the SME exemption covers only domestic supplies 22 Member States (85%)⁴ answered positively.⁵ This could mean that cross-border intra-EU supplies of goods or services are generally not covered by the scheme or could point to a misinterpretation of the question raised.

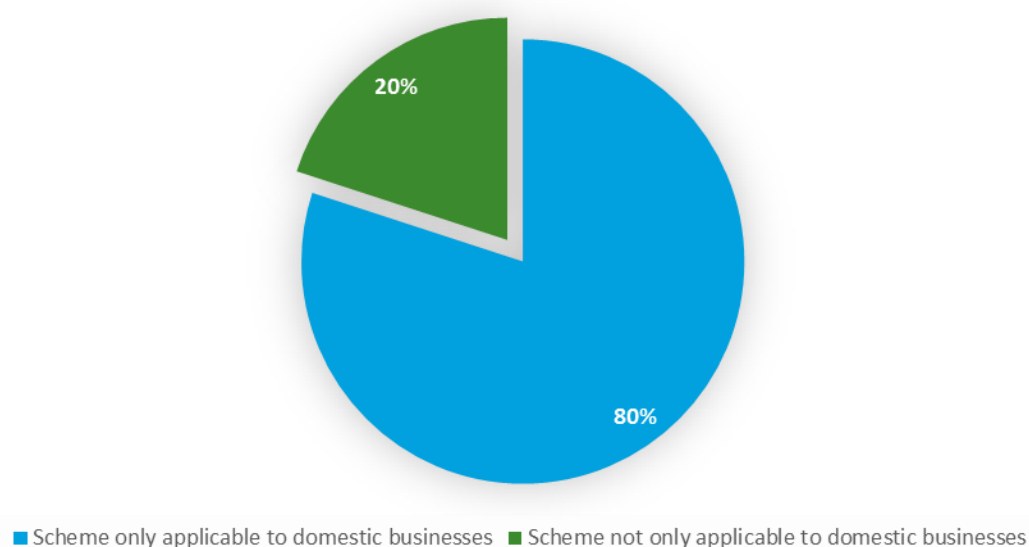
² Austria, Belgium, the Czech Republic, Germany, Denmark, France, Greece, Croatia, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Sweden and the United Kingdom.

³ The “relevant” Member States are all Member States that opted for a SME exemption scheme in their national VAT law. This excludes Sweden (adopted in January 2017, after data collection)

⁴ Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Germany, Denmark, France, Croatia, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Poland, Portugal, Romania, Slovenia, Slovakia and the United Kingdom.

⁵ “Domestic supplies” are supplies for which the place of supply is deemed to be the Member State of establishment of the SME. That means, that domestic supplies include also the cross-border distance sales as far as the place of supply is the Member State of establishment.

Figure 1 – Overview of application of the SME exemption scheme to domestic businesses



Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016, Sweden in March 2017)

Exemption from the obligation to register for VAT or other purposes

Registration for VAT purposes

Out of the 26 Member States applying the scheme in their national VAT legislation, 18⁶ (69%) **exempt** companies under the SME exemption scheme **from registering for VAT purposes**.

It is noteworthy that two Member States⁷ do not foresee this exemption from registration, and they apply a sort of automatic VAT registration when the business is registered for other purposes (e.g. in the trade register).

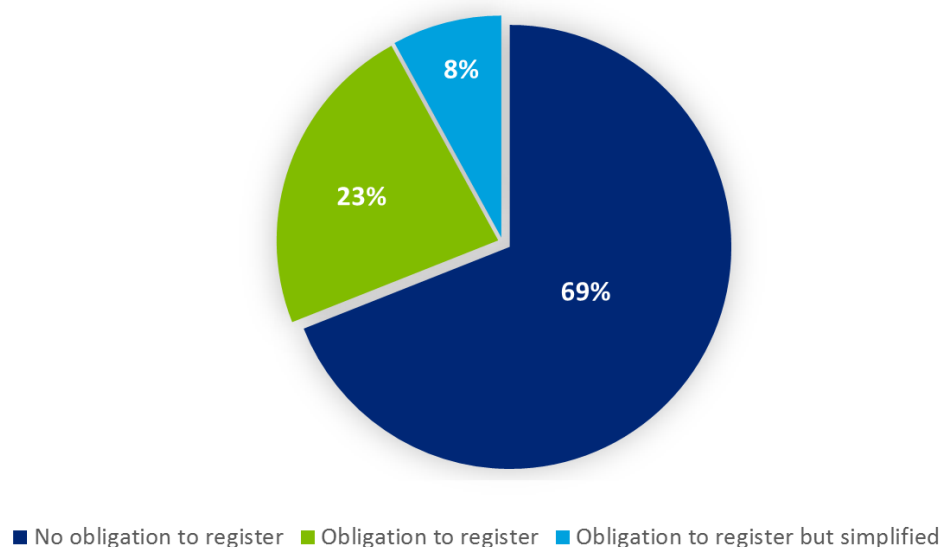
Nevertheless, most Member States still require companies to register in case of non-domestic transactions as these are often not covered under the scheme, sometimes foreseeing special registration procedures.

Exceeding the threshold triggers the obligation to register and apply the full VAT regime, which creates a threshold effect, which means that SMEs might prefer to stay under the threshold as this in most Member States means that the business has to comply with full VAT obligations all at once. This is a significant drawback of the special scheme and places pressure on SMEs to remain below the threshold (see section 5 of Volume I on Problem Assessment).

⁶ Austria, Bulgaria, Cyprus, Denmark, Estonia, Finland, France, Croatia, Ireland, Lithuania, Latvia, Poland, Portugal, Romania, Slovenia, Slovakia, Sweden and the United Kingdom.

⁷ Hungary and Luxembourg.

Figure 2 – Overview of obligations for SMEs to register for VAT under exemption schemes



Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016, Sweden in March 2017)

Registration for other purposes

Even though these companies are exempt from the obligation to register for VAT purposes, near all Member States (24 out of 26) still oblige them to **register for other purposes**. For example, companies are often still required to register for income tax purposes, social security purposes or to register in the trade register for the purposes of the commercial legislation of the relevant country (e.g. an obligation to have a company number or to obtain the necessary licenses).

Exemption from the obligation to file periodical VAT returns

Nearly all Member States (92%)⁸ exempt the SMEs under the SME exemption scheme from filing periodical VAT returns. Two Member States (8%)⁹ still require SMEs under the scheme to file periodical returns. One of these two Member States¹⁰ inserted this obligation in case an SMEs' turnover exceeds a certain amount, however these returns are simplified.

An SME which purchases services from abroad or purchases goods exceeding a certain amount is required to file a special VAT return in which it self-assesses the VAT. This VAT cannot usually be recovered by means of this special simplified VAT return in the Member State: in other words, the input VAT incurred is not deductible by the SME and constitutes a cost.

Simplified accounting obligations

⁸ Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Germany, Denmark, Estonia, Finland, France, Greece, Croatia, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Portugal, Romania, Slovenia, Slovakia, Sweden and the United Kingdom.

⁹ Malta and Poland.

¹⁰ Malta.

In 62%¹¹ of the relevant Member States, SMEs can benefit from simplified accounting obligations. The following examples of simplified accounting obligations were provided (not an exhaustive list):

- ✔ Exempt from obligation to keep journals for incoming and outgoing invoices;
- ✔ Simplified reporting requirements, e.g. no obligation to compile a management report, no obligation to compile an annual report; and
- ✔ Reliefs in relation to the contents of the financial statements.

Possibility to opt-out

In all Member States, the SMEs eligible for the SME exemption scheme can opt out, and as such, voluntarily register for VAT. The SME then falls under the regular VAT system, with the obligation to account for VAT and a right to deduct input VAT. The reasons to opt out may be that the SME trades mostly with other VAT registered businesses or also that some businesses prefer trading with VAT registered businesses.

In some Member States, the decision to opt-out is binding for a few years. These periods vary from two to five years in different Member States.

Obligation to issue VAT invoices

About a third (31%)¹² of the relevant Member States oblige SMEs under the exemption scheme to still issue VAT invoices, although no VAT is due on these supplies. In all of these cases, Member States require that the invoice mentions that VAT is not applicable.

A.3 Flat-rate scheme

The Deloitte tax network was provided with a list of the most common elements per scheme and asked to provide input on the availability of the element and, if applicable, further information on this element in their Member State. In Section 4.2.3 of Volume I, the main elements of and findings relating to the flat-rate scheme are provided. This section provides additional details on the functioning of the scheme in the Member States.

Simplified accounting obligations

The purpose of the flat-rate scheme is to reduce the administrative burden for SMEs (and not the tax burden). It is often applied in fraud sensitive sectors. As such, in 7 out of the 8 Member States¹³, the SMEs under the flat-rate scheme can benefit from **simplified accounting obligations**.

Under the flat-rate scheme, businesses are allowed to **account for VAT in a simplified way**. Several options are possible:

- ✔ The SME covered by the scheme accounts for VAT due based on a specific basis or a different taxable base than outgoing supplies (e.g. number of bags of flower purchased by a baker or weight of the purchased coffee); or
- ✔ The SME covered by the scheme accounts for VAT applying the special lower flat-rate; or
- ✔ A combination of both.

¹¹ Austria, Belgium, Germany, Denmark, Estonia, Finland, France, Ireland, Italy, Luxembourg, Latvia, Malta, Poland, Portugal, Slovenia and the United Kingdom.

¹² Belgium, France, Greece, Croatia, Hungary, Luxembourg, Malta and Portugal.

¹³ The scheme was implemented by Belgium, Cyprus, Germany, Spain, Greece, Malta, Poland and the UK. Only Cyprus does not foresee a simplification of the accounting obligations.

3 out of these 8 Member States¹⁴ apply (amongst others) the first method, another 4 countries¹⁵ apply the second method and one Member State applies a combination of both¹⁶.

As regards the first method, several techniques are used. For example, one of the Member States¹⁷ makes use of the following three techniques, depending on the sector:

- Lump sum gross profit margins are added to the amount of the purchases (excluding VAT);
- The amount of sold products is determined on a lump sum basis and this amount is to be multiplied by the price per unit; or
- The turnover is determined on a lump sum basis by multiplying the number of working hours by an hourly rate.

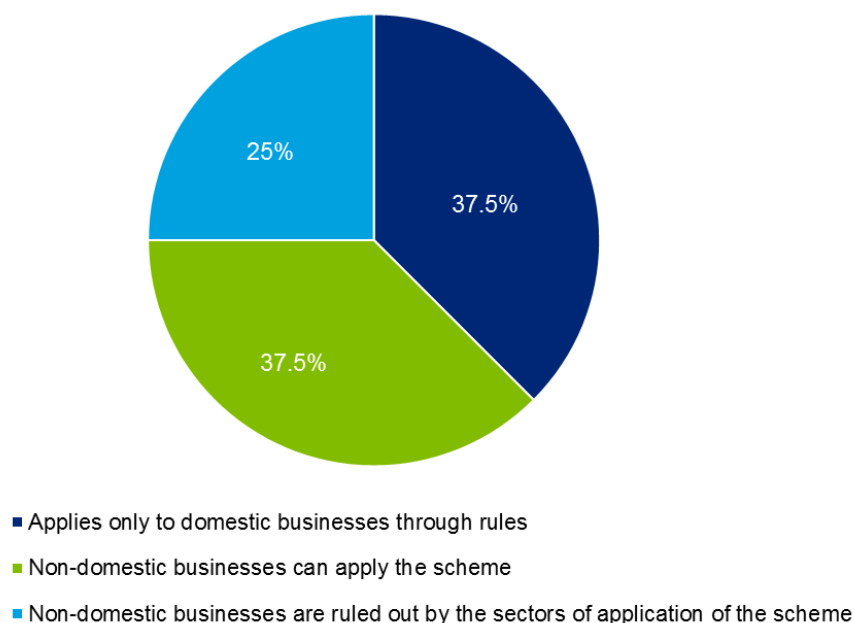
Finally, almost all, but Cyprus, foresee a form of simplification of the accounting obligations or tax obligations. For example, they might be exempted from the obligation to keep VAT accounting books.

Applicability to domestic businesses and/or domestic supplies

3 out of the 8 Member States¹⁸ explicitly reserve the flat-rate scheme for domestic businesses. Additionally, in two Member States, the specific nature of the transactions covered has the effect that it applies to domestic businesses¹⁹.

Thus, in reality, only three Member States allow non-domestic businesses to apply the flat-rate scheme²⁰.

Figure 3 – Overview of applicability of flat-rate scheme to only domestic businesses



Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016)

¹⁴ Belgium, Cyprus, Malta.

¹⁵ Germany, Greece, Poland, the UK.

¹⁶ Spain.

¹⁷ Belgium.

¹⁸ Cyprus, Germany and the UK.

¹⁹ This is the case in Greece and Belgium. For instance, in Greece the regime applies to coastal fishery, sponge extracting, the exploitation of vessels in lagoon of Ioannina and of horse drawn vehicles.

²⁰ Malta, Poland and Spain.

Applicability to domestic supplies

In 6 out of 8 Member States, the flat-rate scheme explicitly only applies to domestic supplies. In one of these countries, companies performing exports and intra-Community supplies may not even enter this regime.

Additionally, there is one Member State where the law does not specifically restrict the application to domestic supplies, but where the sectors and transactions to which the scheme applies automatically restrict its applicability to domestic supplies by its nature.²¹

Finally, there is one Member State where the flat-rate scheme also covers non-domestic supplies, i.e. exports and intra-Community supplies.

A.4 Cash accounting scheme

We have compiled additional data in respect of the cash accounting scheme and how it operates practically across the Member States. As a general point, we note that there is a lack of uniformity in the way that the scheme is applied and with this in mind, we have set out some of our key observations below.

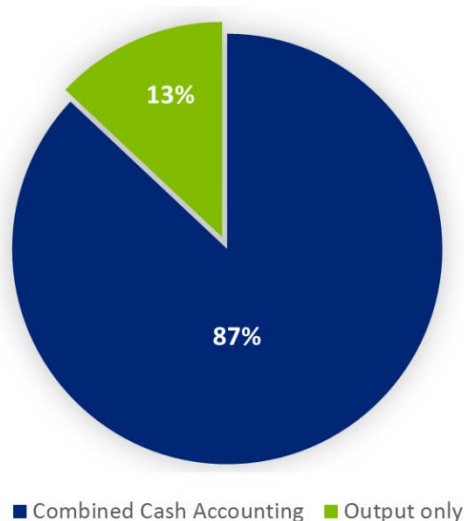
Outputs only or combined

By way of background, as mentioned in Volume I (Section 4.2.4) it is not necessary for a Member State to implement cash accounting in relation to both outputs and inputs (also referred to as *combined cash accounting*). As such, from the outset there is significant variation as to how Member States choose to apply the special scheme.

From the data received, it is understood that Germany, Ireland, the Netherlands and Lithuania all apply the scheme only to the extent that it relates to output tax. Businesses in these countries may recover input tax in accordance with the normal VAT rules in that country i.e. on an accruals basis.

²¹ See example on Greece.

Figure 4 – Member States applying output only or combined cash accounting



Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016, Finland in March 2017)

As expected, we note from tax authority data that in general these Member States mention a risk of fraud in relation to scenarios where VAT that has been deducted but no output tax is subsequently paid to the tax authority.

However, Member States who do not apply output tax based only cash accounting find that taxpayers see the inability to deduct input tax as a major drawback to using the scheme.

Optional registration to use the cash accounting scheme

All Member States that operate the cash accounting scheme allow businesses to choose whether they want to use it or not. However, the Netherlands applies the scheme to the relevant businesses²² by default and businesses need to opt out, if they wish to apply the regular VAT regime.

This allows SMEs a level of flexibility to assess which method of accounting has the greatest benefit to them. Where input tax costs are very high in a line of business and the Member State operates combined cash accounting for inputs and outputs, an SME may consider it more advantageous to operate the normal VAT rules. However, where the inputs are relatively low but output tax has a significant impact on the SME's cash flow it would be advantageous for the business to account for VAT on a cash basis.

Application to use scheme

We have found that there is no consistency in relation to the need to notify or apply to the relevant tax authority before the scheme may be implemented.

From our review, we found that nine Member States²³ require a business to apply to the tax authority before they use the scheme.

²² Applies only to listed categories of locally trading taxable persons (hairdressers, shopkeepers, shoe repair etc.), mainly making supplies to non-taxable persons.

²³ These are Bulgaria, Germany, Spain, Greece, Croatia, Hungary, Ireland, Luxembourg and Sweden.

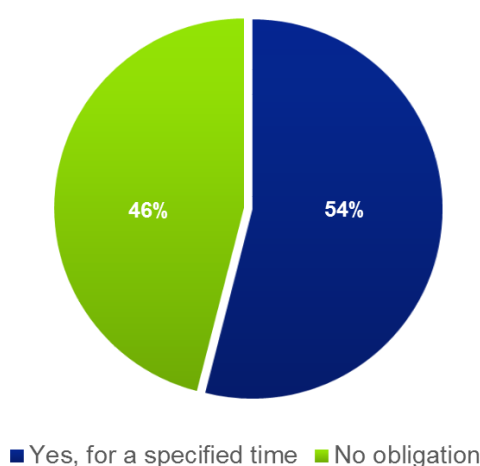
In Finland, Italy and the UK there is no requirement for a business to apply or even notify the tax authority that they intend to use the scheme but if they choose to apply it they must ensure that they comply with the additional record keeping requirements. The UK tax authority survey states that the advantage of there being no requirement for businesses to advise the tax authority that they intend to use the scheme is that the tax authority incurs no processing costs.

In the remaining Member States, a business must notify the tax authority before they adopt the special scheme.

Length of Use

13 out of the 24 Member States²⁴ that implement cash accounting stipulate that once a business opts to use the cash accounting scheme, they must continue to use it for a specified period.

Figure 5 – Overview of the obligation to remain in the special scheme for a specified period of time



Source: Deloitte compilation of data from the Deloitte Tax Network Survey (collected March 2016)

Additional administrative requirements

The tax authority survey suggests that an important drawback of the cash accounting system is the increased administrative burden to businesses. This is most commonly in the form of increased book keeping requirements as all Member States who apply cash accounting require a trader to keep additional records so that on audit, the tax authority may monitor the flow of cash to ensure that the business has been compliant. In addition, we understand that in Bulgaria there are more detailed accounting requirements in relation to payments and chargeability of VAT.

Overall, the cash accounting scheme is popular and considered effective in a number of countries. As such, we consider that the additional record keeping requirements can achieve the goal of being stringent enough to prevent fraud but still easy enough to comply with to be a practical solution for SMEs. Where the administrative requirements are considered burdensome, we suspect that this prevents many qualifying SME businesses from using the special scheme as it greatly increases the complexity of accounting for VAT.

²⁴ Bulgaria, Cyprus, Croatia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia

A.5 Overview of the Member States' VAT Committee consultations

Table 2 – Overview of Member States' VAT Committee consultations

| MS VAT Committee Consultations on SME flat-rate scheme (Art 281) | Latest consultation | MS VAT Committee Consultations on SME simplified procedures for charging & collection (Art 281) | Latest consultation |
|---|----------------------------|--|----------------------------|
| Country | Year | Country | Year |
| Belgium | 1978 | Czech Republic | 2004 |
| Germany | 1989 | Cyprus | 2006 |
| France | 1979 | Poland | 2004 |
| Italy | 1997 | Hungary | 2005 |
| Austria | 2004 | Austria | 2014 |
| Greece | 2009 | | |
| Portugal | 2005 | | |
| Spain | 1998 | | |
| United Kingdom | 2003 | | |
| Cyprus | 2004 | | |
| Hungary | 2005 | | |

Annex B - Data received from tax authorities

This appendix presents the information directly received from tax authorities in response to the survey. Complete or partial information has been received from the following 23 countries:

- | | | |
|------------------|--------------|------------------|
| ☒ Austria | ☒ France | ☒ Netherlands |
| ☒ Belgium | ☒ Hungary | ☒ Poland |
| ☒ Bulgaria | ☒ Ireland | ☒ Portugal |
| ☒ Czech Republic | ☒ Italy | ☒ Slovakia |
| ☒ Croatia | ☒ Latvia | ☒ Slovenia |
| ☒ Denmark | ☒ Lithuania | ☒ Spain |
| ☒ Estonia | ☒ Luxembourg | ☒ Sweden |
| ☒ Finland | ☒ Malta | ☒ United Kingdom |

For the purpose of the study, a specific definition of SMEs is adopted, which refers to businesses with an annual turnover not exceeding EUR 2 million (i.e. micro-business, according to the EU definition)²⁵. Data was collected on SMEs according to their annual turnover, while no specific parameters on headcount were considered:

- ☒ EUR 500 001 – EUR 2 000 000;
- ☒ EUR 100 001 – 500 000;
- ☒ EUR 50 001 – 100 000;
- ☒ EUR 5 001 – 50 000; and
- ☒ does not exceed EUR 5 000.

²⁵ See: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

B.1 Data obtained on SMEs' domestic activities

As part of the study, an overview of the current situation of SMEs across the 28 Member States was produced. This Annex presents the data received from tax authorities covering the following information points:

- The number of businesses in each turnover bracket;
- The revenue generated by businesses in turnover bracket;
- The sector of activity of businesses in each turnover bracket; and
- The gross and net VAT revenue generated by businesses in each turnover bracket.

Number of businesses in each turnover bracket

Most tax authorities that responded to the survey were able to provide the number of businesses in their Member States. These were however given in different formats:

- Some were able to directly provide the number of businesses classified within the turnover brackets specified above. This is the case for 15 Member States²⁶, and the data obtained is presented in Table 3 and Table 4.
- Some tax authorities provided the total number of businesses in their country, but classified within turnover brackets different to the ones specified. This is the case for 5 Member States²⁷ and the data provided is presented as received in Table 5 to Table 9.
- Some tax authorities provided the number of VAT-registered businesses only, classified within the turnover brackets specified. These numbers underestimate the total number of businesses in the country, due to some businesses being exempted from VAT-registration under the SME exemption scheme. This is the case for 2 Member States²⁸ and the data provided by the tax authorities is presented in Table 10 and Table 11.
- Finally, one tax authority provided the number of VAT-registered businesses only, classified in turnover brackets different to the ones specified²⁹. This data is presented in Table 12 and Table 13.

²⁶ Belgium, Bulgaria, Czech Republic, Estonia, Finland, France, Hungary, Ireland, Latvia, Malta, Netherlands, Slovakia, Slovenia, Spain and Sweden.

²⁷ Austria, Croatia, Italy, Lithuania and Luxembourg.

²⁸ Denmark and Poland.

²⁹ This is the case for the United Kingdom.

Data provided by tax authorities who classified businesses in the specified turnover

Table 3 – Number of businesses in each turnover bracket and share of SMEs, by Member State

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium ³⁰ | 2015 | 193 749 | 221 452 | 113 661 | 210 550 | 69 597 | 37 828 |
| Bulgaria | 2014 | 76 575 | 142 937 | 31 069 | 48 510 | 17 985 | 8 044 |
| Czech Republic | 2014 | 574 794 | 119 672 | 38 149 | 78 477 | 39 888 | 21 270 |
| Estonia | 2014 | 56 818 | 40 393 | 8 843 | 14 183 | 5 493 | 2 808 |
| Finland | 2014 | 300 128 | 130 025 | 54 202 | 81 144 | 29 314 | 15 443 |
| France | 2014 | 4 739 000 | 1 097 000 | 657 000 | 1 175 000 | 364 000 | 168 000 |
| Hungary | 2015 | 382 308 | 339 193 | 61 379 | 76 974 | 27 715 | 12 267 |
| Ireland | 2013 | 87 854 | 171 862 | 51 948 | 77 933 | 24 547 | 14 189 |
| Latvia | 2014 | 56 467 | 36 002 | 9 912 | 16 062 | 6 853 | 3 509 |
| Malta | 2014 | 19 312 | 17 012 | 4 035 | 6 739 | 2 845 | 1 737 |
| Netherlands | 2015 | 649 216 | 535 521 | 236 309 | 346 139 | 108 555 | 59 681 |
| Slovakia | 2013 | 314 810 | 287 217 | 37 911 | 49 354 | 17 900 | 9 354 |
| Slovenia | 2014 | 55 892 | 85 799 | 19 329 | 28 333 | 9 430 | 5 141 |
| Spain | 2013 | 1 386 101 | 1 912 163 | 432 716 | 509 903 | 159 172 | 74 234 |
| Sweden | 2014 | 620 552 | 297 864 | 110 382 | 182 816 | 69 064 | 35 783 |

Source: Data obtained from surveys to tax authorities.

³⁰ The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 and their generated turnover is assumed to be negligible, the data is reported in the brackets specified before.

Table 4 – Proportion of businesses in each size class compared to the total number of businesses, by Member State

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Belgium ³¹ | 2015 | 23% | 26% | 14% | 25% | 8% | 4% | 96% |
| Bulgaria | 2014 | 23% | 44% | 10% | 15% | 6% | 2% | 98% |
| Czech Republic | 2014 | 66% | 14% | 4% | 9% | 5% | 2% | 98% |
| Estonia | 2014 | 44% | 32% | 7% | 11% | 4% | 2% | 98% |
| Finland | 2014 | 49% | 21% | 9% | 13% | 5% | 3% | 97% |
| France | 2014 | 58% | 13% | 8% | 14% | 5% | 2% | 98% |
| Hungary | 2015 | 42% | 38% | 7% | 9% | 3% | 1% | 99% |
| Ireland | 2013 | 21% | 40% | 12% | 18% | 6% | 3% | 97% |
| Latvia | 2014 | 44% | 28% | 8% | 12% | 5% | 3% | 97% |
| Malta | 2014 | 37% | 33% | 8% | 13% | 6% | 3% | 97% |
| Netherlands | 2015 | 33% | 28% | 12% | 18% | 6% | 3% | 97% |
| Slovakia | 2013 | 44% | 40% | 5% | 7% | 3% | 1% | 99% |
| Slovenia | 2014 | 27% | 42% | 9% | 14% | 5% | 3% | 97% |
| Spain | 2013 | 31% | 43% | 10% | 11% | 3% | 2% | 98% |
| Sweden | 2014 | 47% | 23% | 8% | 14% | 5% | 3% | 97% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities.

³¹ See footnote on previous table.

Data provided by tax authorities who provided the number of businesses in turnover brackets different to the ones specified

Table 5 – Total number and distribution of businesses in different size classes in Austria

| Member State | Reference year | Variable | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|------------------------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Austria | 2013 | Number of businesses* | 611 793 | 192 826 | 88 201 | 85 286 | 39 731 | 31 267 | - |
| | | Distribution of businesses** | 58% | 18% | 9% | 8% | 4% | 3% | 97% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 6 – Total number and distribution of businesses in different size classes in Croatia

| Member State | Reference year | Variable | Less than EUR 6 550 | EUR 6 550 to EUR 65 500 | EUR 65 500 to EUR 131 000 | EUR 131 000 to EUR 655 000 | EUR 655 000 to EUR 1 965 250 | More than EUR 1 965 250 | Share of SMEs |
|--------------|----------------|------------------------------|---------------------|-------------------------|---------------------------|----------------------------|------------------------------|-------------------------|---------------|
| Croatia | 2014 | Number of businesses* | 63 224 | 97 423 | 25 311 | 27 030 | 6 988 | 4 726 | - |
| | | Distribution of businesses** | 28% | 44% | 11% | 12% | 3% | 2% | 98% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 7 – Total number and distribution of businesses in different size classes in Italy

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|------------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Italy | 2013 | Number of businesses* | 930 383 | 2 006 675 | 815 155 | 1 101 570 | 312 376 | 139 431 | - |
| | | Distribution of businesses** | 17% | 38% | 15% | 21% | 6% | 3% | 97% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 8 – Number and distribution of businesses in different size classes in Lithuania

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified | Share of SMEs |
|--------------|----------------|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|--------------|---------------|
| Lithuania | 2015 | Number of businesses* | 20 467 | 22 505 | 12 361 | 22 887 | 9 272 | 5 380 | 141 503 | - |
| | | Distribution of identified businesses** | 22% | 24% | 13% | 25% | 10% | 6% | - | N/A |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 9 – Total number and distribution of businesses in different size classes in Luxembourg

| Member State | Reference year | Variable | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|------------------------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | Number of businesses* | 27 160 | 12 149 | 14 404 | 13 306 |
| | | Distribution of businesses** | 41% | 18% | 21% | 20% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Data provided by tax authorities who provided the number of VAT-registered businesses only, classified within the specified turnover brackets

Table 10 – Total number and distribution of VAT-registered businesses in different size classes in Denmark

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|------------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Denmark | 2014 | Number of businesses* | 149 935 | 127 370 | 51 772 | 87 721 | 38 456 | 20 946 | - |
| | | Distribution of businesses** | 32% | 27% | 11% | 18% | 8% | 4% | 96% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 11 – Total number and distribution of VAT-registered businesses in different size classes in Poland

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|------------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Poland | 2015 | Number of businesses* | 322 059 | 686 062 | 235 538 | 339 517 | 112 397 | 52 199 | - |
| | | Distribution of businesses** | 19% | 39% | 14% | 19% | 6% | 3% | 97% |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Data provided by tax authorities who provided the number of VAT-registered businesses only, classified within turnover brackets different to the ones specified

Table 12 – Number of VAT-registered businesses in each size class in the United Kingdom

| Member State | Reference year | EUR 0 | EUR 1 - EUR 124 000 | EUR 124 000 – EUR 229 000 | EUR 229 000 – EUR 458 400 | EUR 458 400 – EUR 764 000 | EUR 764 000 – EUR 1 528 000 | EUR 1 528 000 – EUR 15 280 000 | More than EUR 15 280 000 | Unidentified |
|----------------|----------------|---------|---------------------|---------------------------|---------------------------|---------------------------|-----------------------------|--------------------------------|--------------------------|--------------|
| United Kingdom | 2015 | 226 320 | 702 100 | 352 280 | 290 160 | 144 850 | 137 210 | 170 760 | 30 810 | 73 580 |

Source: Data obtained from surveys to tax authorities

Table 13 – Distribution of VAT-registered businesses for which turnover was identified in each size class for the United Kingdom

| Member State | Reference year | EUR 0 | EUR 1 - EUR 124 000 | EUR 124 000 – EUR 229 000 | EUR 229 000 – EUR 458 400 | EUR 458 400 – EUR 764 000 | EUR 764 000 – EUR 1 528 000 | EUR 1 528 000 – EUR 15 280 000 | More than EUR 15 280 000 | Unidentified |
|----------------|----------------|-------|---------------------|---------------------------|---------------------------|---------------------------|-----------------------------|--------------------------------|--------------------------|--------------|
| United Kingdom | 2015 | 11% | 34% | 17% | 14% | 7% | 7% | 8% | 2% | - |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

Quantify the turnover generated by businesses in each turnover bracket

With the exception of the United Kingdom, all tax authorities that provided the number of businesses in their Member States have provided estimates of the total turnover generated by businesses in each bracket. The data obtained is presented below.

Data provided by tax authorities who classified businesses in the specified turnover brackets

Table 14 – Total turnover generated from businesses in each turnover bracket (million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium ³² | 2015 | 239 | 5 215 | 8 266 | 46 408 | 67 655 | 1 199 008 |
| Bulgaria | 2014 | 144 | 2 688 | 2 227 | 10 872 | 17 541 | 113 544 |
| Czech Republic | 2014 | 91 | 2 538 | 2 762 | 18 641 | 39 412 | 183 362 |
| Estonia | 2014 | 54 | 742 | 640 | 3 248 | 5 411 | 34 620 |
| Finland | 2014 | 95 | 2 956 | 3 888 | 18 058 | 28 585 | 352 579 |
| France | 2014 | 615 | 26 339 | 47 645 | 263 319 | 347 847 | 4 040 157 |
| Hungary | 2015 | 382 | 6 257 | 4 354 | 18 009 | 26 766 | 239 224 |
| Ireland | 2013 | 92 | 3 787 | 3 718 | 17 145 | 24 057 | 529 427 |
| Latvia | 2014 | 25 | 819 | 712 | 3 706 | 6 689 | 41 523 |
| Malta | 2014 | 11 | 329 | 289 | 1 538 | 2 811 | 29 384 |
| Netherlands | 2015 | 468 | 12 016 | 16 996 | 74 733 | 105 157 | 1 511 135 |
| Slovakia | 2013 | 372 | 5 027 | 2 678 | 11 062 | 17 547 | 169 012 |
| Slovenia | 2014 | 72 | 1 835 | 1 381 | 6 189 | 9 267 | 89 164 |
| Spain | 2013 | 1 746 | 37 304 | 30 592 | 110 915 | 152 749 | 1 759 000 |
| Sweden | 2014 | 650 | 6 285 | 7 932 | 41 232 | 67 320 | 748 165 |

Source: Data obtained from tax authorities

The average turnover of SMEs in each size class has also been calculated and the results are presented below.

³² The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 and their generated turnover is assumed to be negligible, the data is reported in the brackets specified.

Table 15 – Estimated average turnover generated from businesses in each turnover bracket (EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium ³³ | 2015 | 1 233 | 23 547 | 72 724 | 220 413 | 972 100 | 31 696 311 |
| Bulgaria | 2014 | 1 880 | 18 805 | 71 695 | 224 111 | 975 303 | 14 115 406 |
| Czech Republic | 2014 | 159 | 21 208 | 72 411 | 237 534 | 988 069 | 8 620 687 |
| Estonia | 2014 | 950 | 18 370 | 72 374 | 229 007 | 985 072 | 12 329 060 |
| Finland | 2014 | 317 | 22 732 | 71 735 | 222 548 | 975 120 | 22 831 018 |
| France | 2014 | 130 | 24 010 | 72 519 | 224 101 | 955 624 | 24 048 554 |
| Hungary | 2015 | 999 | 18 446 | 70 934 | 233 966 | 965 773 | 19 501 434 |
| Ireland | 2013 | 1 042 | 22 036 | 71 579 | 220 002 | 980 026 | 37 312 474 |
| Latvia | 2014 | 451 | 22 754 | 71 873 | 230 744 | 976 119 | 11 833 257 |
| Malta | 2014 | 565 | 19 346 | 71 572 | 228 160 | 988 141 | 16 916 638 |
| Netherlands | 2015 | 721 | 22 437 | 71 922 | 215 906 | 968 702 | 25 320 209 |
| Slovakia | 2013 | 1 180 | 17 503 | 70 643 | 224 134 | 980 284 | 18 068 465 |
| Slovenia | 2014 | 1 284 | 21 387 | 71 457 | 218 437 | 982 682 | 17 343 786 |
| Spain | 2013 | 1 260 | 19 509 | 70 699 | 217 521 | 959 649 | 23 695 344 |
| Sweden | 2014 | 1 047 | 21 100 | 71 860 | 225 540 | 974 750 | 20 908 381 |

Source: Deloitte estimates based on tax authority data

³³ See footnote on previous table.

Data provided by tax authorities who provided the turnover generated by businesses in turnover brackets different to the ones provided

Table 16 – Total turnover generated by businesses in Austria and estimates of average turnover of businesses in different size class

| Member State | Reference year | Variable | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | Total turnover generated (million EUR)* | 6 197 | 15 204 | 18 652 | 44 592 | 50 449 | 662 169 |
| | | Average turnover per business (EUR)** | 10 130 | 78 851 | 211 469 | 522 857 | 1 269 756 | 21 177 885 |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 17 – Total turnover generated by businesses in Croatia and estimates of average turnover of businesses in different size class

| Member State | Reference year | Variable | Below EUR 6 550 | EUR 6 550 to EUR 65 500 | EUR 65 500 to EUR 131 000 | EUR 131 000 to EUR 655 000 | EUR 655 000 to EUR 1 965 250 | More than EUR 1 965 250 |
|--------------|----------------|---|-----------------|-------------------------|---------------------------|----------------------------|------------------------------|-------------------------|
| Croatia | 2014 | Total turnover generated (million EUR)* | 107 | 2 555 | 2 314 | 7 610 | 7 728 | 71 630 |
| | | Average turnover per business (EUR)** | 1 696 | 26 228 | 91 407 | 281 526 | 1 105 851 | 15 156 683 |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 18 – Total turnover generated by businesses in Italy and estimates of average turnover of businesses in different size class

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | Total turnover generated (million EUR)* | 783 | 47 997 | 58 247 | 240 224 | 305 939 | 2 636 502 |
| | | Average turnover per business (EUR)** | 841 | 23 919 | 71 455 | 218 075 | 979 394 | 18 909 006 |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 19 – Total turnover generated by businesses classified within turnover brackets in Lithuania and estimates of average turnover of businesses in different size class

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified |
|--------------|----------------|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|--------------|
| Lithuania | 2015 | Total turnover generated (million EUR)* | 12 | 547 | 897 | 5 161 | 9 162 | 75 130 | N.A |
| | | Average turnover per business (EUR)** | 597 | 24 320 | 72 547 | 225 512 | 988 160 | 13 964 723 | N.A |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 20 – Total turnover generated by businesses classified within turnover brackets in Luxembourg and estimates of average turnover of businesses in different size class

| Member State | Reference year | Variable | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|---|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | Total turnover generated (million EUR)* | 81 | 744 | 4 046 | 425 741 |
| | | Average turnover per business (EUR)** | 2 975 | 61 226 | 280 886 | 31 996 181 |

*Source: Data obtained from surveys to tax authorities

** Source: Deloitte estimates based on data obtained from surveys to tax authorities

Data provided by tax authorities who provided the number of VAT-registered businesses only, classified within the specified turnover brackets

Table 21 – Total turnover generated by VAT-registered businesses in Denmark and estimates of average turnover of these businesses in different size class

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Denmark | 2014 | Total turnover generated (million EUR)* | 65 | 2 804 | 3 755 | 20 196 | 37 949 | 522 578 |
| | | Average turnover per business (EUR)** | 436 | 22 017 | 72 524 | 230 229 | 986 820 | 24 948 823 |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 22 – Total turnover generated by VAT-registered businesses in Poland and estimates of average turnover of these businesses in different size class

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Poland | 2015 | Total turnover generated (million EUR)* | 145 | 15 563 | 16 787 | 75 144 | 105 924 | 1 040 733 |
| | | Average turnover per business (EUR)** | 450 | 22 685 | 71 272 | 221 327 | 942 406 | 19 937 802 |

*Source: Data obtained from surveys to tax authorities

**Source: Deloitte estimates based on data obtained from surveys to tax authorities

Sector of economic activity

Data on the sector of activity has not been provided by all authorities, but is available for Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Hungary, Ireland, Italy, Lithuania³⁴, Slovakia, Slovenia and Spain. This data is used to generate the industry distribution of businesses in different turnover categories to understand in which sector businesses of different sizes operate. For most Member States, the industry classification is based on the Nomenclature of Economic Activities (NACE) Rev. 2 and businesses are therefore classified within the following groups:

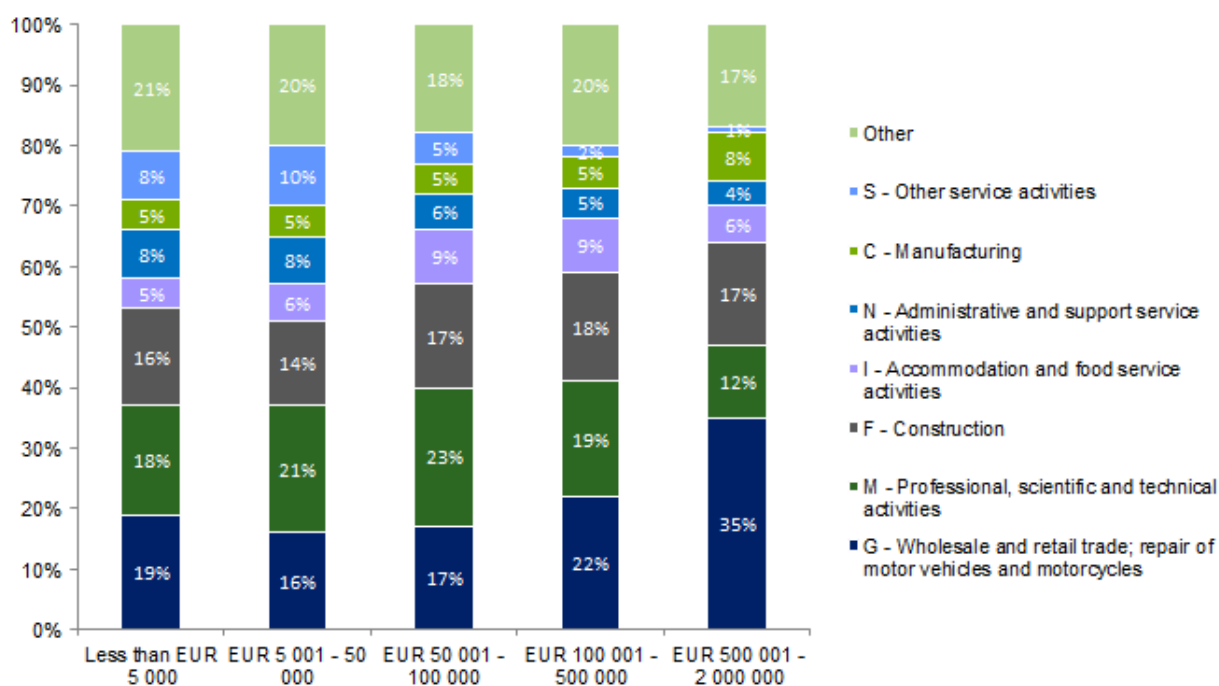
- ☑ A – Agriculture, forestry and fishing
- ☑ B – Mining and quarrying
- ☑ C – Manufacturing
- ☑ D – Electricity, gas, steam and air conditioning supply
- ☑ E – Water supply; sewerage, waste management and remediation activities
- ☑ F – Construction
- ☑ G – Wholesale and retail trade; repair of motor vehicles and motorcycles
- ☑ H – Transportation and Storage
- ☑ I – Accommodation and food service activities
- ☑ J – Information and communication
- ☑ K – Financial and insurance activities
- ☑ L – Real estate activities
- ☑ M – Professional, scientific and technical activities
- ☑ N – Administrative and support service activities
- ☑ O – Public administration and defence; compulsory social-security
- ☑ P – Education
- ☑ Q – Human health and social work activities
- ☑ R – Arts, Entertainment and recreation
- ☑ S – Other services activities

³⁴ The industry distribution is provided only for the businesses that the tax authorities were able to classify within turnover brackets

- T – Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- U – Activities of extraterritorial organisations and bodies

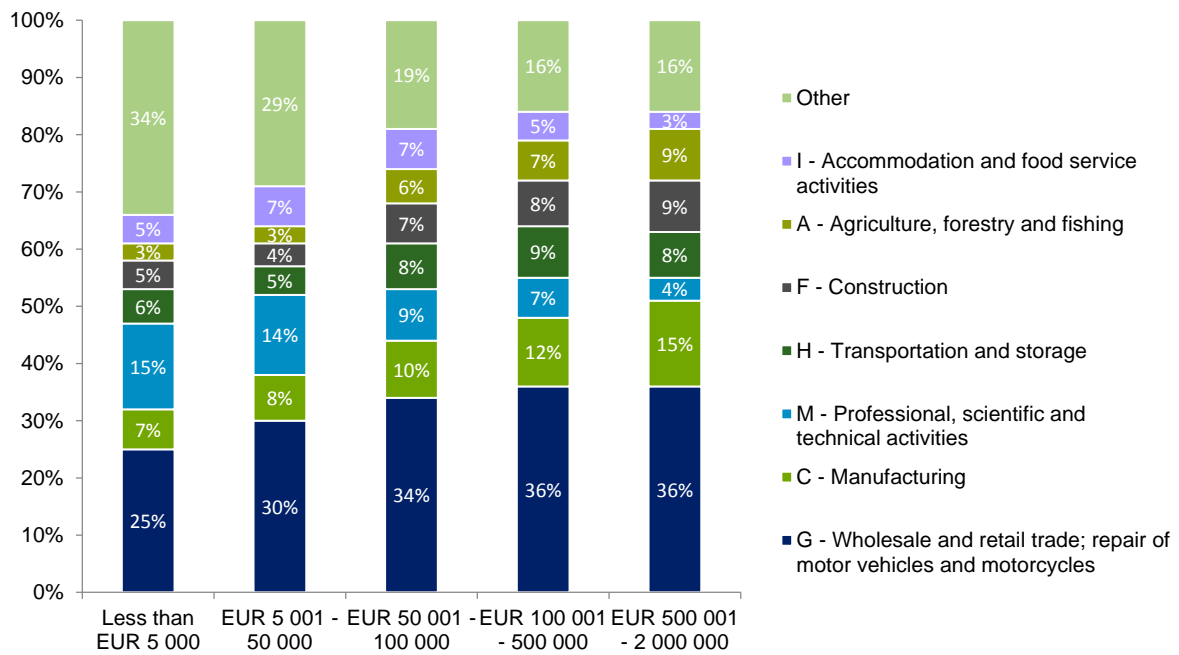
The industry classification is different for the data provided by Denmark and Spain, as some sectors are combined. In addition, Croatia and Denmark provided this data within different turnover brackets than the ones specified.

Figure 6 – Distribution of SMEs in Belgium³⁵ by sector of activity and turnover bracket



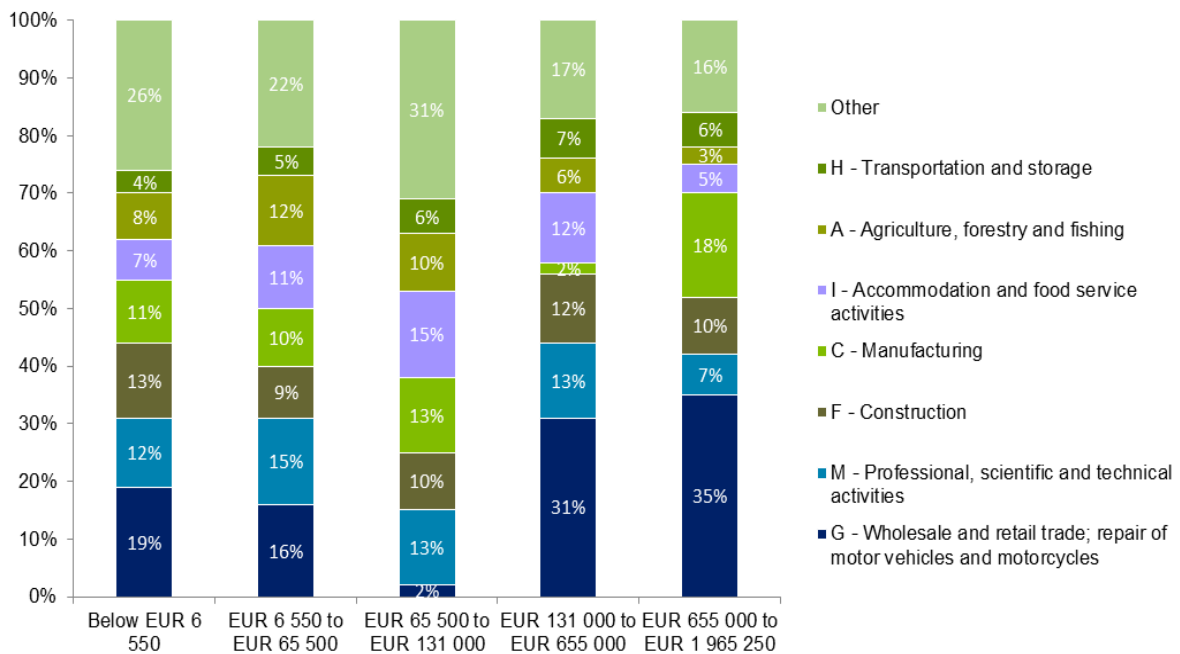
³⁵ The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 is assumed to be negligible, the data is reported in the brackets specified.

Figure 7 – Distribution of SMEs in Bulgaria by sector of activity and turnover bracket



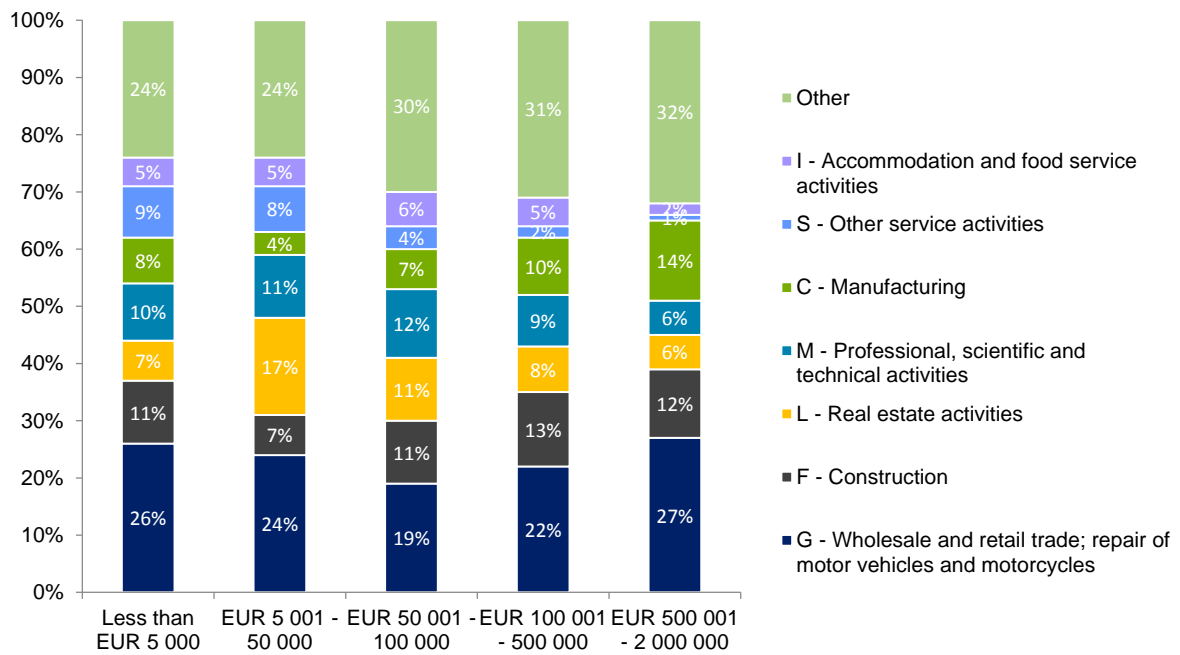
Source: Deloitte estimates based on tax authority data

Figure 8 – Distribution of SMEs in Croatia by sector of activity and turnover bracket



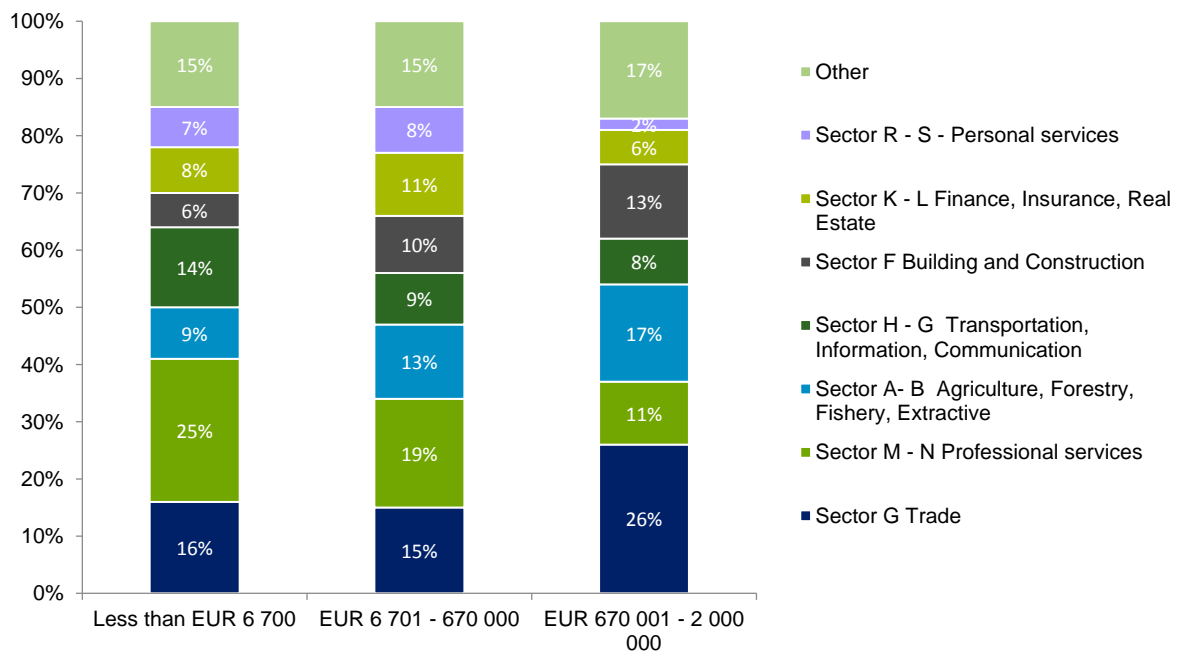
Source: Deloitte estimates based on tax authority data

Figure 9 – Distribution of SMEs in the Czech Republic by sector of activity and turnover bracket



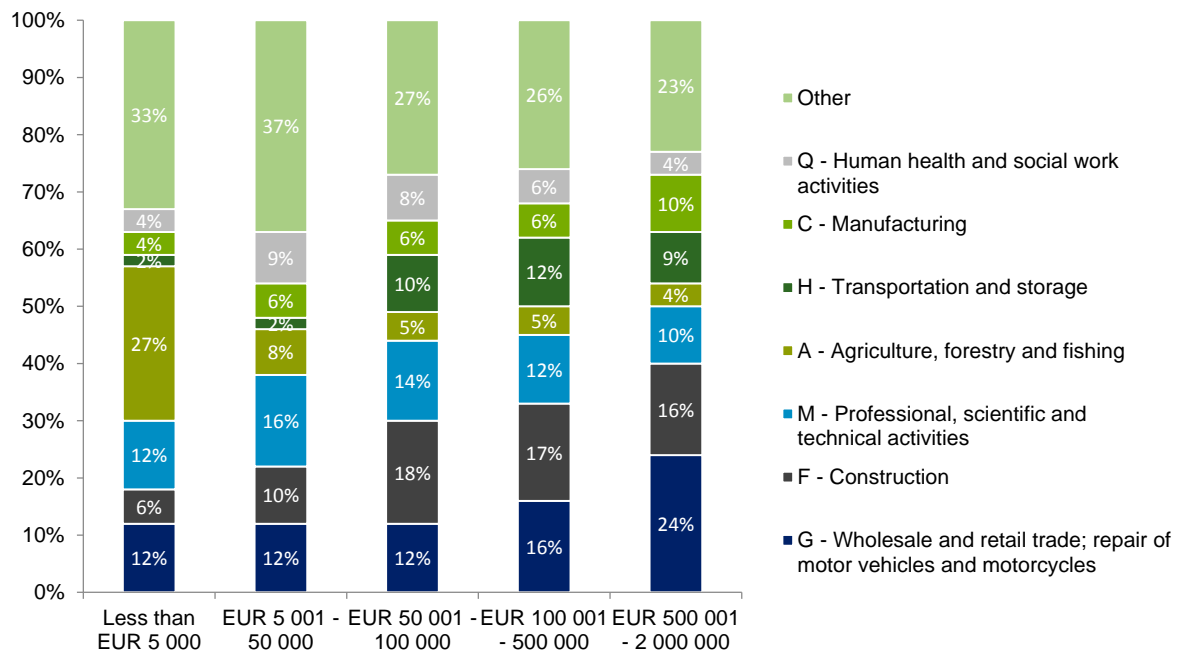
Source: Deloitte estimates based on tax authority data

Figure 10 – Distribution of SMEs in Denmark by sector of activity and turnover bracket



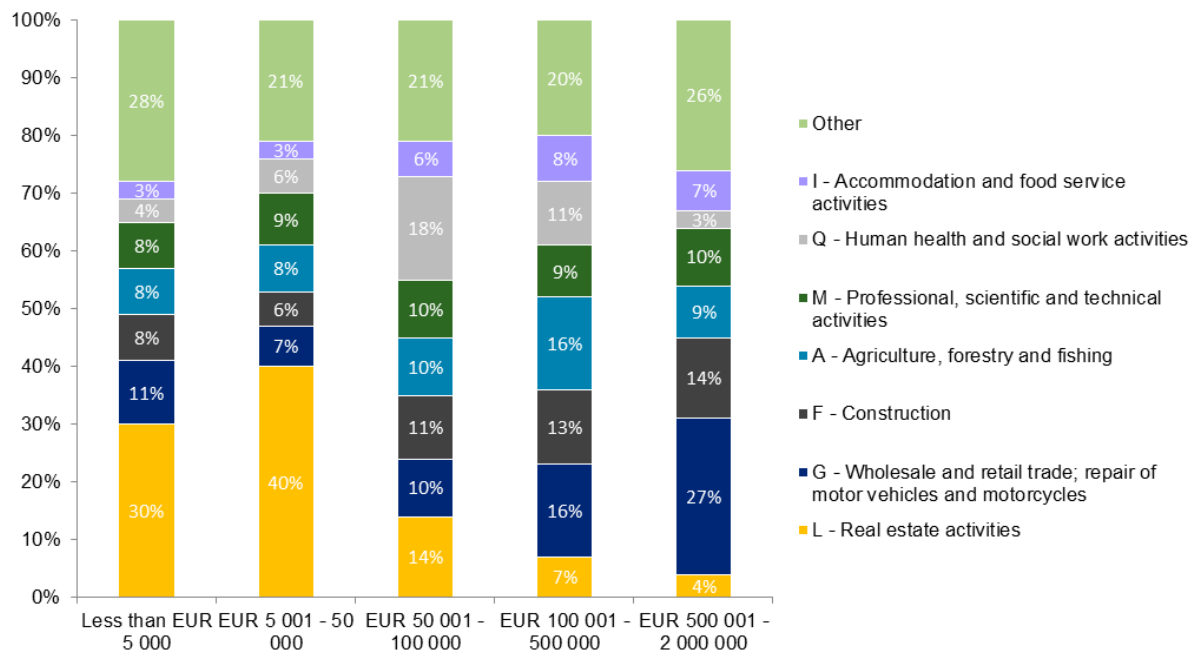
Source: Deloitte estimates based on tax authority data

Figure 11 – Distribution of SMEs in Finland by sector of activity and turnover bracket



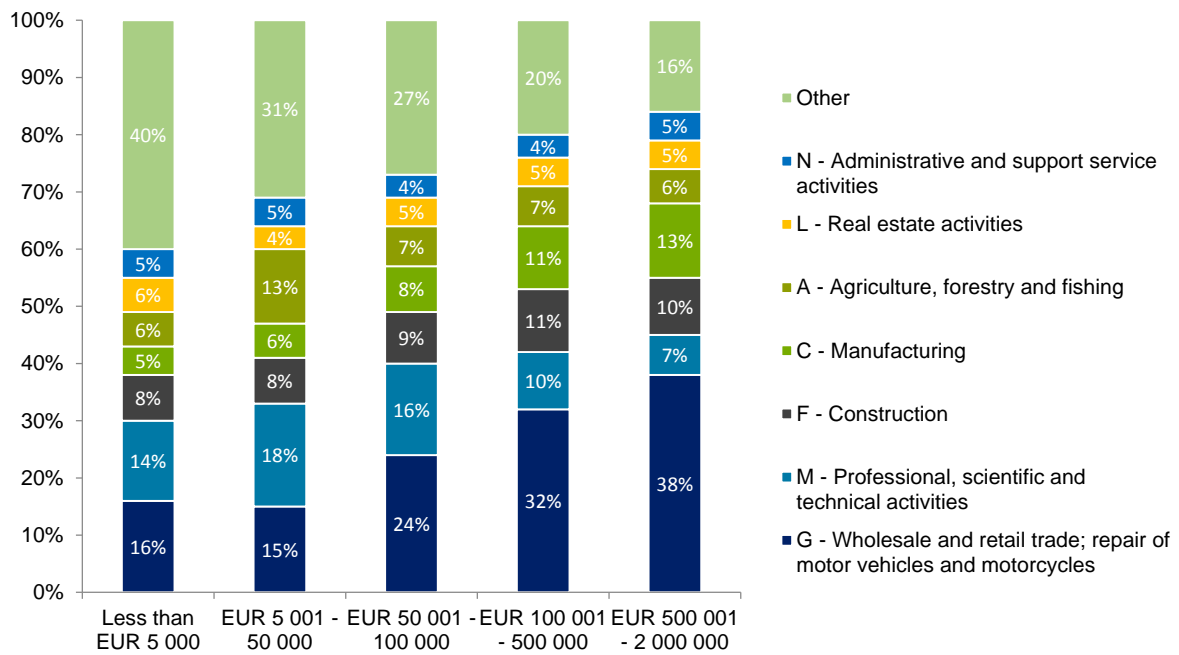
Source: Deloitte estimates based on tax authority data

Figure 12 – Distribution of SMEs in France by sector of activity and turnover bracket



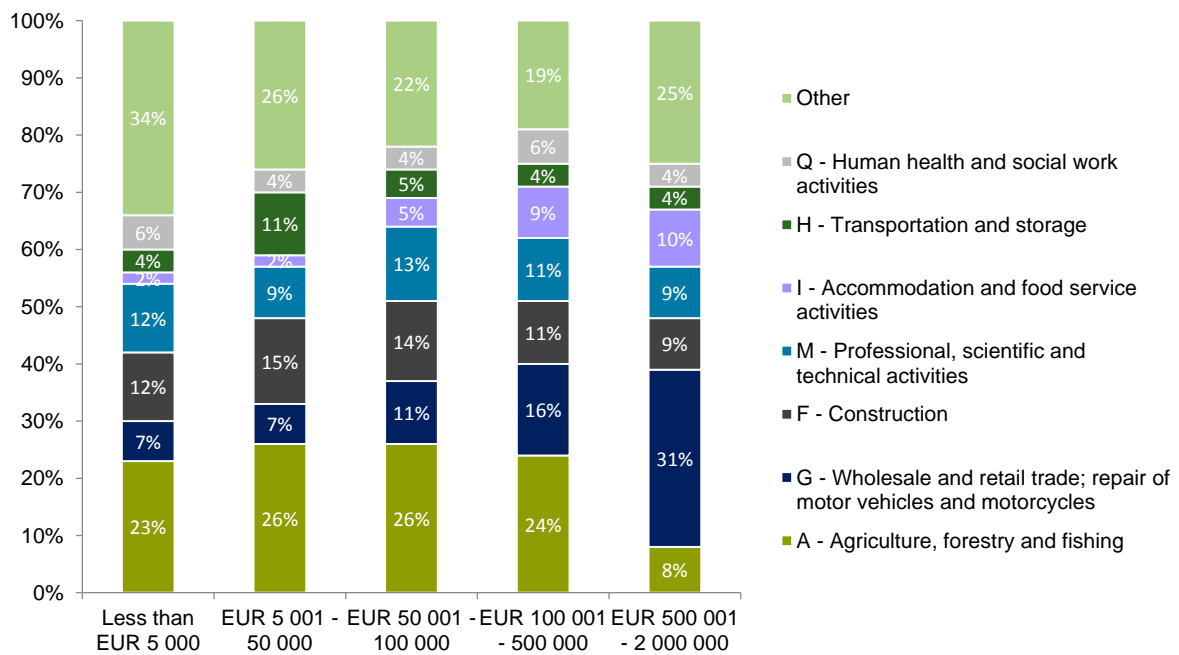
Source: Deloitte estimates based on tax authority data

Figure 13 – Distribution of SMEs in Hungary by sector of activity and turnover bracket



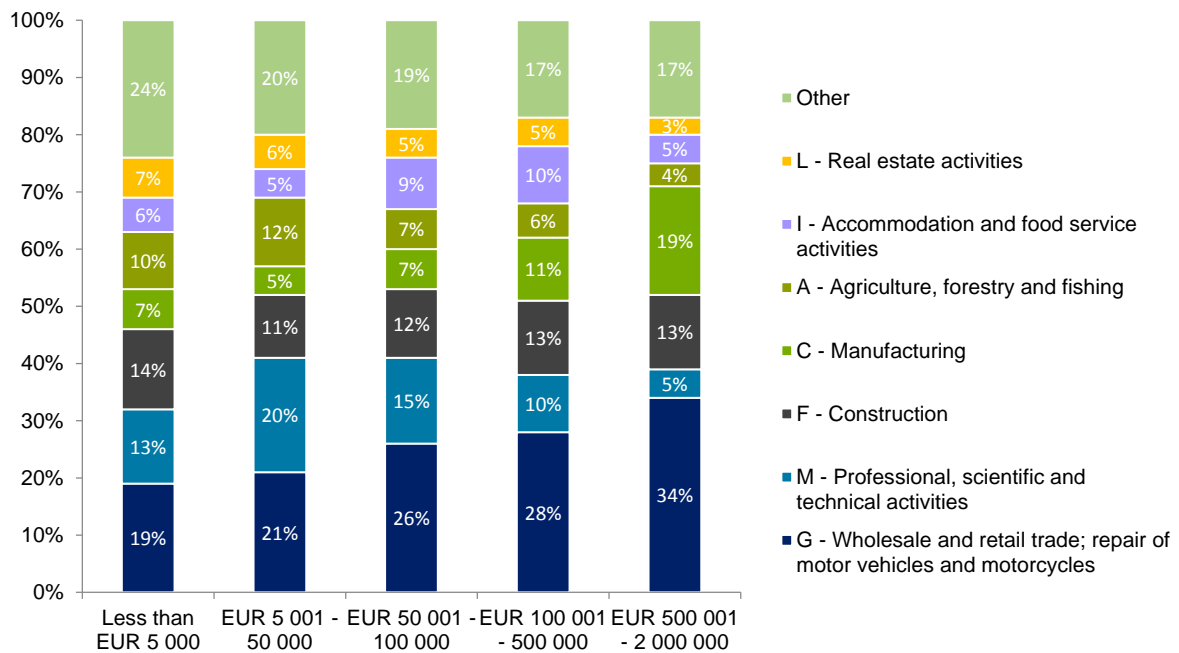
Source: Deloitte estimates based on tax authority data

Figure 14 – Distribution of SMEs in Ireland by sector of activity and turnover bracket



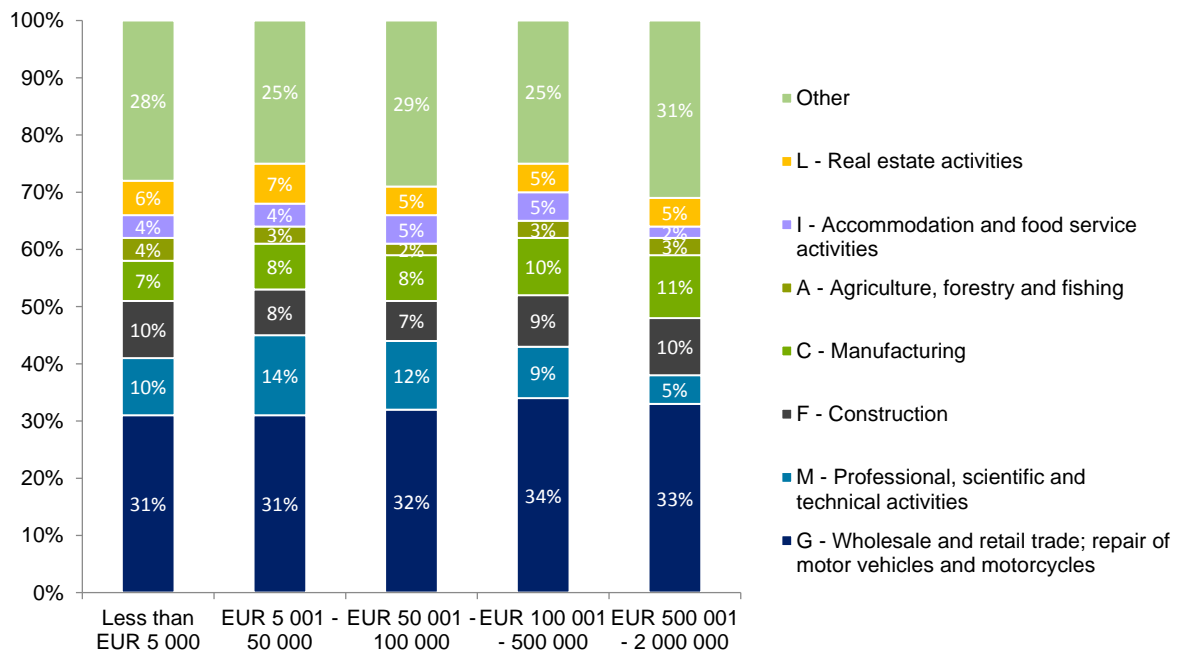
Source: Deloitte estimates based on tax authority data

Figure 15 – Distribution SMEs in Italy by sector of activity and turnover bracket



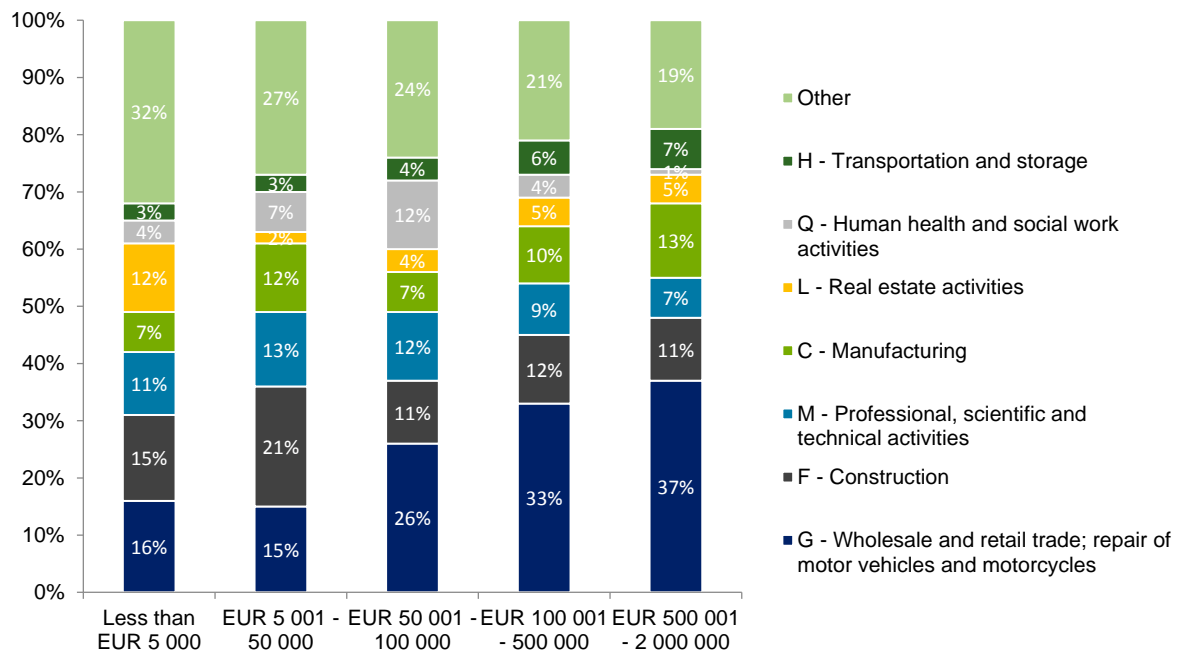
Source: Deloitte estimates based on tax authority data. Note: Italy provided the number of businesses within slightly different turnover brackets: EUR 100 000 to EUR 515 000 and EUR 515 000 to EUR 2 000 000. The estimates are however reported within the brackets specified as the error margin is assumed to be small.

Figure 16 – Distribution of SMEs in Lithuania by sector of activity and turnover bracket



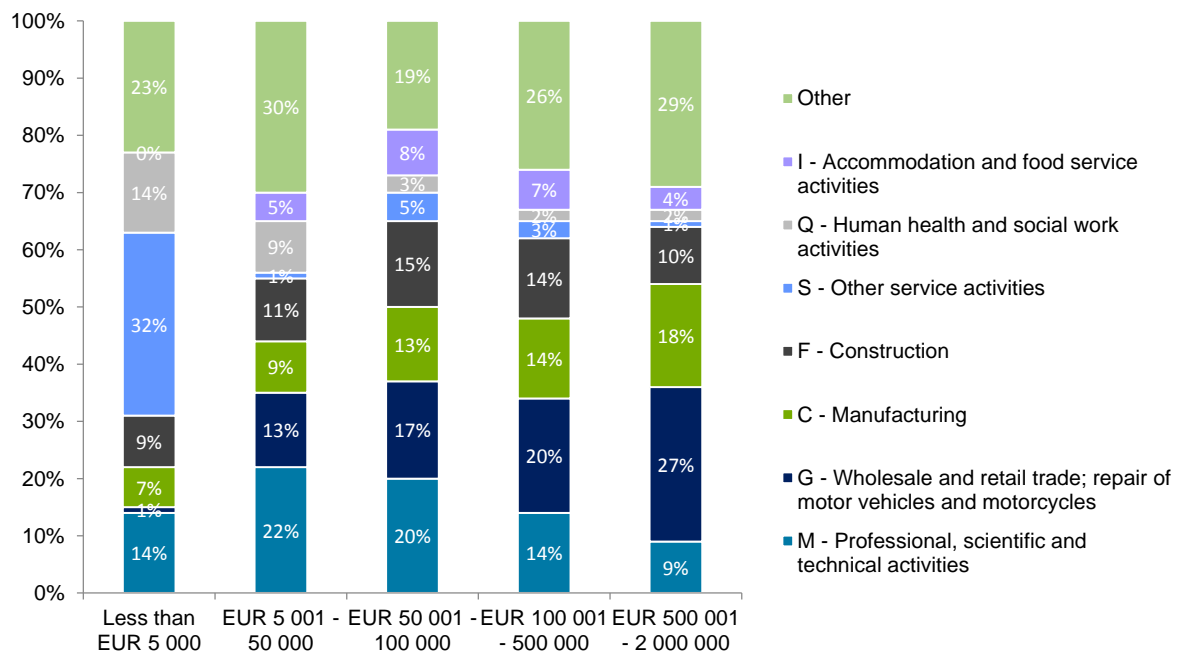
Source: Deloitte estimates based on tax authority data

Figure 17 – Distribution of SMEs in Slovakia by sector of activity and turnover bracket



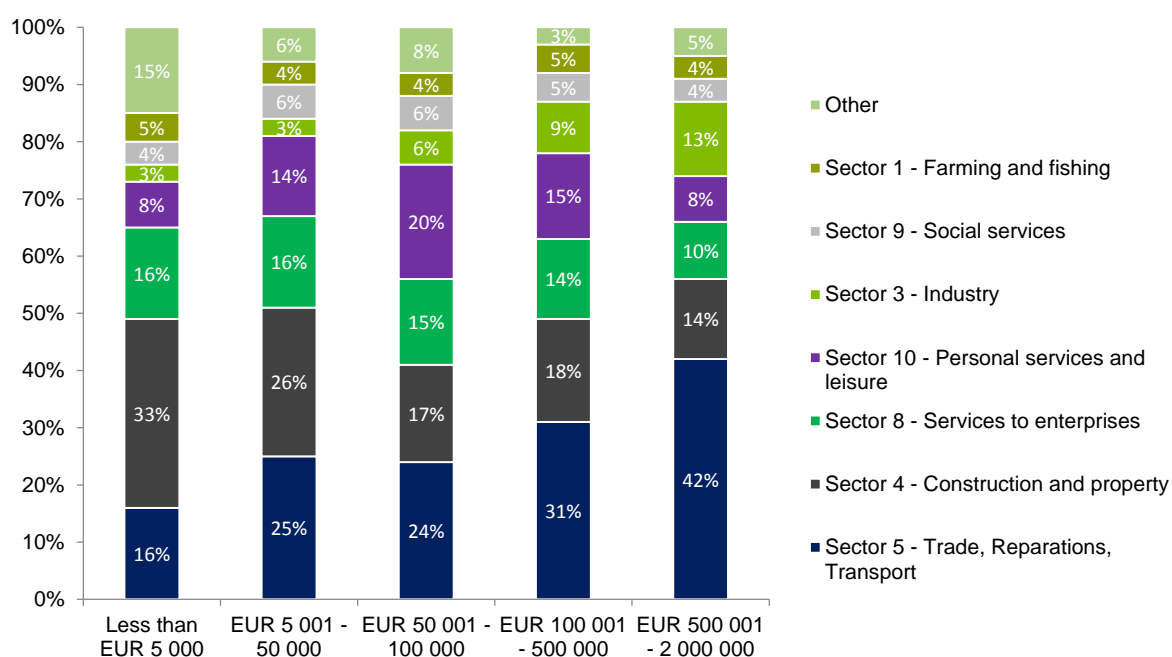
Source: Deloitte estimates based on tax authority data

Figure 18 – Distribution of SMEs in Slovenia by sector of activity and turnover bracket



Source: Deloitte estimates based on tax authority data

Figure 19 – Distribution of SMEs businesses in Spain by sector of activity and turnover bracket



Source: Deloitte estimates based on tax authority data

Gross and net VAT revenue generated by businesses of different size

The tax authorities also provided their gross and net revenues generated by businesses in different turnover brackets.³⁶ The data was provided in different formats:

- Some tax authorities were able to provide the gross and net VAT revenue generated by businesses classified within the specified turnover brackets. This is the case for 15 Member States³⁷. In addition, the Netherlands provided the net VAT revenues but did not hold data on the gross VAT revenues generated. The data obtained is presented in Table 23.
- Some tax authorities provided the gross and net VAT revenue, but generated by businesses classified within turnover brackets different to the ones provided. This is the case for 5 Member States³⁸ and the data provided is presented as received in Table 24 to Table 28.

³⁶ Gross VAT refers to the VAT declared on outputs by businesses, while net VAT is the amount of revenue the government actually collects after businesses recover the VAT paid on their inputs.

³⁷ Bulgaria, Czech Republic, Estonia, Finland, France, Hungary, Ireland, Latvia, Malta, Slovakia, Slovenia, Spain and Sweden.

³⁸ Austria, Croatia, Italy, Lithuania and Luxembourg.

Data provided by tax authorities classified within the specified turnover brackets

Table 23 – Gross and net VAT revenue generated by businesses of different size (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------------|----------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium ³⁹ | 2015 | Gross | 278 | 966 | 1 424 | 7 467 | 10 910 | 171 488 |
| | | Net | -111 | 329 | 606 | 2 670 | 2 801 | 20 078 |
| | | Distribution of net revenue | 0% | 1% | 2% | 10% | 11% | 76% |
| Bulgaria | 2014 | Gross | 992 | 246 | 306 | 1 573 | 2 637 | 17 908 |
| | | Net | 88 | 32 | 61 | 293 | 460 | 3 005 |
| | | Distribution of net revenue | 2% | 1% | 2% | 7% | 12% | 76% |
| Czech Republic | 2014 | Gross | 2 751 | 362 | 433 | 2 756 | 5 886 | 28 547 |
| | | Net | 207 | 44 | 95 | 611 | 1 169 | 4 281 |
| | | Distribution of net revenue | 3% | 1% | 1% | 10% | 18% | 67% |
| Denmark | 2014 | Gross | 16 | 678 | 914 | 4 801 | 8 755 | 86 823 |
| | | Net | -257 | 200 | 395 | 2 061 | 3 381 | 19 210 |
| | | Distribution of net revenue | -1% | 1% | 2% | 8% | 13% | 77% |
| Estonia | 2014 | Gross | 8 | 58 | 58 | 260 | 390 | 1 835 |
| | | Net | -18 | 14 | 29 | 148 | 237 | 1 099 |
| | | Distribution of net revenue | -1% | 1% | 2% | 10% | 15% | 73% |
| Finland | 2014 | Gross | 34 | 725 | 833 | 3 880 | 6 052 | 69 400 |
| | | Net | -180 | 286 | 342 | 1 380 | 1 963 | 11 445 |
| | | Distribution of net revenue | -1% | 2% | 2% | 9% | 13% | 75% |
| France | 2014 | Gross | 633 | 3 545 | 5 469 | 32 152 | 48 925 | 538 561 |
| | | Net | 211 | 2 182 | 3 034 | 14 484 | 20 005 | 138 413 |

³⁹ The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 and their generated turnover is assumed to be negligible, the data is reported in the brackets specified.

| Member State | Reference year | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| | | Distribution of net revenue | 0% | 1% | 2% | 8% | 11% | 78% |
| Hungary | 2015 | Gross | 30 | 852 | 915 | 4 045 | 5 601 | 32 496 |
| | | Net | 18 | 339 | 312 | 1 200 | 1 653 | 12 673 |
| | | Distribution of net revenue | 0% | 2% | 2% | 8% | 10% | 78% |
| Ireland | 2013 | Gross | 12 | 189 | 341 | 2 188 | 4 094 | 33 628 |
| | | Net | -0.2 | 53 | 152 | 835 | 1 394 | 4 685 |
| | | Distribution of net revenue | 0% | 1% | 2% | 12% | 19% | 66% |
| Latvia | 2014 | Gross | 87 | 94 | 124 | 667 | 1 188 | 6 734 |
| | | Net | 4 | 19 | 29 | 135 | 209 | 1 115 |
| | | Distribution of net revenue | 0% | 1% | 2% | 9% | 14% | 74% |
| Malta | 2014 | Gross | 2 | 34 | 34 | 163 | 255 | 843 |
| | | Net | -6 | 14 | 14 | 71 | 106 | 314 |
| | | Distribution of net revenue | -1% | 3% | 3% | 14% | 20% | 61% |
| Netherlands | 2015 | Gross ⁴⁰ | - | - | - | - | - | - |
| | | Net | 928 | 585 | 1 408 | 4 557 | 4 447 | 34 955 |
| | | Distribution of net revenue | 2% | 1% | 3% | 10% | 9% | 75% |
| Poland | 2015 | Gross | 83 | 1 400 | 1 150 | 3 718 | 4 461 | 37 638 |
| | | Net | -421 | 745 | 774 | 2 296 | 2 369 | 21 195 |
| | | Distribution of net revenue | -2% | 3% | 3% | 8% | 9% | 79% |
| Slovakia | 2013 | Gross | 1 153 | 277 | 360 | 1 818 | 2 908 | 23 373 |
| | | Net | -533 | 14 | 68 | 357 | 496 | 1 299 |

⁴⁰ The Netherlands did not provide data of the gross VAT revenues generated

| Member State | Reference year | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|---------------------|----------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| | | Distribution of net revenue | -31% | 1% | 4% | 21% | 29% | 76% |
| Slovenia | 2014 | Gross | 18 | 141 | 216 | 947 | 1 465 | 12 487 |
| | | Net | -0.1 | 56 | 88 | 295 | 354 | 1 594 |
| | | Distribution of net revenue | 0% | 2% | 4% | 12% | 15% | 67% |
| Spain ⁴¹ | 2013 | Gross | 243 | 2 771 | 1 803 | 5 521 | 6 503 | 51 819 |
| | | Net | -1 093 | 1 833 | 1 260 | 4 093 | 5 090 | 40 890 |
| | | Distribution of net revenue | -2% | 3% | 2% | 8% | 10% | 79% |
| Sweden | 2014 | Gross | 146 | 1 294 | 1 532 | 7 715 | 12 935 | 149 269 |
| | | Net | - 439 | 337 | 649 | 2 789 | 4 079 | 25 591 |
| | | Distribution of net revenue | -1% | 1% | 2% | 8% | 12% | 78% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

Data provided by tax authorities classified within turnover brackets different to the ones provided

Table 24 – Gross and net VAT revenue generated by businesses of different size in Austria (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-----------------------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | Gross | 945 | 1 753 | 2 325 | 6 157 | 9 492 | 147 360 |
| | | Net | 670 | 1 493 | 1 929 | 4 832 | 7 072 | 80 993 |
| | | Distribution of net revenue | 1% | 2% | 2% | 5% | 7% | 83% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

⁴¹ The Spanish tax authority have indicated that the gross VAT generated by businesses under the Special Scheme of Groups of Businesses is calculated after the aggregation of individual results and can therefore not be reported by turnover bracket. However, they assume for the purpose of this exercise that most businesses belonging to the group are over the EUR 2 000 000 category and therefore, all the gross VAT revenue generated is allocated to this bracket.

Table 25 – Gross and net VAT revenue generated by businesses of different size in Croatia (million EUR)

| Member State | Reference year | VAT revenue type | Below EUR 6 550 | EUR 6 550 to EUR 65 500 | EUR 65 500 to EUR 131 000 | EUR 131 000 to EUR 655 000 | EUR 655 000 to EUR 1 965 250 | More than EUR 1 965 250 |
|--------------|----------------|-----------------------------|-----------------|-------------------------|---------------------------|----------------------------|------------------------------|-------------------------|
| Croatia | 2014 | Gross | 39 | 378 | 388 | 1 483 | 1 556 | 14 867 |
| | | Net | -12 | 113 | 116 | 421 | 424 | 3 303 |
| | | Distribution of net revenue | 0% | 2% | 2% | 10% | 10% | 76% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

Table 26 – Gross and net VAT revenue generated by businesses of different size in Italy (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 5 000 | EUR 5 000 to EUR 50 000 | EUR 50 000 to EUR 100 000 | EUR 100 000 to EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-----------------------------|---------------------|-------------------------|---------------------------|----------------------------|-----------------------------|-------------------------|
| Italy | 2013 | Gross | 709 | 7 893 | 8 991 | 35 406 | 45 053 | 363 031 |
| | | Net | -1 123 | 3 563 | 3 767 | 11 181 | 9 794 | 59 936 |
| | | Distribution of net revenue | -1% | 4% | 4% | 13% | 11% | 69% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

Table 27 – Gross and net VAT revenue generated by businesses of different size in Lithuania (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 5 000 | EUR 5 000 to EUR 50 000 | EUR 50 000 to EUR 100 000 | EUR 100 000 to EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified |
|--------------|----------------|-----------------------------|---------------------|-------------------------|---------------------------|----------------------------|-----------------------------|-------------------------|--------------|
| Lithuania | 2013 | Gross | 25 | 92 | 130 | 849 | 1 495 | 11 389 | N.A |
| | | Net | -8 | 13 | 44 | 247 | 385 | 2 102 | N.A |
| | | Distribution of net revenue | -0.4% | 0.4% | 2% | 9% | 14% | 75% | N.A |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

Table 28 – Gross and net VAT revenue generated by businesses of different size in Luxembourg (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|-----------------------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | Gross | 322 | 105 | 456 | 21 643 |
| | | Net | 75 | 42 | 180 | 3 581 |
| | | Distribution of net revenue | 2% | 1% | 5% | 92% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

B.2 Data obtained in connection to the SME exemption scheme

As part of the study, information was collected on the businesses exempted from VAT under the SME exemption scheme, across the 8 Member States forming part of the fieldwork countries and for the EU as a whole. The following data was requested from tax authorities:

- The number of businesses exempted from paying VAT under the SME exemption scheme by turnover bracket;
- The turnover generated by exempted businesses within each turnover bracket;
- The volume and value of such exempted transactions; and
- Categorise such sales by nature of supply (goods or services) and within the latter by type of supply (B2B or B2C).

Some information has been provided by tax authorities on the number of businesses exempted from paying VAT under the scheme and the turnover they generate. However, none were able to provide estimates of the value, volume or type of those transactions. This annex presents the estimates obtained directly from tax authorities.

Number of businesses exempted from VAT

Table 29 below presents the estimates of the number of businesses carrying out exempted transactions under the SME exemption scheme that have been provided by tax authorities.

Table 29 – Number of businesses exempted from VAT under the SME exemption scheme

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | Total exempted | Share in number of businesses in the economy |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|----------------|--|
| Belgium ⁴² | 2015 | 95 234 | 19 098 | - | - | 114 332 | 14% |
| Bulgaria | 2014 | 55 937 | 80 345 | - | - | 136 282 | 42% |
| Croatia | 2014 | 51 276 | | - | - | 51 276 | 23% |
| Czech Republic | 2014 | 351 678 | 63 096 | - | - | 414 774 | 48% |
| Estonia | 2014 | 57 199 | 24 070 | - | - | 81 269 | 63% |
| France | 2014 | 1 798 000 | 53 000 | 14 000 | - | 1 865 000 | 23% |
| Hungary | 2015 | 172 376 | 147 239 | - | - | 319 615 | 36% |
| Italy | 2013 | 479 787 | | | | 479 787 | 9% |
| Lithuania* | 2015 | 13 954 | 6 578 | 3 035 | 3 435 | 27 002 | 12% |

⁴² The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 and their generated turnover is assumed to be negligible, the data is reported in the brackets specified.

| | | | | | | | |
|-------------------------|-------------|-----------|---------|-------|-------|-----------|-------------------|
| Luxembourg | 2014 | 380 | 65 | | | 445 | 1% |
| Malta | 2014 | 4 904 | 5 714 | - | - | 10 618 | 21% |
| Portugal | 2015 | 541 610 | | - | - | 541 610 | N/A ⁴³ |
| Slovakia | 2013 | 290 108 | 233 726 | - | - | 523 834 | 73% |
| Slovenia | 2014 | 45 872 | 55 456 | 1 881 | 2 768 | 105 977 | 52% |
| United Kingdom** | 2014 | 2 700 000 | | | | 2 700 000 | N/A ⁴⁴ |

Source: data obtained from surveys to tax authorities.

*Because the tax authority in Lithuania did not have information of c. 60% of the businesses identified, the estimates reported may be an underestimation of the actual number of exempted businesses.

**The tax authorities in the United Kingdom have clarified that the number of exempted businesses reported is only an estimate.

Where tax authorities provided the number of businesses below the threshold which are voluntarily registered for VAT, the participation rates of businesses in different size classes were calculated for each Member State.⁴⁵ The results are reported below.

Table 30 – Participation rates estimated on tax authority data

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | Participation rate overall |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|----------------------------|
| Bulgaria | 2014 | 73% | 72% | - | - | 72% |
| Croatia | 2014 | 48% | | - | - | 48% |
| Czech Republic | 2014 | 70% | 69% | - | - | 70% |
| Estonia | 2014 | 79% | 69% | - | - | 76% |
| France | 2014 | 78% | 7% | 9% | - | 57% |
| Hungary | 2015 | 47% | 68% | - | - | 55% |
| Lithuania | 2015 | 69% | 32% | 76% | 71% | 54% |
| Luxembourg | 2014 | 12% | 1% | - | - | 5% |
| Malta | 2014 | 25% | 34% | - | - | 29% |
| Portugal | 2015 | 95% | | - | - | 95% |
| Slovakia | 2013 | 92% | 81% | - | - | 87% |
| Slovenia | 2014 | 97% | 92% | 55% | 67% | 92% |

⁴³ The tax authorities in Portugal did not provide the overall number of firms in the country. At this point, the share of businesses exempted from VAT under the SME exemption scheme has therefore not been calculated.

⁴⁴ The tax authorities in the United Kingdom did not provide the overall number of firms in the country. The share of businesses exempted from VAT under the SME exemption scheme has therefore not been calculated.

⁴⁵ The participation rate is defined as the percentage of businesses being exempt from paying VAT under the scheme out of the businesses eligible for it.

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | Participation rate overall |
|----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|----------------------------|
| United Kingdom | 2015 | 74% | | | | 74% |
| Average | - | 65% | 52% | - | - | 63% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities.

Turnover generated by VAT-exempt businesses

Tax authorities have also reported the turnover generated by businesses exempted from VAT under the SME exemption scheme. This allowed calculating the percentage of turnover generated by VAT-exempted businesses compared to the total turnover generated by businesses in each size class. Table 31 below presents those results.

Table 31 – Percentage of turnover generated by businesses exempted from VAT under the SME exemption scheme out of total turnover generated in each size class

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | % of turnover generated by exempted businesses out of total turnover generated by SMEs | % of turnover generated by exempted businesses out of total turnover generated by all businesses |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|--|--|
| Belgium ⁴⁶ | 2015 | 44% | 4% | - | - | 0.2% | 0.02% |
| Bulgaria | 2014 | 77% | 41% | - | - | 4% | 1% |
| Croatia | 2014 | N/A ⁴⁷ | | - | - | 2% | 0.5% |
| Czech Republic | 2014 | 75% | 43% | - | - | 2% | 0.5% |
| Estonia | 2014 | 87% | 33% | - | - | 3% | 1% |
| France ⁴⁸ | 2014 | N/A | N/A | N/A | - | N/A | N/A |
| Hungary | 2015 | 72% | 27% | - | - | 4% | 1% |
| Italy | 2013 | 12% | | | | 1% | 0.2% |
| Lithuania | 2015 | 38% | 28% | 25% | 13% | 6% | 1% |

⁴⁶ The tax authorities in Belgium actually provided the data in the following first two brackets: Less than EUR 5 580 and EUR 5 580 – EUR 50 000. However, considering that the number of businesses with turnover between EUR 5 000 and EUR 5 580 and their generated turnover is assumed to be negligible, the data is reported in the brackets specified.

⁴⁷ The tax authority in Croatia did not provide the turnover generated by businesses in these turnover brackets, but they did provide the overall turnover generated by all businesses in the country. The proportion of turnover generated by businesses exempted from VAT under the SME exemption scheme compared to the turnover generated by businesses in each size class could therefore not be calculated.

⁴⁸ The tax authorities in France were only able to provide turnover information for a fraction of exempted businesses, which does not give sufficient information to calculate the proportion of turnover this represents out of the overall turnover generated by all businesses.

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | % of turnover generated by exempted businesses out of total turnover generated by SMEs | % of turnover generated by exempted businesses out of total turnover generated by all businesses | |
|-----------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|--|--|-----------|
| Luxembourg | 2014 | N/A ⁴⁹ | N/A ⁵⁰ | - | - | N/A⁵¹ | 0.0002% | |
| Malta | 2014 | 32% | 22% | - | - | 2% | 0.2% | |
| Portugal | 2015 | N/A ⁵² | | - | - | N/A⁵³ | N/A⁵⁴ | |
| Slovakia | 2013 | 94% | 73% | - | - | 11% | 2% | |
| Slovenia | 2014 | 85% | 56% | 9% | 26% | 15% | 3% | |
| United Kingdom | 2015 | 21% | | | | | 10% | 2% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities.

⁴⁹ The tax authorities in Luxembourg did not provide the turnover generated by businesses in these turnover brackets, but they did provide the overall turnover generated by all businesses in the country. The proportion of turnover generated by businesses exempted from VAT under the SME exemption scheme compared to the turnover generated by businesses in each size class could therefore not be calculated.

⁵⁰ Ibid

⁵¹ Ibid

⁵² The tax authorities in Portugal did not provide the turnover generated by businesses of different sizes or the overall turnover generated by businesses as a whole.

⁵³ Ibid

⁵⁴ Ibid

B.3 Data obtained in connection with taxable cross-border transactions

The purpose was to analyse the taxable cross-border transactions carried out by firms that are eligible for the SME exemption scheme domestically. Whilst no precise data was obtained from tax authorities or public sources, some tax authorities were able to provide some insights into those firms voluntarily registered for VAT and engaged in cross-border transactions.

The following information was obtained from tax authorities in Bulgaria, Estonia and Malta.

Table 32 – Information on cross-border transactions provided by tax authorities

| | Bulgaria | Estonia | Malta |
|---|----------|---------|-------------------------------|
| Estimated proportion of VAT-registered businesses below the SME exemption threshold carrying out cross-border transactions | 7% | 11% | 1% (mainly MOSS supplies) |
| Proportion of total turnover of these businesses coming from cross-border supplies | 4% | 61% | 0.006% (mainly MOSS supplies) |

Source: data obtained from surveys to tax authorities

The tax authorities in Lithuania⁵⁵, Luxembourg and Slovenia were able to provide data on the cross-border transactions of SMEs that are eligible for the SME exemption scheme but are VAT-registered and trade cross-border. This information is reported below.

Table 33 – Cross-border transactions of VAT-registered businesses below the VAT registration threshold in Lithuania

| | Lithuania | | | |
|--|---------------------|------------------------|--------------------------|---------------------------|
| | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 |
| Number of VAT-registered businesses eligible for VAT exemption and trading cross-border* (and proportion of these compared to VAT-registered businesses eligible for SME exemption**) | 304 (5%) | 2 563 (18%) | 672 (71%) | 1080 (79%) |
| Turnover from cross-border supplies in EUR* (and percentage compared to overall turnover generated by VAT-registered businesses eligible for VAT exemption**) | 543 263 (7%) | 29 270 428 (9%) | 35 983 705 (54%) | 219 303 261 (73%) |

⁵⁵ Note that Lithuania was not able to provide information on 60% of their businesses. This data may therefore underestimate the actual number of businesses which are VAT-registered, below the threshold and trade cross-border.

**Source: data obtained from surveys to tax authorities*

***Source: Deloitte estimates based on data obtained from surveys to tax authorities*

Table 34 – Cross-border transactions of VAT registered businesses below the VAT registration threshold in Luxembourg

| | Luxembourg |
|--|-------------------|
| Number of VAT registered businesses eligible for SME exemption and trading cross-border* (and proportion of these compared to VAT-registered businesses eligible for VAT exemption**) | 400 (5%) |
| Turnover from cross-border supplies in EUR* (and percentage compared to overall turnover generated by VAT-registered businesses eligible for SME exemption**) | 3 500 000 (4%) |

**Source: data obtained from surveys to tax authorities*

***Source: Deloitte estimates based on data obtained from surveys to tax authorities*

Table 35 – Cross-border transactions of VAT registered businesses below the VAT registration threshold in Slovenia

| | Slovenia |
|--|-----------------|
| Number of VAT registered businesses eligible for SME exemption and trading cross-border* (and proportion of these compared to VAT-registered businesses eligible for VAT exemption**) | 5 330 (57%) |
| Percentage of these businesses' turnover that relates to cross-border supplies* | 59.21% |

**Source: data obtained from surveys to tax authorities*

***Source: Deloitte estimates based on data obtained from surveys to tax authorities*

Annex C – Estimation methodology

As mentioned, for the purpose of the study a specific definition of SMEs was adopted, which refers only to businesses with an annual turnover not exceeding EUR 2 million (i.e. micro-businesses, according to the EU definition)⁵⁶. Data was collected on SMEs according to their annual turnover, while no specific parameters on headcount were considered:

- ✔ EUR 500 001 – EUR 2 000 000;
- ✔ EUR 100 001 – 500 000;
- ✔ EUR 50 001 – 100 000;
- ✔ EUR 5 001 – 50 000;
- ✔ does not exceed EUR 5 000

The main source used to obtain the estimates required has been the data provided by tax authorities across Member States. However, a number of Member States were unable to provide any estimates or provided incomplete information. To obtain a more comprehensive picture of the EU as a whole, some estimates were developed for these Member States. Desk research was conducted to obtain the required information via existing public or private sources. However, this research highlighted the lack of comprehensive information at the level of granularity required. Two data sources were identified, covering all 28 Member States: Eurostat and Mint Global.

- ✔ Eurostat's data is collected by National Statistics Institutes across all 28 Member States. It reports:
 - The number of businesses and their generated turnover in the non-financial business economy. This is broken down into size classes based on the number of employees. However, Eurostat excludes some sectors that may be relevant for VAT purposes, does not classify businesses by turnover and does not disaggregate SMEs further than the whole size class of 0-9 employees.
 - The net VAT revenue collected in all 28 Member States. However it does not report gross VAT information and net revenue is reported for Member States as a whole: no information is provided for different size classes of businesses.
- ✔ Mint Global's database is compiled by Bureau Van Dijk⁵⁷ (BvD) and contains financial information on businesses identified by BvD worldwide. This dataset can be used to obtain the number of businesses in different turnover brackets, their generated turnover and the sector of activity in which they operate across all 28 Member States. However, BvD's coverage is limited to the businesses they are able to identify, and the sources available to

⁵⁶ See: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

⁵⁷ See: <http://www.bvdinfo.com/en-gb/about-us/overview>

them are not consistent across countries. In addition, Mint Global is not able to obtain turnover or industry information for all businesses identified. Hence, the number of businesses which can be classified within turnover brackets may not reflect all businesses active in each Member State.

This appendix presents the calculations that were undertaken to obtain these estimates.

C.1 Data estimated relating to SMEs' domestic activities

As part of the study, an overview of the current situation of SMEs across the 28 Member States was produced. This Annex presents the calculations undertaken to obtain the following estimates when no or incomplete information was received from tax authorities:

- The number of businesses in each turnover bracket;
- The revenue generated by businesses in each turnover bracket;
- The sector of activity of businesses in each turnover bracket; and
- The gross and net VAT revenue generated by businesses in each turnover bracket.

Number of businesses in each turnover bracket

The following Member States did not provide any information on the number of businesses in their country:

- Cyprus
- Germany
- Greece
- Portugal
- Romania

For the above Member States, estimates were derived from public sources and insights drawn from tax authority estimates in other Member States.

The following Member States provided some, but incomplete information and adjustments were made to the data provided to obtain the estimates at the required level of granularity:

- Croatia
- Italy
- Lithuania
- United Kingdom

The following Member States also provided incomplete information:

- Austria
- Luxembourg

However, an analysis of the data provided revealed that these Member States were outliers compared to EU-averages, and robust adjusted estimates could not be obtained. These are presented separately at the end of the section on data estimated relating to SMEs' domestic activities.

The calculations are presented in turn below.

Estimates for which no data was provided from tax authorities

When no data was provided by Member States on the number of businesses in their countries, estimates were derived using Eurostat data, adjusted to obtain the required level of granularity. This was done in three steps.

1) Obtain Eurostat's estimates on the total number of businesses in the non-financial business economy and adjust to account for the excluded sectors

Eurostat provides, for all 28 Member States, the number of businesses in the non-financial business economy. However, the following sectors, which may be relevant for VAT purposes, are excluded from these estimates.⁵⁸

- A – Agriculture, forestry and fishing
- K – Financial and insurance activities
- O – Public administration and defence; compulsory social-security
- P – Education
- Q – Human health and social work activities
- R – Arts, Entertainment and recreation
- S – Other services activities
- T – Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- U – Activities of extraterritorial organisations and bodies

The Eurostat estimates are therefore adjusted to account for businesses operating in the excluded sectors. Some respondent tax authorities provided a breakdown of their businesses by sector of activity according to the NACE rev.2 classification.⁵⁹ For these Member States, the proportion of these businesses operating in the excluded sectors above was calculated. The results show that on average, 34% of businesses operate outside of the non-financial business economy taken into account by Eurostat. An uplift of 34% is therefore applied to the Eurostat's data to obtain an estimate of all businesses operating in the Member States that did not provide this information. The resulting estimates are provided below.

⁵⁸ http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Non-financial_business_economy

⁵⁹ This is the case for Belgium, Bulgaria, Croatia, the Czech Republic, Finland, France, Hungary, Ireland, Italy, Slovakia and Slovenia. Lithuania also provided this information but was excluded from the calculations, as some of their businesses could not be identified. Since it is uncertain in which sectors these unidentified businesses operate, Lithuania is excluded to avoid any bias in the results. Denmark and Spain also provided some industry classification for their businesses, however not according to the NACE rev.2 classification. They could therefore not be included in the calculations.

Table 36 – Estimated number of businesses by Member State

| Member State | Reference year | Eurostat estimates of number of businesses in the non-financial business economy | Estimated number of businesses in the whole economy |
|--------------|----------------|--|---|
| Cyprus | 2012 | 46 139 | 61 834 |
| Germany | 2012 | 2 189 737 | 2 934 614 |
| Greece | 2012 | 726 581 | 973 740 |
| Portugal | 2013 | 776 429 | 1 040 545 |
| Romania | 2013 | 436 153 | 584 518 |

Source: Deloitte estimates

2) Segment the total number of businesses obtained within turnover brackets

15 Member States provided a breakdown of all businesses in their economy within the specified turnover brackets.⁶⁰ An EU-average distribution of businesses can therefore be inferred from this data.

The data obtained from Mint Global can also be used to classify businesses within turnover brackets. Whilst using this dataset would allow to use the country-specific distributions for the Member States where data is missing, it presents some limitations:

- BvD is unable to identify every business in each Member State, and the amount of coverage highly depends on the information made available to them. This widely varies across countries and implies that the overall number of businesses identified may not be representative of the number of businesses that are currently active
- Within each country, BvD is sometimes unable to obtain turnover data for each of the businesses identified. In some instances, when sufficient information is available on a company's assets and/or employees, BvD provides an estimate of the company's turnover. In other instances, it simply does not report turnover information

Desk research and a consultation with a data expert from BvD have shown that businesses with a smaller turnover are the ones which are the most difficult to identify, and for which financial information is most difficult to obtain. The distribution of businesses within turnover brackets inferred from Mint Global might therefore be biased towards the larger brackets, for which information on businesses is easier to obtain.

To test the robustness of the Mint Global estimates, the distributions of the businesses identified within turnover brackets were compared to the ones obtained from tax authorities in the Member States that provided this data. The comparison is done in Table 37 below.

⁶⁰Belgium, Bulgaria, Czech Republic, Estonia, Finland, France, Hungary, Ireland, Italy, Latvia, Malta, Slovakia, Slovenia, Spain, Sweden. Even though Belgium and Italy provided the number of businesses in slightly different turnover brackets (less than EUR 5 580 instead of EUR 5 000 and EUR 100 000 to EUR 515 000 instead of EUR 500 000 respectively), they are included in the calculations as the error margin is assumed to be negligible.

Table 37 – Statistics of the proportions of businesses in each turnover bracket from tax authorities and Mint Global data

| | Turnover brackets | | | | | |
|---------------------------|------------------------|------------------------------|--------------------------------|---------------------------------|-----------------------------------|-------------------------------|
| | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
| Tax authority | | | | | | |
| Average | 38% | 31% | 9% | 14% | 5% | 3% |
| Standard deviation | 13% | 10% | 3% | 4% | 1% | 1% |
| Mint Global | | | | | | |
| Average | 20% | 25% | 10% | 29% | 10% | 6% |
| Standard deviation | 16% | 13% | 3% | 19% | 5% | 3% |

Source: Deloitte estimates based on data obtained from tax authorities and Mint Global

As shown in the table above, the estimates obtained from Mint Global underestimate on average the proportion of businesses in the lower bracket and overestimates the proportion of firms in the higher brackets compared to the tax authority estimates. In addition, the estimates obtained from Mint Global are more volatile across countries compared to what was obtained from tax authorities.

Given the results presented above, an EU-average distribution of businesses within turnover brackets is preferred to the country specific estimates provided by Mint Global data. This is therefore applied to the estimated number of businesses in each Member State for which no data from tax authorities was received. The resulting estimates are presented below.

Table 38 – Estimated number of businesses by turnover bracket and Member State

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Cyprus | 2012 | 23 506 | 19 387 | 5 641 | 8 673 | 3 049 | 1 578 | 97% |
| Germany | 2012 | 1 115 606 | 920 093 | 267 739 | 411 598 | 144 709 | 74 869 | 97% |
| Greece | 2012 | 370 172 | 305 298 | 88 839 | 136 573 | 48 016 | 24 842 | 97% |
| Portugal | 2013 | 395 568 | 326 243 | 94 934 | 145 943 | 51 310 | 26 547 | 97% |
| Romania | 2013 | 222 207 | 183 265 | 53 328 | 81 982 | 28 823 | 14 912 | 97% |

Source: Deloitte estimates

Estimates for which some data was provided by tax authorities which required adjustments

Some Member States provided the number of businesses in their countries, but adjustments were required to obtain these estimates in the desired level of granularity. This includes:

- 1) Adjustments when businesses were provided in turnover classifications different to the ones specified. This is the case for Croatia, Italy and Lithuania.
- 2) Adjustments when the number of VAT-registered businesses only was provided. This is the case for Denmark and Poland.
- 3) Adjustments when the number of VAT-registered businesses only were provided, and in a different turnover classification to the one specified. This is the case for the United Kingdom.

Each adjustment and the resulting estimates are presented below.

1) Adjustments when businesses were provided in turnover classifications different to the ones specified.

Two approaches were used to adjust the estimates obtained when the required level of granularity was not provided.

- If the number of businesses were provided in turnover brackets that were slightly different to the ones specified, Mint Global was used to redistribute businesses in the desired size classes. For example, Croatia provided the number of businesses with turnover below EUR 6 550, whilst the desired turnover bracket is below EUR 5 000. Mint Global data provides the proportion of businesses:

- With turnover below EUR 5 000
- With turnover between EUR 5 000 and EUR 6 550

This allows redistributing the businesses provided by Croatia within the relevant turnover brackets. Mint Global estimates on the distribution of businesses for a country as a whole are biased towards larger businesses, as these are more easily identified. However, there is no evidence that this bias also exists within specific size classes, as businesses with EUR 6 000 turnover should not be more difficult to identify than businesses with EUR 3 000 turnover. Therefore, for the purpose of this exercise, Mint Global estimates are used. This methodology is used for Croatia and Italy.

- When tax authorities provided a number of businesses that could not be classified within turnover brackets, an EU average distribution was applied to distribute these businesses in different size classes. This methodology is applied to Lithuania.⁶¹

The estimates provided by tax authorities and the estimates adjusted to the relevant turnover brackets are presented for each Member State below.

➤ Croatia

Table 39 – Number of businesses in different size classes provided by the tax authorities in Croatia

| Member State | Reference year | Less than EUR 6 550 | EUR 6 550 – EUR 65 500 | EUR 65 500 – EUR 131 000 | EUR 131 000 – EUR 655 000 | EUR 655 000 – EUR 1 965 250 | More than EUR 1 965 250 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | 63 224 | 97 423 | 25 311 | 27 030 | 6 988 | 4 726 |

Source: Data obtained from surveys to tax authorities

Table 40 – Estimates of the number of businesses in Croatia by turnover brackets and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | Number of businesses | 58 515 | 88 097 | 29 773 | 33 419 | 10 238 | 4 660 |
| | | Distribution of businesses | 26% | 39% | 13% | 15% | 5% | 2% |

Source: Deloitte estimates

➤ Italy

⁶¹ While a distribution amongst size classes can be computed for the businesses provided by Lithuania within identified turnover brackets, this distribution may be biased towards larger businesses, as it is more difficult to identify the turnover of smaller ones. In fact when comparing the EU average distribution of businesses to the one calculated in Lithuania, only 46% of businesses in Lithuania have less than EUR 50 000 turnover compared to 71% in the rest of the EU. The EU average distribution is therefore applied to the unidentified businesses to avoid getting biased estimates.

Table 41 – Number of businesses in different size classes provided by the tax authorities in Italy

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | 930 383 | 2 006 675 | 815 155 | 1 101 570 | 312 376 | 139 431 |

Source: Data obtained from surveys to tax authorities

Table 42 – Estimates of the number of businesses in Italy by turnover brackets and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | Number of businesses | 930 383 | 2 006 675 | 815 155 | 1 098 160 | 315 786 | 139 431 |
| | | Distribution of businesses | 17% | 38% | 15% | 21% | 6% | 3% |

Source: Deloitte estimates

► Lithuania

Table 43 – Number of businesses in each size class in Lithuania

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|--------------|
| Lithuania | 2015 | 20 467 | 22 505 | 12 361 | 22 887 | 9 272 | 5 380 | 141 503 |

Source: Data obtained from surveys to tax authorities

Table 44 – Estimates of the number of businesses in Lithuania by turnover brackets and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Lithuania | 2015 | Number of businesses | 74 259 | 66 871 | 25 271 | 42 734 | 16 250 | 8 990 |
| | | Distribution of businesses | 32% | 28% | 11% | 18% | 7% | 4% |

Source: Deloitte estimates

2) Adjustments when tax authorities provided the number of VAT-registered businesses only

The tax authorities in Denmark and Poland provided the number of VAT-registered businesses in their countries, within the relevant turnover brackets. However, both Denmark and Poland offer the SME exemption scheme. The businesses taking advantage of the scheme are therefore not VAT-registered and are not accounted for in the numbers provided. Since the thresholds to be eligible for the scheme are DKK 50 000 in Denmark (equivalent to about EUR 6 700) and PLN 150 000 in Poland (equivalent to about EUR 35 000), the number of businesses provided by tax authorities in the lower turnover brackets underestimate the actual number of active businesses. In order to account for the businesses exempted from VAT registration, the following adjustments are made:

- The number of VAT-registered businesses with turnover below the threshold is estimated in both countries using data from Mint Global. For example, in Denmark VAT-registered businesses with turnover between EUR 5 000 and EUR 50 000 are redistributed using Mint Global information within:
 - EUR 5 000 to EUR 6 700; and
 - EUR 6 700 to EUR 50 000.
- The EU average participation rate to the SME exemption scheme from eligible businesses, obtained from the data collected from tax authorities, is used to estimate the number of unregistered businesses. For example, if 10 000 businesses are VAT-registered, are below the threshold, and the participation rate to the scheme is assumed to be 40%, these 10 000 businesses represent only 60% of all eligible businesses. Hence, the number of unregistered businesses would be assumed to be 15 000.

The numbers provided by the tax authorities in Denmark and Poland, and the resulting estimates are presented below.

➤ **Denmark**

Table 45 – Total number of VAT-registered businesses in different size classes in Denmark

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Denmark | 2014 | 149 935 | 127 370 | 51 772 | 87 721 | 38 456 | 20 946 |

Source: Data obtained from surveys to tax authorities

Table 46 – Estimates of the number of businesses in Denmark by turnover brackets and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Denmark | 2014 | Number of businesses | 401 571 | 145 091 | 51 772 | 87 721 | 38 456 | 20 946 |
| | | Distribution of businesses | 54% | 19% | 7% | 12% | 5% | 3% |

Source: Deloitte estimates

➤ **Poland**

Table 47 – Total number of VAT-registered businesses in different size classes in Poland

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Poland | 2015 | 322 059 | 686 062 | 235 538 | 339 517 | 112 397 | 52 199 |

Source: Data obtained from surveys to tax authorities

Table 48 – Estimates of the number of businesses in Poland by turnover brackets and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Poland | 2015 | Number of businesses | 862 572 | 1 516 451 | 235 538 | 339 517 | 112 397 | 52 199 |
| | | Distribution of businesses | 28% | 49% | 7% | 11% | 3% | 2% |

Source: Deloitte estimates

3) Adjustments when tax authorities provided the number of VAT-registered businesses only, and in a different turnover classification to the one specified.

This is the case only for the United Kingdom. In addition to not classifying businesses in the relevant turnover brackets, about 3% of businesses could not be classified at all. The number of VAT-registered businesses provided by the tax authorities in the UK is presented below.

Table 49 – Number of VAT-registered businesses in each size class in the United Kingdom

| Member State | Reference year | EUR 0 | EUR 1 - EUR 124 000 | EUR 124 000 – EUR 229 000 | EUR 229 000 – EUR 458 400 | EUR 458 400 – EUR 764 000 | EUR 764 000 – EUR 1 528 000 | EUR 1 528 000 – EUR 15 280 000 | More than EUR 15 280 000 | Unidentified |
|----------------|----------------|---------|---------------------|---------------------------|---------------------------|---------------------------|-----------------------------|--------------------------------|--------------------------|--------------|
| United Kingdom | 2015 | 226 320 | 702 100 | 352 280 | 290 160 | 144 850 | 137 210 | 170 760 | 30 810 | 73 580 |

Source: Data obtained from surveys to tax authorities.

The following adjustments are made in order to account for the unregistered businesses, to redistribute the businesses provided within the specified turnover brackets, and to distribute the unidentified businesses within size classes:

- The tax authorities in the United Kingdom estimated that about 2 700 000 businesses took advantage of the SME exemption scheme and are therefore not registered for VAT purposes. The threshold for registration in the UK was GBP 81 000 in 2015, which is equivalent to about EUR 124 000. Therefore, 2 700 000 additional businesses are assumed to fall within the EUR 0 to EUR 124 000 bracket.⁶²
- Mint Global data is then used to estimate the number of businesses with turnover below and above EUR 100 000.
- The average distribution of businesses within the relevant turnover brackets based on the data obtained from tax authorities is used to redistribute businesses:

⁶² Because the threshold for VAT registration in the scheme does not refer directly to a business' turnover in the UK, but rather to the taxable turnover which is made from domestic supplies only, it is possible that some of these 2 700 000 businesses have turnover higher than EUR 124 000, resulting in a slight overestimation of the businesses in the lower bracket.

- Estimated with less than EUR 100 000 of turnover between the following brackets:
 - Less than EUR 5 000
 - EUR 5 000 to EUR 50 000
 - EUR 50 000 to EUR 100 000
- Estimated with more than EUR 100 000 of turnover between the following brackets:
 - EUR 100 000 to EUR 2 000 000
 - More than EUR 2 000 000
- Finally, the EU average distribution of businesses is used to classify the unidentified businesses within size classes.

The resulting estimates of the total number of businesses in the United Kingdom, classified within turnover brackets are presented below.

Table 50 – Estimates of the number of businesses in the United Kingdom and distribution of businesses by turnover brackets

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------------|----------------|----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| United Kingdom | 2015 | Number of businesses | 1 818 842 | 1 239 792 | 359 647 | 944 758 | 301 275 | 163 756 |
| | | Distribution of businesses | 38% | 26% | 7% | 20% | 6% | 3% |

Source: Deloitte estimates

Turnover generated by businesses in each turnover bracket

Similarly to the number of businesses, turnover estimates had to be computed for Member States which did not provide this information, and adjustments had to be made for the estimates provided by tax authorities where the information was incomplete or lacked granularity.

The following Member States did not provide any information on the turnover generated by businesses in their country:

- Cyprus
- Greece
- Romania
- Germany
- Portugal
- United Kingdom

For the above countries, estimates were derived from estimates on the number of businesses and insights on a business's average turnover derived from tax authority estimates in other Member States.

The following Member States provided incomplete information, and adjustments were made to the data provided to obtain the estimates at the required level of granularity:

- Croatia
- Italy
- Poland
- Denmark
- Lithuania

The following Member States also provided incomplete information:

- Austria
- Luxembourg

However, an analysis of the data provided revealed that these countries were outliers compared to EU-averages, and robust adjusted estimates could not be obtained. These are presented separately at the end of section C.1.

The calculations are presented in turn below.

Estimates for which no data was provided from tax authorities

When no data was provided by Member States on the turnover generated by businesses in their countries, estimates were derived using:

- The number of businesses in each size class estimated previously; and
- The average turnover generated by businesses in each size class, derived from the estimates provided by other Member States.

While Mint Global data can be used to infer country specific estimates of the average turnover of the businesses identified, a comparison of the estimates obtained to the ones provided by tax authorities showed that Mint Global data often over- or underestimates the data provided directly by Member States. The differences can be significant, especially in the lower turnover brackets.⁶³

In addition, apart from the largest turnover bracket the estimates obtained from tax authorities show that the average turnover in each size class does not vary significantly across Member State. The average turnover in each size class estimated from the Member States which provided this data is therefore deemed more robust to apply to the Member States where no data has been provided.

The average and standard deviation of the average turnover of businesses in each size class is presented below.

Table 51 – Statistics of the distribution across Member States of the average turnover per business in each size class (in EUR)⁶⁴

| Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
|----------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|

⁶³ For example, Mint Global estimates the average turnover of a business with less than EUR 5 000 of turnover to be EUR 3 500 in the Czech Republic, compared to a value of EUR159 derived from the data obtained from tax authorities.

⁶⁴ Estimates are based on Belgium, Bulgaria, Czech Republic, Estonia, Finland, France, Hungary, Ireland, Latvia, Malta, Netherlands, Slovakia, Slovenia, Spain, Sweden. Even though Belgium and Italy provided the number of businesses in slightly different turnover brackets (Less than EUR 5 580 instead of EUR 5 000 and EUR 100 000 to EUR 515 000 instead of EUR 500 000 respectively), they are included in the calculations as the error margin is assumed to be negligible

| Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|---|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Average across Member States | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Standard deviation across Member States | 454 | 2 074 | 594 | 5 994 | 9 080 | 7 134 252 |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

The resulting estimates of total turnover generated by businesses in different size class for the Member States which did not provide this data are presented below.

Table 52 – Estimated generated turnover by SMEs of different size, by Member State (in million EUR)

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Cyprus | 21 | 408 | 405 | 1 946 | 2 974 | 31 891 |
| Germany | 980 | 19 386 | 19 201 | 92 357 | 141 153 | 1 513 523 |
| Greece | 325 | 6 432 | 6 371 | 30 645 | 46 836 | 502 205 |
| Portugal | 348 | 6 874 | 6 808 | 32 748 | 50 049 | 536 659 |
| Romania | 195 | 3 861 | 3 824 | 18 396 | 28 115 | 301 464 |
| United Kingdom | 1 598 | 26 122 | 25 792 | 211 992 | 293 871 | 3 310 430 |

Source: Deloitte estimates

Estimates for which some data was provided by tax authorities which required adjustments

Similarly to the estimates on the number of businesses, some Member States provided the turnover generated by businesses in their countries, but adjustments were required to obtain these estimates in the desired level of granularity. This includes:

- 1) Adjustments when businesses and their turnover were provided in turnover classifications different to the ones specified. This is the case for Croatia, Italy, and Lithuania.
- 2) Adjustments when the number of VAT-registered businesses only was provided. This is the case for Denmark and Poland.

Each adjustment and the resulting estimates are presented below.

- 1) **Adjustments when businesses and their turnover were provided in turnover classifications different to the ones specified.**

A similar approach is undertaken to adjust the turnover generated by businesses compared to the adjustments made to the number of businesses.

- When the number of businesses were provided in turnover that were slightly different to the ones specified, the following adjustments were made:
 - From previous estimations, the number of businesses falling out of the relevant brackets was calculated. For example, Croatia provided the number of businesses with turnover below EUR 6 550, and Mint Global was used to estimate the number of these businesses with turnover between EUR 5 000 and EUR 6 550 which should be redistributed.
 - To also redistribute the turnover generated by these businesses, the average turnover of these businesses is assumed to be the mid-point between the two thresholds. For example, in the case of Croatia, the average turnover of the businesses which should be redistributed to the EUR 5 000 to EUR 50 000 bracket is assumed to be EUR 5 775, the average of EUR 5 000 and EUR 6 550.

The same exercise is used for other turnover brackets and Member States. This methodology is used for the estimates provided by Croatia and Italy.

- When tax authorities provided a number of businesses that could not be classified within turnover brackets, which is the case in Lithuania, the following adjustments were made:
 - The distribution of these businesses within turnover bracket was previously estimated.
 - The total turnover is computed using the average turnover of Lithuanian businesses in each turnover bracket, based on the information that the tax authorities were able to provide, and number of businesses above.

The estimates provided by tax authorities and the estimates adjusted to the relevant turnover brackets are presented for each Member State below.

➤ **Croatia**

Table 53 – Turnover generated by businesses of different size classes provided by the tax authorities in Croatia (in million EUR)

| Member State | Reference year | Less than EUR 6 550 | EUR 6 550 – EUR 65 500 | EUR 65 500 – EUR 131 000 | EUR 131 000 – EUR 655 000 | EUR 655 000 – EUR 1 965 250 | More than EUR 1 965 250 |
|----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | 107 | 2 555 | 2 314 | 7 610 | 7 728 | 71 630 |

Source: Data obtained from surveys to tax authorities

Table 54 – Estimates of turnover generated by businesses in Croatia by turnover brackets (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | 80 | 1 772 | 2 018 | 6 877 | 9 697 | 71 500 |

Source: Deloitte estimates

➤ **Italy**

Table 55 – Turnover generated by businesses of different size classes provided by the tax authorities in Italy (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | 783 | 47 997 | 58 247 | 240 224 | 305 939 | 2 636 502 |

Source: Data obtained from surveys to tax authorities

Table 56 – Estimates of turnover generated by businesses in Italy by turnover brackets (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | 783 | 47 997 | 58 247 | 238 494 | 307 670 | 2 636 502 |

Source: Deloitte estimates

➤ Lithuania

Table 57 – Turnover generated by businesses of different size classes provided by the tax authorities in Lithuania (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|--------------|
| Lithuania | 2015 | 12 | 547 | 897 | 5 161 | 9 162 | 75 130 | N/A |

Source: Data obtained from surveys to tax authorities

Table 58 – Estimates of turnover generated by businesses in Lithuania by turnover brackets (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Lithuania | 2015 | 44 | 1 626 | 1 833 | 9 637 | 16 058 | 125 543 |

Source: Deloitte estimates

2) Adjustments when tax authorities provided the number of VAT-registered businesses only

Tax authorities in Denmark and Poland provide the number of, and hence the turnover generated by, VAT-registered businesses only. The turnover generated by all businesses in the economy is therefore underestimated by these estimates. In order to account for this turnover, the following adjustments are made:

- The number of businesses which are not VAT-registered were previously estimated.
- They are combined with the average turnover per business calculated on VAT-registered businesses in each size class, in Denmark and Poland, to obtain the total turnover generated.

The numbers provided by the tax authorities in Denmark and Poland, and the resulting estimates are presented below.

➤ Denmark

Table 59 – Turnover generated by VAT-registered businesses of different size classes provided by the tax authorities in Denmark (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Denmark | 2014 | 65 | 2 804 | 3 755 | 20 196 | 37 949 | 522 578 |

Source: Data obtained from surveys to tax authorities

Table 60 – Estimates of turnover generated by all businesses in Denmark by turnover brackets (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Denmark | 2014 | 175 | 2 908 | 3 755 | 20 196 | 37 949 | 522 578 |

Source: Deloitte estimates

➤ Poland

Table 61 – Turnover generated by VAT-registered businesses of different size classes provided by the tax authorities in Poland (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Poland | 2015 | 145 | 15 563 | 16 787 | 75 144 | 105 924 | 1 040 733 |

Source: Data obtained from surveys to tax authorities

Table 62 – Estimates of turnover generated by all businesses in Poland by turnover brackets (in million EUR)

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Poland | 2015 | 388 | 32 171 | 16 787 | 75 144 | 105 924 | 1 040 733 |

Source: Deloitte estimates

Net and gross VAT revenues generated by businesses in each turnover bracket

Estimates of the net and gross VAT revenue generated by businesses of different size had to be computed for Member States which did not provide this information, and adjustments had to be made for the estimates provided by tax authorities where the information was incomplete or lacked granularity.

The following Member States did not provide any information on their VAT revenues:

- Cyprus
- Germany
- Greece
- Portugal
- Romania
- United Kingdom

For the above countries, estimates were derived from Eurostat dataset on the overall net VAT revenues generated in each country, and insights on how revenues are distributed amongst size classes of businesses from the tax authority data received in other Member States.

The following Member States provided incomplete information, and in some cases adjustments were made to the data provided to obtain the estimates at the required level of granularity:

- Croatia
- Italy
- Lithuania
- Netherlands

The following Member States also provided incomplete information:

- Austria
- Luxembourg

However, an analysis of the data provided revealed that these Member States were outliers compared to EU-averages, and robust adjusted estimates could not be obtained. These are presented separately at the end of the section C.1.

The calculations are presented in turn below.

Estimates for which no data was provided from tax authorities

When no data was provided by Member States on the VAT revenues generated by businesses in their countries, estimates were derived using Eurostat's dataset on the net VAT revenue generated by Member States. However, the dataset does not disaggregate the net VAT revenue by different size class of businesses, and does not provide gross VAT revenue information. In order to distribute the revenue and account for gross VAT revenue, the following methodology was used:

- The net VAT revenue generated by each Member State is obtained from Eurostat dataset
- The data obtained from tax authorities Member State which provided data to the desired level of granularity is used to:
 - Infer a net/gross VAT revenue ratio (the amount of net VAT revenue which is collected for every 1 EUR of gross VAT output declared). The average ratio across Member States which provided this data is used to calculate the overall gross VAT revenues generated for other Member States.
 - Distribute the net and gross VAT revenues amongst businesses of different size based on the average distribution observed on Member States across the EU which provided this data.

On average across EU Member States, EUR 0.28 of VAT revenue is collected for every 1 EUR of gross VAT output declared.⁶⁵ The net VAT revenue obtained from Eurostat is therefore uplifted to obtain estimates of the gross VAT revenue generated in each Member State for which no data was obtained. These estimates are presented below.

⁶⁵ Estimates are based on Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Ireland, Italy, Latvia, Malta, Poland, Slovakia, Slovenia, Spain, Sweden.

Table 63 – Net VAT revenue by Member State (in million EUR)

| Member State | Reference year | Eurostat estimates of the net VAT revenue generated in each Member State | Estimates of the gross VAT revenue generated in each Member State |
|----------------|----------------|--|---|
| Cyprus | 2014 | 1 512 | 5 396 |
| Germany | 2014 | 203 081 | 724 703 |
| Greece | 2014 | 12 676 | 45 235 |
| Portugal | 2014 | 14 672 | 52 358 |
| Romania | 2014 | 11 650 | 41 572 |
| United Kingdom | 2014 | 154 146 | 550 075 |

Source: Eurostat estimates of net VAT revenues and Deloitte estimates of gross VAT revenues

The distributions of net and gross VAT revenues generated by businesses of different size, observed across Member States in the EU, are presented below.

Table 64 – Statistics of the distribution of net and gross VAT revenues generated by businesses of different size across the EU⁶⁶

| Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Average distribution of net VAT revenues | -2% | 2% | 3% | 10% | 14% | 73% |
| Standard deviation of the distribution of net VAT revenues | 7% | 1% | 1% | 3% | 5% | 5% |
| Average distribution of gross VAT revenues | 1% | 1% | 1% | 7% | 11% | 79% |
| Standard deviation of the distribution of gross VAT revenues | 2% | 1% | 1% | 2% | 3% | 7% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

⁶⁶ Estimates are based on Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Ireland, Latvia, Malta, Poland, Slovakia, Slovenia, Spain, Sweden. Even though Belgium and Italy provided the number of businesses in slightly different turnover brackets (Less than EUR 5 580 instead of EUR 5 000 and EUR 100 000 to EUR 515 000 instead of EUR 500 000 respectively), they are included in the calculations as the error margin is assumed to be negligible.

As shown in the table above, while there is some variation of the proportion of net VAT revenue generated by businesses with less than EUR 5 000 of turnover across countries, the overall distribution of net and gross VAT revenues is comparable across Member States.

The average distribution is therefore applied to the country-level estimates of net and gross VAT revenues for Member States which did not provide this data. The resulting estimates are presented below.

Table 65 – Estimates of the net VAT revenue generated turnover by businesses of different size, by Member State (in million EUR)

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Cyprus | - 29 | 25 | 37 | 155 | 213 | 1 110 |
| Germany | - 3 917 | 3 405 | 4 932 | 20 870 | 28 636 | 149 154 |
| Greece | - 245 | 213 | 308 | 1 303 | 1 787 | 9 310 |
| Portugal | - 283 | 246 | 356 | 1 508 | 2 069 | 10 776 |
| Romania | - 225 | 195 | 283 | 1 197 | 1 643 | 8 556 |
| United Kingdom | - 2 973 | 2 584 | 3 744 | 15 841 | 21 736 | 113 213 |

Source: Deloitte estimates

Table 66 – Estimates of the gross VAT revenue generated turnover by businesses of different size, by Member State (in million EUR)

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Cyprus | 56 | 76 | 81 | 369 | 573 | 4 240 |
| Germany | 7 462 | 10 249 | 10 837 | 49 600 | 77 016 | 569 540 |
| Greece | 466 | 640 | 676 | 3 096 | 4 807 | 35 550 |
| Portugal | 539 | 740 | 783 | 3 583 | 5 564 | 41 148 |
| Romania | 428 | 588 | 622 | 2 845 | 4 418 | 32 671 |
| United Kingdom | 5 664 | 7 779 | 8 225 | 37 648 | 58 458 | 432 301 |

Source: Deloitte estimates

Estimates for which some data was provided by tax authorities which required adjustments

Similarly to the estimates on the number of businesses and their generated turnover, some Member States provided the VAT revenues generated by businesses in their countries but not at the desired level of granularity. This included:

- 1) Estimates of net and gross VAT revenues provided in Croatia and Italy, which were classified in turnover brackets different to the ones specified.
- 2) Estimates of the net and gross VAT revenues provided in Lithuania, but only for the businesses whose turnover could be identified.

In some cases, some adjustments were made to redistribute the VAT revenues in the relevant size classes, or to estimate the revenue generated by unclassified businesses. The calculations made and resulting estimates are presented below.

1) Estimates provided in different turnover brackets

The tax authorities in Croatia and Italy provided the net and gross VAT revenues generated by businesses classified in slightly different turnover brackets than the ones specified. Whilst the number of businesses falling outside of the desired brackets were previously estimated (for e.g. Croatia provided the number of businesses between EUR 0 and EUR 6 550, and the number of these falling in the EUR 5 000 to EUR 6 550 was estimated), no information allows for estimation of how much VAT contribution these specific businesses bring. Adjustments are therefore not possible to redistribute the revenues in the relevant size classes.

The VAT revenues for the Member State as a whole could be redistributed into different size classes based on the EU-average distribution. However, given that the thresholds for the

brackets only slightly differ from the ones specified (for e.g. Italy gave the revenues for the EUR 100 000 – EUR 515 000 bracket instead of EUR 500 000), it is preferred to use the information provided and assume they correspond to the desired brackets. The specific estimates are presented below for these two Member States.

2) Estimates provided by tax authorities for businesses with identified turnover only

The tax authorities in Lithuania did not provide estimates of the VAT revenues generated by the businesses with unidentified turnover. In order to account for these businesses' contribution to VAT revenues, the following adjustments are made:

- The unidentified businesses were previously distributed in each turnover bracket.
- However, not all of these businesses contribute to VAT revenues, as some may be exempted from paying VAT under the SME exemption scheme. The proportions of these estimated to be exempted from paying VAT were therefore calculated. The calculations are presented in Section C.2, data estimated in connection with the SME exemption scheme. The estimated number of VAT-registered businesses in each size class for which VAT revenues must be accounted can therefore be obtained.
- For each size class, the average net and gross VAT revenue generated by a VAT-registered business was calculated based on the data obtained from the tax authorities in Lithuania.
- The estimated average revenue, both gross and net, are multiplied with the estimated number of VAT-registered businesses in each size class to obtain the overall VAT revenues generated by businesses previously unidentified.

3) Estimates provided by tax authorities on net VAT revenues only

The tax authorities in the Netherlands only provided estimates of the net VAT revenues generated by businesses in different size classes. No estimates of gross VAT revenues were provided. These estimates were calculated in the following way:

- The net VAT revenue generated by the Netherlands overall is taken from the data provided by tax authorities
- The data obtained from tax authorities Member State which provided data to the desired level of granularity is used to:
 - Data obtained from other tax authorities is used to infer that on average across EU countries, EUR 0.29 of VAT revenue is collected for every 1 EUR of gross VAT output declared.⁶⁷ The net VAT revenue obtained from the tax authority in the Netherlands is therefore uplifted to obtain an estimate of the gross VAT revenue generated.
 - The overall gross VAT revenue is distributed amongst businesses of different size based on the average distribution observed on Member States across the EU which provided this data. This distribution was presented in

⁶⁷ Estimates are based on Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Ireland, Italy, Latvia, Malta, Poland, Slovakia, Slovenia, Spain, Sweden.

Table 64 – Statistics of the distribution of net and gross VAT revenues generated by businesses of different size across the EU.

The data provided by tax authorities and the resulting estimates following adjustments are presented below.

➤ **Croatia**

Table 67 – VAT revenues generated by businesses of different size classes provided by the tax authorities in Croatia (in million EUR)

| Member State | Reference year | Variable | Less than EUR 6 550 | EUR 6 550 – EUR 65 500 | EUR 65 500 – EUR 131 000 | EUR 131 000 – EUR 655 000 | EUR 655 000 – EUR 1 965 250 | More than EUR 1 965 250 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | Net VAT revenue | - 12 | 113 | 116 | 421 | 424 | 3 303 |
| | | Gross VAT revenue | 39 | 378 | 388 | 1 483 | 1 556 | 14 867 |

Source: Data obtained from surveys to tax authorities

Table 68 – VAT revenues generated by businesses of different size classes provided by the tax authorities in Croatia (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Croatia | 2014 | Net VAT revenue | - 12 | 113 | 116 | 421 | 424 | 3 303 |
| | | Gross VAT revenue | 39 | 378 | 388 | 1 483 | 1 556 | 14 867 |

Source: Deloitte estimates

➤ Italy

Table 69 – VAT revenues generated by businesses of different size classes provided by the tax authorities in Italy (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 515 000 | EUR 515 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | Net VAT revenue | - 1 123 | 3 563 | 3 767 | 11 181 | 9 794 | 59 936 |
| | | Gross VAT revenue | 709 | 7 893 | 8 991 | 35 406 | 45 053 | 363 031 |

Source: Data obtained from surveys to tax authorities

Table 70 – VAT revenues generated by businesses of different size classes provided by the tax authorities in Italy (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Italy | 2013 | Net VAT revenue | - 1 123 | 3 563 | 3 767 | 11 181 | 9 794 | 59 936 |
| | | Gross VAT revenue | 709 | 7 893 | 8 991 | 35 406 | 45 053 | 363 031 |

Source: Deloitte estimates

➤ Lithuania

Table 71 – VAT revenues generated by businesses of different size classes provided by the tax authorities in Lithuania (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Unidentified |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|--------------|
| Lithuania | 2015 | Net VAT revenue | - 8 | 13 | 44 | 247 | 385 | 2,102 | N/A |
| | | Gross VAT revenue | 25 | 92 | 130 | 849 | 1,495 | 11,389 | N/A |

Source: Data obtained from surveys to tax authorities

Table 72 – Estimates of the VAT revenues generated by businesses in Lithuania by turnover brackets (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Lithuania | 2015 | Net VAT revenue | - 37 | 31 | 106 | 499 | 703 | 3 603 |
| | | Gross VAT revenue | 118 | 212 | 311 | 1 715 | 2 726 | 19 524 |

Source: Deloitte estimates

➤ Netherlands

Table 73 – Net VAT revenues generated by businesses of different size classes provided by the tax authorities in the Netherlands (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Netherlands | 2015 | Net VAT revenue | - 928 | 585 | 1 408 | 4 557 | 4 447 | 34 955 |

Source: Data obtained from surveys to tax authorities

Table 74 – Estimates of the gross VAT revenues generated by businesses in the Netherlands by turnover brackets (in million EUR)

| Member State | Reference year | Variable | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Netherlands | 2015 | Gross VAT revenue | 1 723 | 2 366 | 2 502 | 11 450 | 17 778 | 131 473 |

Source: Deloitte estimates

Austria and Luxembourg

The tax authorities in Austria and Luxembourg provided data on the number of businesses in their Member States, their generated turnover and contributions to gross and net VAT revenues. However, these were provided in different turnover brackets than the ones specified, as shown in Annex B. An analysis of the data has however revealed that the characteristics of businesses in these two countries were significantly different from EU averages:

- The average turnover of businesses in Austria with less than EUR 100 000 of turnover is higher than the average observed in other EU countries, at EUR 27 000 compared to EUR 17 000.⁶⁸
- Similarly in Luxembourg, while the classifications provided by the tax authorities do not allow for a direct comparison with other Member States, the data shows that:
 - The average turnover of businesses with more than EUR 620 000 of turnover in Luxembourg is around EUR 31 000 000; and
 - The average turnover of businesses in other EU Member States⁶⁹ with more than EUR 2 000 000 of turnover is around EUR 22 000 000.

⁶⁸ Deloitte estimates based on data obtained from surveys to tax authorities.

This shows that very large businesses in Luxembourg have on average, a higher turnover than similar businesses elsewhere in the EU.

Attempts to adjust the estimates provided by Austria and Luxembourg to classify businesses and their generated turnover within the required turnover brackets led to implausible results: businesses in some turnover brackets were estimated to have an average turnover higher than the upper bound of the bracket.

It was therefore concluded that estimates could not be adjusted for these two Member States, and they are excluded from the EU-wide numbers provided in the main body of the report. However, according to Eurostat estimates, SMEs in Austria and Luxembourg combined represent only 1% of all SMEs in the EU.⁷⁰ The EU-wide estimates are therefore considered robust, despite the exclusion of these two Member States.

C.2 Data estimated in connection to the SME exemption scheme

As part of the study, information was collected on the businesses exempted from VAT under the SME exemption scheme, across the 8 Member States forming part of the fieldwork countries and for the EU as a whole, with the aim of obtaining the following estimates:

- ✔ The number of businesses exempted from paying VAT under the SME exemption scheme;
- ✔ The turnover generated by exempted businesses;
- ✔ The volume and value of such exempted transactions; and
- ✔ Categorise such sales by nature of supply (goods or services) and within the latter by type of supply (B2B or B2C).

Some Member States were able to provide estimates of the number of exempted businesses under the scheme in their country and the turnover they generate. In addition, most of these Member States also provided the number of eligible businesses who opt out of the scheme and follow the common regime. This data was used to derive estimates on the number of exempted businesses when no data was provided by tax authorities.

However, no tax authorities were able to provide information on the volume, value or type of exempted transactions so no estimates were derived for these data points.

Number of exempted businesses

Estimates on the number of exempted businesses were derived for the following Member States⁷¹:

- ✔ Austria
- ✔ Cyprus
- ✔ Denmark
- ✔ Finland
- ✔ Germany
- ✔ Greece

⁶⁹ Deloitte estimates based on data obtained from surveys to tax authorities, excluding Austria who was also an outlier.

⁷⁰ Estimates based on SMEs defined as businesses with 0-9 employees for the purpose of this calculation.

⁷¹ The Netherlands, Spain and Sweden also did not provide this information, however the SME exemption scheme is not available in these countries so they are disregarded in this section.

- ✔ Ireland
- ✔ Latvia
- ✔ Lithuania
- ✔ Poland
- ✔ Romania

The following methodology is used to derive the relevant estimates:

- 1) Estimate the number of eligible businesses.
- 2) Estimate the take-up rate of the scheme.
- 3) Multiply the two to obtain the number of exempted businesses under the SME exemption scheme.

Each point is presented in turn below.

1) Estimate the number of eligible businesses

The number of eligible businesses was assumed to be equal to the number of businesses whose total turnover falls below the SME exemption threshold in each country.⁷² The number of businesses whose turnover falls within the following brackets was previously estimated:

- ✔ Less than EUR 5 000
- ✔ EUR 5 000 to EUR 50 000
- ✔ EUR 50 000 to EUR 100 000
- ✔ EUR 100 000 to EUR 500 000
- ✔ EUR 500 000 to EUR 2 000 000
- ✔ More than EUR 2 000 000

However, the thresholds for eligibility to the SME exemption scheme across Member States often fall within these brackets, and the number of eligible businesses is therefore not directly obtainable. When this was the case, data obtained from Mint Global was used to estimate the proportion of businesses below and above the threshold within a certain bracket. For example:

- ✔ The threshold for the SME exemption scheme in Estonia is EUR 16 000.
- ✔ 56 818 and 40 393 businesses were estimated as having turnover respectively below EUR 5 000 and between EUR 5 000 and EUR 50 000 in Estonia.
- ✔ From the businesses identified by Mint Global in Estonia as having turnover between EUR 5 000 and EUR 50 000, 50% have turnover below EUR 16 000.
- ✔ The overall number of eligible businesses is therefore estimated to be 76 970.

2) Estimate the take-up rate of the scheme

12 Member States provided sufficient information to infer the take-up rate of the SME exemption scheme, which is defined as the percentage of eligible businesses taking advantage of the scheme and not paying VAT.⁷³ The data provided shows that on average, 63% of eligible businesses take advantage of the scheme. This take-up rate is applied to the number of eligible businesses estimated in Member States that did not provide this information, to obtain the number of businesses exempted from paying VAT under the scheme.

3) Multiply 1) and 2) to obtain the number of exempted businesses under the SME exemption scheme.

The estimates obtained are presented below.

⁷² The VAT exemption thresholds are taken as per January 2016, whereas the underlying economical figures date from previous years.

⁷³ These Member States are Bulgaria, Croatia, Czech Republic, Estonia, France, Hungary, Lithuania, Luxembourg, Malta, Portugal, Slovakia, Slovenia and the United Kingdom.

Table 75 – Estimated number of eligible businesses, take-up rates and exempted businesses under the SME exemption scheme

| Member State | Estimated number of eligible businesses to the SME exemption scheme | Estimated take-up rate of the scheme | Estimated number of exempted businesses under the SME exemption scheme |
|--------------|---|--------------------------------------|--|
| Austria | 611 793 | 63% | 383 367 |
| Cyprus | 34 031 | 63% | 21 325 |
| Denmark | 413 599 | 63% | 259 173 |
| Finland | 330 126 | 63% | 206 867 |
| Germany | 1 485 023 | 63% | 930 559 |
| Greece | 408 473 | 63% | 255 961 |
| Ireland | 268 628 | 63% | 168 330 |
| Latvia | 92 469 | 63% | 57 944 |
| Lithuania | 97 802 | 63% | 52 840 |
| Poland | 1 956 217 | 63% | 1 225 823 |
| Romania | 405 472 | 63% | 254 080 |

Source: Deloitte estimates

This methodology presents however some caveats:

- Some Member States have multiple thresholds, depending on the sector of activity of the type of supplies that the turnover relates to. However, such information is not available for the businesses identified. In this situation, a single threshold constituting of the average of the thresholds in place was considered.⁷⁴
- The thresholds for eligibility are usually not based on turnover alone, but may also take into account the level of domestic taxable supplies or sometimes, employee costs. This data is not available, so the estimates based on total turnover are subject to some uncertainty and may either overestimate (if additional conditions such as employee cost apply) or underestimate (if the threshold is based on a turnover below the total turnover) the number of eligible businesses.

⁷⁴ This is the case in Ireland, where two thresholds of EUR 37 500 and EUR 75 000 exist.

To test the extent to which the above challenges would lead to inaccurate estimates, the number of eligible businesses was estimated for Member States that already provided this information, using the methodology described above. This analysis suggests that while there is some variability in the resulting estimates, there is no systemic over- or underestimation.

Turnover generated by exempted businesses

Estimates on the turnover generated by exempted businesses were derived for the following Member States⁷⁵:

- ✔ Austria
- ✔ Cyprus
- ✔ Denmark
- ✔ Finland
- ✔ Germany
- ✔ Greece
- ✔ Ireland
- ✔ Latvia
- ✔ Lithuania
- ✔ Poland
- ✔ Romania

The following methodology is used to derive the relevant estimates:

- 1) Estimate the number of businesses exempted under the SME exemption scheme.
- 2) Estimate the average turnover of an exempted business in each size class.
- 3) Multiply the two to obtain the turnover generated by exempted businesses under the SME exemption scheme.

Each step is presented in turn below.

1) Estimate the number of businesses exempted under the SME exemption scheme

These estimates were calculated as part of the previous step. See

⁷⁵ The Netherlands, Spain and Sweden also did not provide this information, however the SME VAT exemption scheme is not available in these countries so they are disregarded in this section.

Table 75 for the results obtained.

2) Estimate the average turnover of an exempted business

While the average turnover of businesses in each size class were previously estimated, these estimates cannot directly be used for exempted businesses as the thresholds for eligibility to the scheme often fall within turnover brackets. For example, the average turnover of businesses in Germany was estimated to be:

- EUR 812 for a business with turnover below EUR 5 000; and
- EUR 21 220 for a business with turnover between EUR 5 000 and EUR 50 000.

However, the threshold for eligibility to the SME exemption scheme in Germany is EUR 17 500. Hence, exempted businesses which have a turnover between EUR 5 000 and EUR 50 000 are most likely to have, on average, a turnover lower than EUR 20 802.

As no data provided allowed for estimation of the average turnover of an exempted business whose turnover is in the bracket where the threshold falls, the mid-point of the lower end of the bracket and the threshold is used instead. For example, the turnover of an exempted business in Germany whose turnover is between EUR 5 000 and EUR 50 000 is assumed to be EUR 11 250, the average of EUR 5 000 and EUR 17 500.

While the robustness of these estimates cannot be tested, the data has shown that on average, the average turnover of a business is slightly below the mid-point in a given bracket (see Table 76 for the country specific estimates). Therefore, the above methodology is likely to lead to a slight overestimation of the turnover generated by exempted businesses.

3) Multiply 1) and 2) to obtain the turnover generated by exempted businesses

The estimates obtained are presented below.

Table 76 – Estimated number of businesses exempted under the SME exemption scheme and their generated turnover⁷⁶

| Member State | Estimated number of exempted under the SME exemption scheme | Estimated total turnover generated by exempted businesses (million EUR) | Threshold for the SME exemption scheme (EUR) |
|--------------|---|---|--|
| Austria | 383 367 | 3 883 | 30 000 |
| Cyprus | 21 325 | 81 | 15 600 |
| Denmark | 259 173 | 154 | 6 700* |
| Finland | 206 867 | 201 | 10 000 |
| Germany | 930 559 | 3 219 | 17 500 |

| Member State | Estimated number of exempted under the SME exemption scheme | Estimated total turnover generated by exempted businesses (million EUR) | Threshold for the SME exemption scheme (EUR) |
|--------------|---|---|--|
| Greece | 255 961 | 384 | 10 000 |
| Ireland | 168 330 | 2 727 | 56 250** |
| Latvia | 57 944 | 529 | 50 000 |
| Lithuania | 52 840 | 612 | 45 000 |
| Poland | 1 225 823 | 13 949 | 35 000* |
| Romania | 254 080 | 2 542 | 50 000* |

Source: Deloitte estimates

Note: *Average of the different thresholds applicable in Ireland

** The thresholds given in the local currency are the following: DKK 50 000 for Denmark, PLN 150 000 for Poland and ROL 220 000 for Romania.

Annex D – Country specific estimates

This Annex presents the country specific estimates for each data point presented in Annexes A and B. The estimates were obtained either:

- Directly from tax authorities, as presented in Annex B; or
- Through calculations based on a combination of public sources and insights obtained from tax authority data, as presented in Annex C.

D.1 Consolidation of data related to SMEs' domestic activities

Number of businesses in each turnover bracket

Table 77 – Number of businesses in each turnover bracket and share of SMEs, by Member State

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|-----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Belgium* | 2015 | 193 749 | 221 452 | 113 661 | 210 550 | 69 597 | 37 828 | 96% |
| Bulgaria* | 2014 | 76 575 | 142 937 | 31 069 | 48 510 | 17 985 | 8 044 | 98% |
| Croatia** | 2014 | 58 515 | 88 097 | 29 773 | 33 419 | 10 238 | 4 660 | 98% |
| Cyprus** | 2012 | 23 506 | 19 387 | 5 641 | 8 673 | 3 049 | 1 578 | 97% |
| Czech Republic* | 2014 | 574 794 | 119 672 | 38 149 | 78 477 | 39 888 | 21 270 | 98% |
| Denmark** | 2014 | 401 571 | 145 091 | 51 772 | 87 721 | 38 456 | 20 946 | 97% |
| Estonia* | 2014 | 56 818 | 40 393 | 8 843 | 14 183 | 5 493 | 2 808 | 98% |
| Finland* | 2014 | 300 128 | 130 025 | 54 202 | 81 144 | 29 314 | 15 443 | 97% |
| France* | 2014 | 4 739 000 | 1 097 000 | 657 000 | 1 175 000 | 364 000 | 168 000 | 98% |
| Germany** | 2012 | 1 115 606 | 920 093 | 267 739 | 411 598 | 144 709 | 74 869 | 97% |

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|------------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Greece** | 2012 | 370 172 | 305 298 | 88 839 | 136 573 | 48 016 | 24 842 | 97% |
| Hungary* | 2015 | 382 308 | 339 193 | 61 379 | 76 974 | 27 715 | 12 267 | 99% |
| Ireland* | 2013 | 87 854 | 171 862 | 51 948 | 77 933 | 24 547 | 14 189 | 97% |
| Italy** | 2013 | 930 383 | 2 006 675 | 815 155 | 1 098 160 | 315 786 | 139 431 | 97% |
| Latvia* | 2014 | 56 467 | 36 002 | 9 912 | 16 062 | 6 853 | 3 509 | 97% |
| Lithuania** | 2015 | 74 259 | 66 871 | 25 271 | 42 734 | 16 250 | 8 990 | 96% |
| Malta* | 2014 | 19 312 | 17 017 | 4 035 | 6 739 | 2 845 | 1 737 | 97% |
| Netherlands* | 2013 | 649 216 | 535 521 | 236 309 | 346 139 | 108 555 | 59 681 | 97% |
| Poland** | 2015 | 862 572 | 1 516 451 | 235 538 | 339 517 | 112 397 | 52 199 | 98% |
| Portugal** | 2015 | 395 568 | 326 243 | 94 934 | 145 943 | 51 310 | 26 547 | 97% |
| Romania** | 2013 | 222 207 | 183 265 | 53 328 | 81 982 | 28 823 | 14 912 | 97% |
| Slovakia* | 2013 | 314 810 | 287 217 | 37 911 | 49 354 | 17 900 | 9 354 | 99% |
| Slovenia* | 2014 | 55 892 | 85 799 | 19 329 | 28 333 | 9 430 | 5 141 | 97% |
| Spain* | 2013 | 1 386 101 | 1 912 163 | 432 716 | 509 903 | 159 172 | 74 234 | 98% |
| Sweden* | 2014 | 620 552 | 297 864 | 110 382 | 182 816 | 69 064 | 35 783 | 97% |
| United Kingdom** | 2015 | 1 818 842 | 1 239 792 | 359 647 | 944 758 | 301 275 | 163 756 | 97% |

*Data obtained from surveys to tax authorities, see Annex B.

**Deloitte estimates, see Annex C for details.

Table 78 – Number of businesses in the turnover bracket provided by tax authorities in Austria and share of SMEs

| Member State | Reference year | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 100 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 | Share of SMEs |
|--------------|----------------|----------------------|--------------------------|---------------------------|---------------------------|-----------------------------|-------------------------|---------------|
| Austria | 2013 | 611 793 | 192 826 | 88 201 | 85 286 | 39 731 | 31 267 | 97% |

Source: Data obtained from surveys to tax authorities

Table 79 – Number of businesses in the turnover bracket provided by tax authorities in Luxembourg

| Member State | Reference year | Variable | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|-----------------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | Number of businesses* | 27 160 | 12 149 | 14 404 | 13 306 |

Source: Data obtained from surveys to tax authorities

Table 80 – Proportion of businesses in each size class compared to the total number of businesses, by Member State

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium* | 2015 | 23% | 26% | 13% | 25% | 8% | 4% |
| Bulgaria* | 2014 | 24% | 44% | 10% | 15% | 6% | 2% |
| Croatia* | 2014 | 26% | 39% | 13% | 15% | 5% | 2% |
| Cyprus** | 2012 | 38% | 31% | 9% | 14% | 5% | 3% |
| Czech Republic* | 2014 | 66% | 14% | 4% | 9% | 5% | 2% |
| Denmark* | 2014 | 54% | 19% | 7% | 12% | 5% | 3% |
| Estonia* | 2014 | 44% | 31% | 7% | 11% | 4% | 2% |
| Finland* | 2014 | 49% | 21% | 9% | 13% | 5% | 3% |
| France* | 2014 | 58% | 13% | 8% | 14% | 4% | 2% |
| Germany** | 2012 | 38% | 31% | 9% | 14% | 5% | 3% |
| Greece** | 2012 | 38% | 31% | 9% | 14% | 5% | 3% |
| Hungary* | 2015 | 42% | 38% | 7% | 9% | 3% | 1% |
| Ireland* | 2013 | 21% | 40% | 12% | 18% | 6% | 3% |
| Italy* | 2013 | 18% | 38% | 15% | 21% | 6% | 3% |

| Member State | Reference year | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------|----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Latvia* | 2014 | 44% | 28% | 8% | 12% | 5% | 3% |
| Lithuania* | 2015 | 32% | 29% | 11% | 18% | 7% | 4% |
| Malta* | 2014 | 37% | 33% | 8% | 13% | 6% | 3% |
| Netherlands* | 2013 | 34% | 28% | 12% | 18% | 6% | 3% |
| Poland* | 2015 | 28% | 49% | 8% | 11% | 4% | 2% |
| Portugal** | 2015 | 38% | 31% | 9% | 14% | 5% | 3% |
| Romania** | 2013 | 38% | 31% | 9% | 14% | 5% | 3% |
| Slovakia* | 2013 | 44% | 40% | 5% | 7% | 2% | 1% |
| Slovenia* | 2014 | 27% | 42% | 9% | 14% | 5% | 3% |
| Spain* | 2013 | 31% | 43% | 10% | 11% | 4% | 2% |
| Sweden* | 2014 | 47% | 23% | 8% | 14% | 5% | 3% |
| United Kingdom* | 2015 | 38% | 26% | 7% | 20% | 6% | 3% |

*Deloitte estimates based on data obtained from surveys to tax authorities see Annex B.

**Deloitte estimates, see Annex C for details.

Turnover generated by businesses in each turnover bracket

Table 81 – Total turnover generated from businesses in each turnover bracket (million EUR)

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium* | 239 | 5 215 | 8 266 | 46 408 | 67 655 | 1 199 008 |
| Bulgaria* | 144 | 2 688 | 2 227 | 10 872 | 17 541 | 113 544 |
| Croatia** | 80 | 1 772 | 2 018 | 6 877 | 9 697 | 71 500 |
| Cyprus** | 21 | 408 | 405 | 1 946 | 2 974 | 31 891 |
| Czech Republic* | 91 | 2 538 | 2 762 | 18 641 | 39 412 | 183 362 |
| Denmark** | 175 | 2 908 | 3 755 | 20 196 | 37 949 | 522 578 |
| Estonia* | 54 | 742 | 640 | 3 248 | 5 411 | 34 620 |
| Finland* | 95 | 2 956 | 3 888 | 18 058 | 28 585 | 352 579 |
| France* | 615 | 26 339 | 47 645 | 263 319 | 347 847 | 4 040 157 |
| Germany** | 980 | 19 386 | 19 201 | 92 357 | 141 153 | 1 513 523 |
| Greece** | 325 | 6 432 | 6 371 | 30 645 | 46 836 | 502 205 |
| Hungary* | 382 | 6 257 | 4 354 | 18 009 | 26 766 | 239 224 |
| Ireland* | 92 | 3 787 | 3 718 | 17 145 | 24 057 | 529 427 |
| Italy** | 783 | 47 997 | 58 247 | 238 494 | 307 670 | 2 636 502 |
| Latvia* | 25 | 819 | 712 | 3 706 | 6 689 | 41 523 |
| Lithuania** | 44 | 1 626 | 1 833 | 9 637 | 16 058 | 125 543 |
| Malta* | 11 | 329 | 289 | 1 538 | 2 811 | 29 384 |
| Netherlands* | 468 | 12 016 | 16 996 | 74 733 | 105 157 | 1 511 135 |
| Poland** | 388 | 32 171 | 16 787 | 75 144 | 105 924 | 1 040 733 |

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Portugal** | 348 | 6 874 | 6 808 | 32 748 | 50 049 | 536 659 |
| Romania** | 195 | 3 861 | 3 824 | 18 396 | 28 115 | 301 464 |
| Slovakia* | 372 | 5 027 | 2 678 | 11 062 | 17 547 | 169 012 |
| Slovenia* | 72 | 1 835 | 1 381 | 6 189 | 9 267 | 89 164 |
| Spain* | 1 746 | 37 304 | 30 592 | 110 915 | 152 749 | 1 759 000 |
| Sweden* | 650 | 6 285 | 7 932 | 41 232 | 67 320 | 748 165 |
| United Kingdom** | 1 598 | 26 122 | 25 792 | 211 992 | 293 871 | 3 310 430 |

*Data obtained from surveys to tax authorities, see Annex B.

**Deloitte estimates, see Annex C for details.

Table 82 – Total turnover generated from businesses in Austria in the turnover brackets provided by the tax authorities (million EUR)

| Member State | Reference year | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | 6 197 | 15 204 | 18 652 | 44 592 | 50 449 | 662 169 |

Source: Data obtained from surveys to tax authorities

Table 83 – Total turnover generated from businesses in Luxembourg in the turnover brackets provided by the tax authorities (million EUR)

| Member State | Reference year | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | 81 | 744 | 4 046 | 425 741 |

Source: Data obtained from surveys to tax authorities

Table 84 – Estimated average turnover generated from businesses in each turnover bracket (EUR)

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium* | 1 233 | 23 547 | 72 724 | 220 413 | 972 100 | 31 696 311 |
| Bulgaria* | 1 880 | 18 805 | 71 695 | 224 111 | 975 303 | 14 115 406 |
| Croatia* | 1 368 | 20 113 | 67 795 | 205 768 | 947 186 | 15 343 270 |
| Cyprus** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Czech Republic* | 159 | 21 208 | 72 411 | 237 534 | 988 069 | 8 620 687 |
| Denmark* | 436 | 20 044 | 72 524 | 230 229 | 986 820 | 24 948 823 |
| Estonia* | 950 | 18 370 | 72 374 | 229 007 | 985 072 | 12 329 060 |
| Finland* | 317 | 22 732 | 71 735 | 222 548 | 975 120 | 22 831 018 |
| France* | 130 | 24 010 | 72 519 | 224 101 | 955 624 | 24 048 554 |
| Germany** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Greece** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Hungary* | 999 | 18 446 | 70 934 | 233 966 | 965 773 | 19 501 434 |
| Ireland* | 1 042 | 22 036 | 71 579 | 220 002 | 980 026 | 37 312 474 |
| Italy* | 841 | 23 919 | 71 455 | 217 176 | 974 298 | 18 909 006 |
| Latvia* | 451 | 22 754 | 71 873 | 230 744 | 976 119 | 11 833 257 |

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Lithuania* | 597 | 24 320 | 72 547 | 225 512 | 988 160 | 13 964 723 |
| Malta* | 565 | 19 346 | 71 572 | 228 160 | 988 141 | 16 916 638 |
| Netherlands* | 721 | 22 437 | 71 922 | 215 906 | 968 702 | 25 320 209 |
| Poland* | 450 | 21 215 | 71 272 | 221 327 | 942 406 | 19 937 802 |
| Portugal** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Romania** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |
| Slovakia* | 1 180 | 17 503 | 70 643 | 224 134 | 980 284 | 18 068 465 |
| Slovenia* | 1 284 | 21 387 | 71 457 | 218 437 | 982 682 | 17 343 786 |
| Spain* | 1 260 | 19 509 | 70 699 | 217 521 | 959 649 | 23 695 344 |
| Sweden* | 1 047 | 21 100 | 71 860 | 225 540 | 974 750 | 20 908 381 |
| United Kingdom** | 879 | 21 069 | 71 716 | 224 387 | 975 425 | 20 215 627 |

*Deloitte estimates based on data obtained from surveys to tax authorities see Annex B.

**Deloitte estimates, see Annex C for details.

Table 85 – Average turnover from businesses of different size in Austria in the turnover brackets provided by the tax authorities (EUR)

| Member State | Reference year | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | 10 130 | 78 851 | 211 469 | 522 857 | 1 269 756 | 21 177 885 |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 86 - Average turnover from businesses of different size in Luxembourg in the turnover brackets provided by the tax authorities (EUR)

| Member State | Reference year | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|----------------------|--------------------------|---------------------------|-----------------------|
|--------------|----------------|----------------------|--------------------------|---------------------------|-----------------------|

| Member State | Reference year | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | 2 975 | 61 226 | 280 886 | 31 996 181 |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 87 – Share of total turnover generated by businesses of different size

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium* | 0% | 0% | 1% | 3% | 5% | 90% |
| Bulgaria* | 0% | 2% | 2% | 7% | 12% | 77% |
| Croatia* | 0% | 2% | 2% | 7% | 11% | 78% |
| Cyprus** | 0% | 1% | 1% | 5% | 8% | 85% |
| Czech Republic* | 0% | 1% | 1% | 8% | 16% | 74% |
| Denmark* | 0% | 0% | 1% | 3% | 6% | 89% |
| Estonia* | 0% | 2% | 1% | 7% | 12% | 77% |
| Finland* | 0% | 1% | 1% | 4% | 7% | 87% |
| France* | 0% | 1% | 1% | 6% | 7% | 85% |
| Germany** | 0% | 1% | 1% | 5% | 8% | 85% |
| Greece** | 0% | 1% | 1% | 5% | 8% | 85% |
| Hungary* | 0% | 2% | 1% | 6% | 9% | 81% |
| Ireland* | 0% | 1% | 1% | 3% | 4% | 92% |
| Italy* | 0% | 1% | 2% | 7% | 9% | 80% |
| Latvia* | 0% | 2% | 1% | 7% | 13% | 78% |
| Lithuania* | 0% | 1% | 1% | 6% | 10% | 81% |
| Malta* | 0% | 1% | 1% | 4% | 8% | 86% |
| Netherlands* | 0% | 1% | 1% | 4% | 6% | 88% |
| Poland* | 0% | 3% | 1% | 6% | 8% | 82% |
| Portugal** | 0% | 1% | 1% | 5% | 8% | 85% |

| Member State | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Romania** | 0% | 1% | 1% | 5% | 8% | 85% |
| Slovakia* | 0% | 2% | 1% | 5% | 9% | 82% |
| Slovenia* | 0% | 2% | 1% | 6% | 9% | 83% |
| Spain* | 0% | 2% | 1% | 5% | 7% | 84% |
| Sweden* | 0% | 1% | 1% | 5% | 8% | 86% |
| United Kingdom** | 0% | 1% | 1% | 5% | 7% | 86% |

*Deloitte estimates based on data obtained from surveys to tax authorities, see Annex B.

**Deloitte estimates, see Annex C for details.

Table 88 – Share of turnover generated by businesses of different size in Austria, classified within turnover brackets provided by the tax authorities

| Member State | Reference year | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | 1% | 2% | 2% | 6% | 6% | 83% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

Table 89 - Share of turnover generated by businesses of different size in Austria, classified within turnover brackets provided by the tax authorities

| Member State | Reference year | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | 0% | 0% | 1% | 99% |

Source: Deloitte estimates based on data obtained from surveys to tax authorities

Gross and net VAT revenue generated by businesses of different size

Table 90 – Gross and net VAT revenue generated by businesses of different size (million EUR)

| Member State | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|-----------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Belgium* | Gross | 278 | 966 | 1 424 | 7 467 | 10 910 | 171 488 |
| | Net | - 111 | 329 | 606 | 2 670 | 2 801 | 20 078 |
| | Distribution of net revenue | 0% | 1% | 2% | 10% | 11% | 76% |
| Bulgaria* | Gross | 992 | 246 | 306 | 1 573 | 2 637 | 17 908 |
| | Net | 88 | 32 | 61 | 293 | 460 | 3 005 |
| | Distribution of net revenue | 2% | 1% | 2% | 7% | 12% | 76% |
| Croatia* | Gross | 39 | 378 | 388 | 1 483 | 1 556 | 14 867 |
| | Net | -12 | 113 | 116 | 421 | 424 | 3 303 |
| | Distribution of net revenue | 0% | 2% | 2% | 10% | 10% | 76% |
| Cyprus** | Gross | 56 | 76 | 81 | 369 | 573 | 4,240 |
| | Net | - 29 | 25 | 37 | 155 | 213 | 1,110 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |
| Czech Republic* | Gross | 2 751 | 362 | 433 | 2 756 | 5 886 | 28 547 |
| | Net | 207 | 44 | 95 | 611 | 1 169 | 4 281 |
| | Distribution of net revenue | 3% | 1% | 1% | 10% | 18% | 67% |
| Denmark* | Gross | 16 | 678 | 914 | 4 801 | 8 755 | 86 823 |
| | Net | -257 | 200 | 395 | 2 061 | 3 381 | 19 210 |
| | Distribution of net revenue | -1% | 1% | 2% | 9% | 14% | 77% |
| Estonia* | Gross | 8 | 58 | 58 | 260 | 390 | 1 835 |
| | Net | -18 | 14 | 29 | 148 | 237 | 1 099 |
| | Distribution of net revenue | -1% | 1% | 2% | 10% | 15% | 73% |

| Member State | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Finland* | Gross | 34 | 725 | 833 | 3 880 | 6 052 | 69 400 |
| | Net | -180 | 286 | 342 | 1 380 | 1 963 | 11 445 |
| | Distribution of net revenue | -1% | 2% | 2% | 9% | 13% | 75% |
| France* | Gross | 633 | 3 545 | 5 469 | 32 152 | 48 925 | 538 561 |
| | Net | 211 | 2 182 | 3 034 | 14 484 | 20 005 | 138 413 |
| | Distribution of net revenue | 0% | 1% | 2% | 8% | 11% | 78% |
| Germany** | Gross | 7 462 | 10 249 | 10 837 | 49 600 | 77 016 | 569 540 |
| | Net | - 3 917 | 3 405 | 4 932 | 20 870 | 28 636 | 149 154 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |
| Greece** | Gross | 466 | 640 | 676 | 3 096 | 4 807 | 35 550 |
| | Net | - 245 | 213 | 308 | 1 303 | 1 787 | 9 310 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |
| Hungary* | Gross | 30 | 852 | 915 | 4 045 | 5 601 | 32 496 |
| | Net | 18 | 339 | 312 | 1 200 | 1 653 | 12 673 |
| | Distribution of net revenue | 0% | 2% | 2% | 8% | 10% | 78% |
| Ireland* | Gross | 12 | 189 | 341 | 2 188 | 4 094 | 33 628 |
| | Net | -0.2 | 53 | 152 | 835 | 1 394 | 4 685 |
| | Distribution of net revenue | 0% | 1% | 2% | 12% | 19% | 66% |
| Italy** | Gross | 709 | 7 893 | 8 991 | 35 406 | 45 053 | 363 031 |
| | Net | -1 123 | 3 563 | 3 767 | 11 181 | 9 794 | 59 936 |
| | Distribution of net revenue | -1% | 4% | 4% | 13% | 11% | 69% |
| Latvia* | Gross | 87 | 94 | 124 | 667 | 1 188 | 6 734 |
| | Net | 4 | 19 | 29 | 135 | 209 | 1 115 |
| | Distribution of net revenue | 0% | 1% | 2% | 9% | 14% | 74% |

| Member State | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|---------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Lithuania** | Gross | 118 | 212 | 311 | 1 715 | 2 726 | 19 524 |
| | Net | - 37 | 31 | 106 | 499 | 703 | 3 603 |
| | Distribution of net revenue | -1% | 1% | 2% | 10% | 14% | 74% |
| Malta* | Gross | 2 | 34 | 34 | 163 | 255 | 843 |
| | Net | -6 | 14 | 14 | 71 | 106 | 314 |
| | Distribution of net revenue | -1% | 3% | 3% | 14% | 20% | 61% |
| Netherlands** | Gross | 1 723 | 2 366 | 2 502 | 11 450 | 17 778 | 131 473 |
| | Net | 928 | 585 | 1 408 | 4 557 | 4 447 | 34 955 |
| | Distribution of net revenue | 1% | 1% | 1% | 7% | 11% | 79% |
| Poland* | Gross | 83 | 1 400 | 1 150 | 3 718 | 4 461 | 37 638 |
| | Net | -421 | 745 | 774 | 2 296 | 2 369 | 21 195 |
| | Distribution of net revenue | -2% | 3% | 3% | 8% | 9% | 79% |
| Portugal** | Gross | 539 | 740 | 783 | 3 583 | 5 564 | 41 148 |
| | Net | - 283 | 246 | 356 | 1 508 | 2 069 | 10 776 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |
| Romania** | Gross | 428 | 588 | 622 | 2 845 | 4 418 | 32 671 |
| | Net | - 225 | 195 | 283 | 1 197 | 1 643 | 8 556 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |
| Slovakia* | Gross | 1 153 | 277 | 360 | 1 818 | 2 908 | 23 373 |

| Member State | VAT revenue type | Less than EUR 5 000 | EUR 5 000 – EUR 50 000 | EUR 50 000 – EUR 100 000 | EUR 100 000 – EUR 500 000 | EUR 500 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|------------------|-----------------------------|---------------------|------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| | Net | -533 | 14 | 68 | 357 | 496 | 1 299 |
| | Distribution of net revenue | -31% | 1% | 4% | 21% | 29% | 76% |
| Slovenia* | Gross | 18 | 141 | 216 | 947 | 1 465 | 12 487 |
| | Net | -0.1 | 56 | 88 | 295 | 354 | 1 594 |
| | Distribution of net revenue | 0% | 2% | 4% | 12% | 15% | 67% |
| Spain* | Gross | 243 | 2 771 | 1 803 | 5 521 | 6 503 | 51 819 |
| | Net | -1 093 | 1 833 | 1 260 | 4 093 | 5 090 | 40 890 |
| | Distribution of net revenue | -2% | 4% | 2% | 8% | 10% | 79% |
| Sweden* | Gross | 146 | 1 294 | 1 532 | 7 715 | 12 935 | 149 269 |
| | Net | - 439 | 337 | 649 | 2 789 | 4 079 | 25 591 |
| | Distribution of net revenue | -1% | 1% | 2% | 8% | 12% | 78% |
| United Kingdom** | Gross | 5 664 | 7 779 | 8 225 | 37 648 | 58 458 | 432 301 |
| | Net | - 2 973 | 2 584 | 3 744 | 15 841 | 21 736 | 113 213 |
| | Distribution of net revenue | -2% | 2% | 3% | 10% | 14% | 73% |

*Data obtained from surveys to tax authorities, see Annex B.

**Deloitte estimates, see Annex C for details.

Table 91 – Gross and net VAT revenue generated by businesses of different size in Austria, classified within the turnover brackets provided by the tax authorities (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|------------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| Austria | 2013 | Gross | 945 | 1 753 | 2 325 | 6 157 | 9 492 | 147 360 |

| Member State | Reference year | VAT revenue type | Less than EUR 30 000 | EUR 30 000 – EUR 100 000 | EUR 10 000 – EUR 220 000 | EUR 220 000 – EUR 700 000 | EUR 700 000 – EUR 2 000 000 | More than EUR 2 000 000 |
|--------------|----------------|-----------------------------|----------------------|--------------------------|--------------------------|---------------------------|-----------------------------|-------------------------|
| | | Net | 670 | 1 493 | 1 929 | 4 832 | 7 072 | 80 993 |
| | | Distribution of net revenue | 1% | 2% | 2% | 5% | 7% | 83% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

Table 92 – Gross and net VAT revenue generated by businesses of different size in Luxembourg, classified within the turnover brackets provided by the tax authorities (million EUR)

| Member State | Reference year | VAT revenue type | Less than EUR 25 000 | EUR 25 000 – EUR 112 000 | EUR 112 000 – EUR 620 000 | More than EUR 620 000 |
|--------------|----------------|-----------------------------|----------------------|--------------------------|---------------------------|-----------------------|
| Luxembourg | 2014 | Gross | 322 | 105 | 456 | 21 643 |
| | | Net | 75 | 42 | 180 | 3 581 |
| | | Distribution of net revenue | 2% | 1% | 5% | 92% |

Source: Gross and Net VAT revenue data obtained from surveys to tax authorities. Deloitte estimates of the distribution of net revenue based on tax authority data.

D.2 Consolidation of data related to the SME exemption scheme

Number of businesses exempted from paying VAT under the SME exemption scheme

Table 93 - Number of exempted businesses and take-up rates⁷⁷ under the SME exemption scheme

| Member State | Exempted businesses | % of SMEs | % of all businesses | Take-up rate |
|--------------|---------------------|-----------|---------------------|-------------------|
| Austria** | 383 367 | 38% | 37% | 63% |
| Belgium* | 114 332 | 14% | 14% | N/A ⁷⁸ |
| Bulgaria* | 136 282 | 43% | 42% | 72% |
| Croatia* | 51 276 | 23% | 23% | 48% |
| Cyprus** | 21 325 | 35% | 34% | 63% |

⁷⁷ Defined as the proportion of eligible businesses to the SME exemption taking advantage of the scheme and not paying VAT.

⁷⁸ The tax authorities in Belgium did not provide the number of eligible businesses which opt out of the scheme, necessary to calculate the take-up rate.

| Member State | Exempted businesses | % of SMEs | % of all businesses | Take-up rate |
|-----------------|---------------------|-------------------|---------------------|--------------|
| Czech Republic* | 414 774 | 49% | 48% | 70% |
| Denmark** | 259 173 | 36% | 35% | 63% |
| Estonia* | 81 269 | 65% | 63% | 76% |
| Finland** | 206 867 | 35% | 34% | 63% |
| France* | 1 865 000 | 23% | 23% | 57% |
| Germany** | 930 559 | 33% | 32% | 63% |
| Greece** | 255 961 | 27% | 26% | 63% |
| Hungary* | 319 615 | 36% | 36% | 55% |
| Ireland** | 168 330 | 41% | 39% | 63% |
| Italy* | 479 787 | 9% | 9% | 0% |
| Latvia** | 57 944 | 46% | 45% | 63% |
| Lithuania* | 79 842 | 35% | 34% | 54% |
| Luxembourg* | 445 | N/A ⁷⁹ | 1% | 5% |
| Malta* | 10 618 | 21% | 21% | 29% |
| Poland** | 1 225 823 | 40% | 39% | 63% |
| Portugal* | 541 610 | 53% | 52% | 95% |
| Romania** | 254 080 | 45% | 43% | 63% |
| Slovakia* | 523 834 | 74% | 73% | 87% |
| Slovenia* | 105 977 | 53% | 52% | 92% |
| United Kingdom* | 2 700 000 | 58% | 56% | 74% |

*Deloitte estimates based on data obtained from surveys to tax authorities, see Annex B for details.

**Deloitte estimates, see Annex C for details.

⁷⁹ The data provided by Luxembourg did not allow to classify businesses between SMEs and non-SMEs.

Table 94 – Turnover generated by businesses exempted under the SME exemption scheme

| Member State | Turnover generated by exempted businesses (million EUR) | Proportion of SMEs' turnover generated by exempted businesses | Proportion of all businesses' turnover generated by exempted businesses |
|-----------------|---|---|---|
| Austria** | 3 883 | 3% | 0.5% |
| Belgium* | 289 | 0.2% | 0.02% |
| Bulgaria* | 1 207 | 4% | 1% |
| Croatia* | 455 | 2% | 0.5% |
| Cyprus** | 81 | 1% | 0.2% |
| Czech Republic* | 1 162 | 2% | 0.5% |
| Denmark** | 154 | 0.2% | 0.03% |
| Estonia* | 300 | 3% | 1% |
| Finland** | 201 | 0.4% | 0.05% |
| France* | 2 259 | 0.3% | 0.05% |
| Germany** | 3 219 | 1% | 0.2% |
| Greece** | 384 | 0.4% | 0.1% |
| Hungary* | 1 959 | 4% | 1% |
| Ireland** | 2 727 | 6% | 0.47% |
| Italy* | 5 923 | 1% | 0.2% |
| Latvia** | 529 | 4% | 1% |
| Lithuania* | 613 | 2% | 0.4% |
| Luxembourg* | 1 | N/A ⁸⁰ | 0.0002% |
| Malta* | 77 | 2% | 0.2% |
| Poland** | 13 949 | 6% | 1% |
| Portugal* | 1 914 | 2% | 0.3% |
| Romania** | 2 542 | 5% | 1% |
| Slovakia* | 4 041 | 11% | 2% |
| Slovenia* | 2 860 | 15% | 3% |
| United Kingdom* | 55 000 | 10% | 1% |

*Deloitte estimates based on data obtained from surveys to tax authorities, see Annex B.

**Deloitte estimates, see Annex C for details.

⁸⁰ The data provided by Luxembourg did not allow to classify businesses between SMEs and non-SMEs.

Annex E – Ipsos MORI surveys

Ipsos MORI was commissioned to conduct surveys in four markets, Austria, Italy, Poland and the UK, and interviewed 500 SMEs in each country. Businesses were asked about their turnover, their VAT obligations and cross-border trading behaviours.

This survey was commissioned to fill gaps in the data, particularly in areas where limited public sources exist (for example, data on exempted businesses under the SME exemption scheme). However, more data than expected was obtained via other sources, such as surveys to tax authorities or studies conducted on the Internationalisation of SMEs.⁸¹ Moreover, the Ipsos MORI survey results revealed that some confusion exists among businesses on their exact situation. Therefore, wherever possible, data from tax authorities is used as the primary source and less reliance is placed on the results of the Ipsos MORI surveys for the different data points that were estimated. Details on the businesses interviewed and some of the results obtained are however presented in this Annex.

E.1 Profile of businesses interviewed

Ipsos MORI interviewed 500 businesses in each of the four markets. The surveys focused on very small SMEs⁸² in order to capture the ones most likely to be able to take advantage of the SME exemption scheme. The distribution by turnover brackets of the businesses interviewed in each market is presented below.

Table 95 – Number of businesses interviewed by Ipsos MORI in each country, by turnover bracket

| Member State | Less than EUR 50 000 | EUR 50 000 – EUR 125 000 | EUR 125 000 – EUR 2 000 000 |
|----------------|----------------------|--------------------------|-----------------------------|
| Austria | 108 | 291 | 101 |
| Italy | 135 | 162 | 205 |
| Poland | 160 | 231 | 110 |
| United Kingdom | 170 | 214 | 116 |

Source: Deloitte estimates based on Ipsos MORI surveys data

In Austria, Italy and Poland, only few firms declared taking advantage of the SME exemption scheme, with a higher number in the United Kingdom. This is unsurprising given the lower threshold in Austria and Poland compared to United Kingdom (EUR 30 000 and c. EUR 35 000 compared to c. EUR 124

⁸¹ Flash Eurobarometer 421, Internationalisation of Small and Medium-sized Enterprises (2015)

⁸² With less than EUR 125 000 of turnover

000), and the fact that Italy imposes additional conditions for businesses to be eligible for the scheme. The numbers of exempted businesses in each country and turnover bracket is reported below.

Table 96 – Number of businesses exempted under the SME exemption scheme in each country, by turnover bracket

| Member State | Less than EUR 50 000 | EUR 50 000 – EUR 125 000 | EUR 125 000 – EUR 2 000 000 |
|----------------|----------------------|--------------------------|-----------------------------|
| Austria | 13 (12.0%) | 7 (2.4%) | 5 (5.0%) |
| Italy | 4 (3.0%) | 2 (1.2%) | 4 (2.0%) |
| Poland | 19 (11.9%) | 2 (0.9%) | 1 (0.9%) |
| United Kingdom | 72 (42.4%) | 100 (46.7%) | 2 (1.7%) |

Source: Deloitte estimates based on Ipsos MORI surveys data

Given the small sample sizes and the fact that a large proportion of Member States provided the number of exempted businesses and data allowing the calculation of take-up rates⁸³, the numbers obtained from Ipsos MORI surveys were not used to draw conclusions on the quantitative analysis of the scheme.

The survey was also used to calculate the percentage of businesses trading cross-border. Due to the inconsistencies in the businesses' responses, a range rather than single point estimates is reported: when it was not clear whether a business did carry out cross-border trade or not (due to contradictory answers on different questions), this business was assumed to not sell outside of its country to obtain the lower bound estimate, and was assumed to do so to obtain the upper bound estimate.

The percentage of businesses carrying out cross-border trade in each country is reported below.

Table 97 – Percentage of businesses interviewed carrying out cross-border trade in each country and across the three markets

| Member State | Lower bound | Upper bound | Median |
|----------------|-------------|-------------|--------|
| Austria | 21% | 29% | 25% |
| Italy | 20% | 45% | 33% |
| Poland | 20% | 26% | 23% |
| United Kingdom | 14% | 31% | 23% |

⁸³ See Annex B for details

| Member State | Lower bound | Upper bound | Median |
|-----------------------|-------------|-------------|--------|
| Four markets combined | 19% | 33% | 26% |

Source: Deloitte estimates based on Ipsos MORI surveys data

The cross-border behaviours were also separately evaluated for:

- Businesses taking advantage of the SME exemption scheme; and
- Businesses eligible for the SME exemption scheme but choosing to opt for the common regime.

Businesses eligible for the scheme were identified according to the threshold in place in the country and whether a business's turnover was below this threshold. This could however only be done in Austria, Poland and the UK as Italy has multiple thresholds depending on the sector of activity, and additional conditions such as employee costs which were unidentifiable for the survey results. In addition, the sample sizes of eligible and exempted businesses in the separate markets of Austria, Poland and the UK were considered too small to obtain estimates. As such, the cross-border behaviours of businesses in and out of the scheme were calculated for the Austrian, Polish and UK markets combined. The results are presented below.

Table 98 – Percentage of businesses carrying out cross-border transactions out of businesses exempted under the SME exemption scheme or businesses eligible to the scheme but opting for the common regime

| | Lower bound | Upper bound | Median |
|--|-------------|-------------|--------|
| Businesses exempted under the scheme | 10% | 24% | 17% |
| Businesses eligible to the scheme but opting for the common regime | 14% | 32% | 23% |

Source: Deloitte estimates based on Ipsos MORI surveys data

Annex F – VAT Compliance costs estimation – Literature review

This Annex presents in more detail the VAT compliance cost estimates found in the literature and the methodology used to extrapolate these estimates to all EU countries.

Estimates found in the literature

A number of different studies have been conducted to estimate the burden imposed by VAT on businesses. They differ by the methodologies used (for example, using surveys versus Standard Cost Models), the types of businesses on which they focus (some restrain the studies to very small businesses while some look at the whole economy) or the type of results they present (number of hours spent complying with VAT, monetary cost of VAT compliance or cost as a percentage of turnover). The information calculated in these studies falls into three main categories, which are presented in turn.

- Estimates of the actual monetary cost of complying with VAT for a business;
- Estimates of the cost of complying with VAT as a percentage of turnover or relative to the number of employees; and
- Estimates of the hours spent complying with VAT.

Estimates of aggregate VAT compliance costs in monetary terms have been found in the literature for 7 Member States and the table below gives an overview of the estimates obtained.

Table 99 – VAT compliance costs per business found in the literature

| Member State | Source | Overall methodology | Results | | Comments |
|--------------|---|--|--|-----------|--|
| Croatia | Helena Blazic, Tax Compliance Costs of Small Business in Croatia, November 2004 | Tax compliance costs of businesses not exceeding 50 employees in 2001/2002, measured via surveys | VAT compliance cost for VAT-registered businesses of different size | | 2001 Kruna to EUR exchange rate of 0.134 ⁸⁴ |
| | | | 0 employees | EUR 512 | |
| | | | 1 to 2 employees | EUR 721 | |
| | | | 3 to 5 employees | EUR 1 517 | |

⁸⁴ 2001 exchange rate (12 months average) from OANDA.

| Member State | Source | Overall methodology | Results | | Comments |
|--------------|--|---|--|-------------|---|
| | | | 6 to 50 employees | EUR 2 476 | |
| Denmark | International comparison of measurements of administrative burdens related to VAT in the Netherlands, Denmark, Norway and Sweden, April 2005 | Administrative burdens from VAT on businesses measured by a Standard Cost Model in 2004 | Cost of administering VAT per business per year | EUR 180 | - |
| Germany | Sebastian Eichfelder and Michael Schorn, Tax compliance costs: A business administration perspective, 2009 | Compliance cost of overall taxation estimated via surveys, data obtained in 2003 | VAT compliance cost per business | | The paper reports the total tax compliance cost per business. Based on a UK study (KMPG, 2006), 20% of these costs are assumed to relate to VAT for each size class of businesses. |
| | | | 0 to 18 employees ⁸⁵ | EUR 5 490 | |
| | | | 19 to 48 employees | EUR 10 990 | |
| | | | 49 to 498 employees | EUR 29 560 | |
| | | | 499 and more employees | EUR 173 780 | |
| Ireland | Revenue, Administrative Burden Reduction, Report on the measurement of the regulatory burden imposed on business by Revenue, July 2012 | Taxes administrative burden for businesses measured via a Standard Cost Model in 2012 | VAT administrative burden per business | EUR 1 597 | The paper reports the aggregate VAT compliance costs in 2012 for all businesses. This number is divided by the number of VAT registered businesses in 2013 provided by the Irish tax authority in the survey conducted by Deloitte. |
| Netherlands | International comparison of measurements of administrative burdens related to VAT in the Netherlands, Denmark, Norway and Sweden, April 2005 | Administrative burdens from VAT on businesses measured by a Standard Cost Model in 2004 | Cost of administering VAT per business per year | EUR 807 | - |
| Sweden | Skatteverket, Compliance costs | VAT compliance costs estimated for | VAT compliance costs for VAT-registered businesses⁸⁶ | | 2006 SEK to EUR exchange |

⁸⁵ The paper reports the costs by the number of associates, including the entrepreneur. The numbers here are reported by the number of employees, which is the number of associates minus one.

⁸⁶ The costs for businesses with less than 500 employees are based on surveys carried out with VAT-registered businesses with a telephone number. The authors then assume that the VAT compliance costs for VAT-registered businesses without a

| Member State | Source | Overall methodology | Results | | Comments |
|----------------|--|---|---|-------------|---|
| | of value-added tax in Sweden, 2006 | businesses of different sizes via surveys in 2005 | 0 employee | EUR 677 | rate of 0.11 ⁸⁷ |
| | | | 1 to 4 employees | EUR 1 570 | |
| | | | 5 to 9 employees | EUR 2 130 | |
| | | | 10 to 49 employees | EUR 2 625 | |
| | | | 50 to 499 employees | EUR 2 870 | |
| | | | 500 and more employees ⁸⁸ | EUR 70 040 | |
| | International comparison of measurements of administrative burdens related to VAT in the Netherlands, Denmark, Norway and Sweden, April 2005 | Administrative burdens from VAT on businesses measured by a Standard Cost Model in 2004 | Cost of administering VAT per business per year | EUR 344 | - |
| United Kingdom | KPMG and HMRC, Administrative Burdens – Measurement Project, 2006 | Costs of compliance with tax legislation for businesses established in the UK measured by a Standard Cost Model in 2005 | VAT compliance costs for VAT-registered businesses | | The paper calculates the total aggregate costs of VAT compliance in the UK for businesses of different size. These estimates are then divided by the number of VAT-registered businesses in each size class ⁸⁹ . While the authors provide the number of VAT-registered businesses in the UK, these are divided across size classes based on the same distribution as the overall number of businesses |
| | | | 0 employee | EUR 180 | |
| | | | 1 to 9 employees | EUR 1 210 | |
| | | | 10 to 49 employees | EUR 3 366 | |
| | | | 50 to 249 employees | EUR 9 531 | |
| | | | 250 and more employees | EUR 103 828 | |

telephone number amount to 25% of the costs obtained due to the assumed lower activity of businesses without a telephone number. These estimates are not reported here.

⁸⁷ 2006 exchange rate (12 months average) from OANDA.

⁸⁸ The estimates for compliance costs of businesses with more than 500 employees are based on interviews with 7 businesses and exclude public authorities. The interview followed the questions asked in the postal survey sent to the smaller businesses.

⁸⁹ KPMG and HMRC, Administrative Burdens – Measurement Project, 2006, Page 16

| Member State | Source | Overall methodology | Results | Comments |
|--------------|--------|---------------------|---------|---|
| | | | | which is provided in the paper ⁹⁰ . The numbers are converted to EUR using a 2005 GBP to EUR exchange rate of 1.47 ⁹¹ . |

The results presented in the table above highlight the wide range of estimates obtained in the literature for VAT compliance costs faced by businesses. They range from EUR 180 per business in Denmark to at least EUR 5 500 per business in Germany. However, some studies calculate the VAT compliance costs for all businesses in the economy, while some break down these costs by businesses of different size or focus on small businesses, making direct comparison difficult.

When broken down by businesses of different size, the studies all show that total VAT compliance costs are higher for larger businesses. This was also a finding of a survey conducted in Ireland on SME Taxpayers in 2013. While the study did not report monetary costs of tax compliance, they found that smaller businesses spend less time on tax-related matters compared to larger businesses.⁹² They also found that the most burdensome obligations for SMEs were the ones related to VAT.

In addition to considering total VAT compliance costs faced by firms it is also useful to consider how these costs compare to the turnover of enterprises and hence their impact on the viability of the business. A number of studies have also estimated compliance costs relative to the turnover of the business or the number of employees. Studies that have estimated this information include a number of the studies listed above and two additional studies, in Slovenia and the UK. The results are presented in the table below.

⁹⁰ KPMG and HMRC, Administrative Burdens – Measurement Project, 2006, page 15. Note that VAT-registered businesses will be more concentrated towards the higher size class of businesses compared to overall businesses. As a result, the numbers presented might overestimate compliance cost for large businesses and underestimate compliance costs for small businesses.

⁹¹ 2005 exchange rate (12 months average) from OANDA.

⁹² Sean Kennedy, Survey of SME Taxpayers 2013, December 2013. Table 5, page 25.

Table 100 – VAT compliance costs per employee or as a percentage of turnover found in the literature

| Member State | Source | Overall methodology | Results | | Comments |
|--------------|--|--|--|---------|---|
| Germany | Sebastian Eichfelder and Michael Schorn, Tax compliance costs: A business administration perspective, 2009 | Compliance cost of overall taxation estimated via surveys, data obtained in 2003 | VAT compliance cost associate | | The paper reports the total tax compliance cost per associate. Based on a UK study (KMPG, 2006), 20% of these costs are assumed to relate to VAT for each size class of businesses. |
| | | | 1 to 19 associates | EUR 833 | |
| | | | 20 to 49 associates | EUR 367 | |
| | | | 50 to 499 associates | EUR 212 | |
| | | | 500 and more associates | EUR 175 | |
| Sweden | Skatteverket, Compliance costs of value-added tax in Sweden, 2006 | VAT compliance costs estimated for businesses of different sizes via surveys in 2005 | Average VAT compliance cost per employee⁹³ | | 2006 SEK to EUR exchange rate of 0.11 ⁹⁴ |
| | | | 0 employee | - | |
| | | | 1 to 4 employees | EUR 818 | |
| | | | 5 to 9 employees | EUR 328 | |
| | | | 10 to 49 employees | EUR 136 | |
| | | | 50 to 499 employees | EUR 24 | |
| | | | 500 and more employees | EUR 16 | |
| Slovenia | Maja KLUN, Administrative Costs of Taxation in a Transition Country: The Case of Slovenia, 2003 | Compliance cost of VAT estimated via surveys, data obtained for the 2000 fiscal year | VAT compliance cost as a percentage of turnover | | EUR to SIT exchange rate of 239.64 used to convert the turnover brackets ⁹⁵ |
| | | | Up to c. EUR 417 000 | 3.73% | |
| | | | c. EUR 417 000 to c. EUR 4 170 000 | 0.73% | |

⁹³ The costs for businesses with less than 500 employees are based on surveys carried out with VAT-registered businesses with a telephone number. The authors then assume that the VAT compliance costs for VAT-registered businesses without a telephone number amount to 25% of the costs obtained due to the assumed lower activity of businesses without a telephone number. These estimates are not reported here.

⁹⁴ 2006 exchange rate (12 months average) from OANDA.

⁹⁵ A permanent exchange rate between the euro and the tolar was established in 2006 before Slovenia adopted the euro in 2007.

| Member State | Source | Overall methodology | Results | | Comments |
|----------------|---|---|--|-------|---|
| | | | Over c. EUR 4 170 000 | 0.08% | |
| United Kingdom | Centre for Economics and Business Research (CEBR), Impact of increasing VAT registration threshold for Small businesses, 2010 | Estimation based on data obtained from another paper, Sandford et al (1989) | VAT compliance cost as a % of a business's turnover | | 2002 GBP to EUR exchange rate of 1.53 used to convert the turnover brackets ⁹⁶ |
| | | | Up to EUR153 000 | 1.48% | |
| | | | EUR 153 000 to EUR 765 000 | 0.28% | |
| | | | Over EUR 1 53 million | 0.1% | |

As shown in the table above, even though total costs of VAT compliance are found to increase with business size, the costs of complying with VAT are consistently found to be regressive: they affect small businesses significantly more than large ones, e.g. as a percentage of turnover.

Estimating VAT compliance costs across the EU

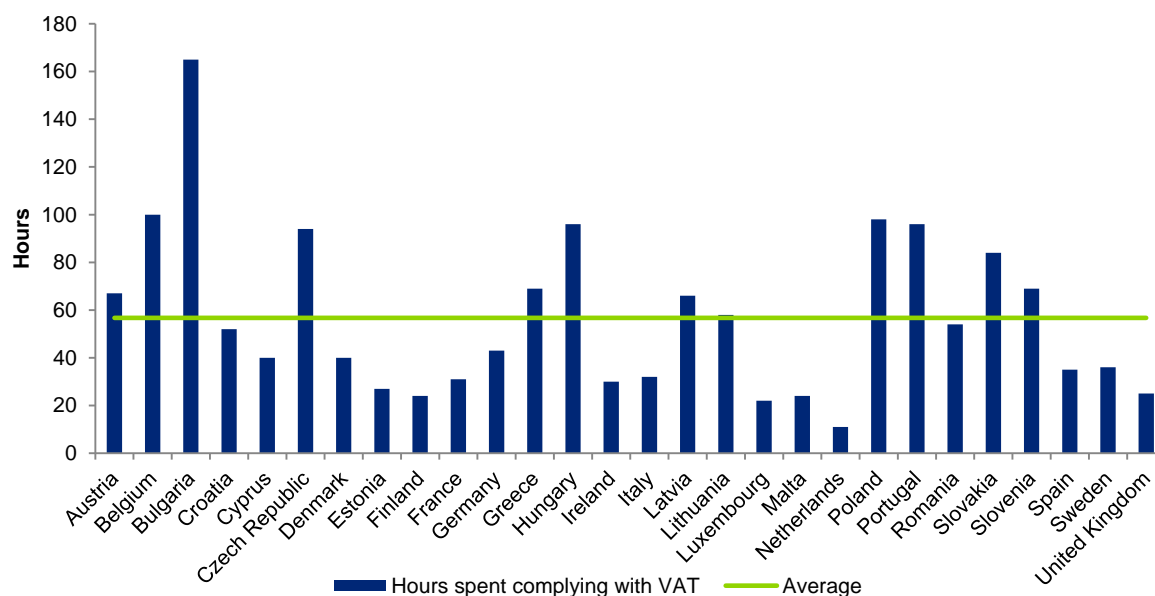
As presented in the report Volume I, in addition to these studies, PwC and the World Bank publish a time series of the VAT burden for EU countries in terms of the number of hours spent on compliance, which can be used to compare the compliance burden across markets.⁹⁷ These estimates are produced by national tax experts based on a model company scenario that is structured on a set of financial statements and assumptions about the number and cost of transactions relating to tax compliance over the year. The costs are reported in hours per year required to prepare, file and pay consumption taxes.⁹⁸ Figure 20 below shows the number of hours spent complying with VAT across the 28 Member States in 2014, as reported by the World Bank.

⁹⁶ 2002 exchange rate (12 months average) from OANDA is used since the euro did not exist before then.

⁹⁷ PwC and World Bank, Paying Taxes 2008 to 2016.

⁹⁸ For the purpose of this report, consumption taxes are assumed to reflect VAT in the EU.

Figure 20 – VAT compliance burden (number of hours) in 2014 across Member States based on a medium sized business model company (PWC and World Bank)



Source: PWC and World Bank, *Paying Taxes 2016*, Table A3.3: Time to comply, page 137

A review of these estimates over time shows that the time spent complying with VAT has stayed constant or decreased for most EU countries since 2006.⁹⁹ In only three Member States, (Belgium, Croatia and France) has this burden increased over time.

While the estimates found on VAT compliance costs for an average business vary widely across studies and Member States, they can be used as a basis to obtain indicative figures of VAT compliance costs across the EU. To ensure comparability of the estimates, this approach focuses on those studies that provide evidence on the average cost per business in the economy: this encompasses five of the seven studies presented above. However, these studies were conducted at different times and may not reflect recent changes in the compliance burden, so the following sources have been used to adjust the estimates:

- PwC and the World Bank report the hours spent complying with VAT for each Member State from 2006 to 2014. This data is to calculate the change over time in the hours spent complying with VAT for the 5 Member States in the sample.
- Eurostat publishes a time series of the average hourly labour cost for all EU Member States.¹⁰⁰ The data is reported for the years 2004, 2008, 2012, 2013 and 2014. It can therefore be used to estimate the change in the cost associated with the time spent complying with VAT for the 5 Member States in the sample from the time the studies were produced to 2014.

The estimates obtained are presented in the table below.

⁹⁹ PWC and World Bank, *Paying Taxes 2016*, *Paying Taxes 2015*, *Paying Taxes 2014*, *Paying Taxes 2013*, *Paying Taxes 2012*, *Paying Taxes 2011*, *Paying Taxes 2010*, *Paying Taxes 2009*, *Paying Taxes 2008*

¹⁰⁰ http://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly_labour_costs

Table 101 – VAT compliance costs estimated in 2014 for 5 Member States

| Member State | Average VAT compliance cost per business | Year in which the estimates are based | Change in hour spent complying with VAT from the year the study was produced to 2014 | Change in labour costs from the year the study was produced to 2014 | Estimates of VAT compliance cost per business in 2014 |
|----------------|--|---------------------------------------|--|---|---|
| Denmark | EUR 180 | 2004 | 0%* | 37% | EUR 247 |
| Ireland | EUR 1 597 | 2012 | 0% | 0% | EUR 1 597 |
| Netherlands | EUR 807 | 2004 | -82%* | 24% | EUR 184 |
| Sweden | EUR 344 | 2004 | 0%* | 29% | EUR 442 |
| | EUR 1 181 ¹⁰¹ | 2006 | 0% | 23%** | EUR 1 454 |
| United Kingdom | EUR 827 | 2005 | -29%* | 4%** | EUR 617 |

Source: Deloitte estimates based on data obtained from PwC and World Bank, *Paying Taxes 2008 to 2016* and Eurostat dataset on hourly labour costs.

* Note that since PwC and the World Bank do not publish data before 2006, the above estimates do not take into account any change in the hours spent complying with VAT between the time the studies were produced and 2006.

** In order to ensure consistency across country estimates, Eurostat data on average labour costs is used to estimate how the compliance costs may have adjusted over time. This data is, however, only available for 2004 and 2008 and therefore the values for the intervening period have been interpolated from these points.

Having obtained comparable estimates of 2014 VAT compliance costs per business for the 5 Member States, these estimates can form a basis for calculating compliance costs in other Member States.

Data from Eurostat, PwC and the World Bank are used to calculate an index of how compliance costs compare across countries, taking into account both differences in the time spent complying with VAT across Member States, and differences in labour costs. The VAT compliance cost per business in country *i* is then calculated by:

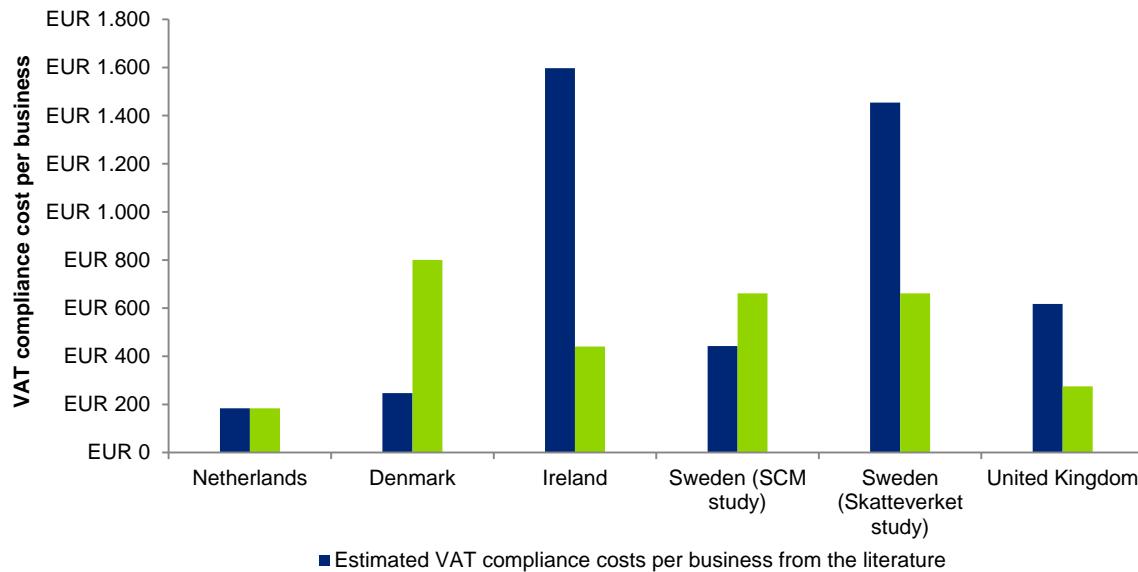
- Taking one of the estimated compliance costs outlined in Table 101 as a baseline;¹⁰²
- Using the PwC and World Bank data to calculate how the time spent complying with VAT in country *i* compares to that Member State;
- Using Eurostat's data to calculate the relative hourly labour cost in country *i* compared to that Member State; and
- Scaling the VAT compliance cost taken by these factors to obtain an estimate for country *i*'s compliance cost.

One limitation of this approach is that the estimates obtained based on the World Bank data are not necessarily consistent with those found in the literature, due to differences in the methodologies used or samples selected. This discrepancy between the estimates calculated from the World Bank data and those found in the literature is shown in Figure 21 below (which uses the Netherlands' costs as a basis for estimation in the other Member States).

¹⁰¹ Based on VAT compliance costs for VAT-registered businesses with telephone numbers from Skatteverket (2006)

¹⁰² It is possible that the change in hours spent complying with VAT in the Netherlands might represent an outlier in those specific years, meaning that the lower bound calculated based on the Netherlands may be unlikely to be attained in practice. However, given the wide range reported in the other estimates – and the fact that the estimated burden for Denmark is also low – this information is included within the estimates to reflect the inherent uncertainty.

Figure 21 – Comparison of 2014 VAT compliance costs obtained from the literature and from the estimation methodology taking the Netherlands as a base cost

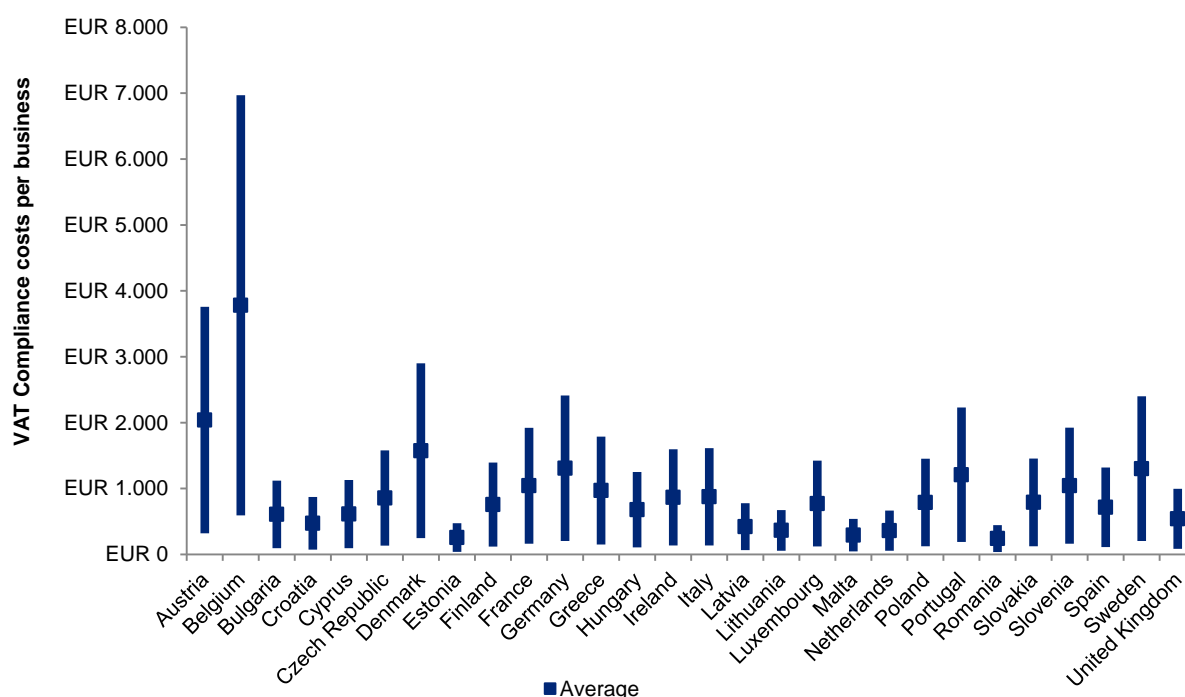


Source: Deloitte estimates based on estimates found in the literature, PwC and World Bank data and Eurostat data

To reflect the inherent uncertainty, a range rather than single point estimates of VAT compliance costs is therefore calculated for each EU country based on the following methodology:

- ✔ The 2014 average VAT compliance cost per business for 5 Member States are obtained, as presented in Table 101.
- ✔ Each in turn is taken as a base cost. 2014 indexes are then calculated based on the PwC and World Bank data and the Eurostat data, estimating the differences in compliance cost between the Member State taken as a base and the remaining 27 Member States.
- ✔ These indexes are used to calculate VAT compliance costs per business across all 28 Member States.
- ✔ The exercise is repeated using each estimate presented in Table 97 as a base. The minimum and maximum of the estimates obtained from a range of VAT compliance cost per business in each Member State. The results obtained are presented in the figure below.

Figure 22 – Range of 2014 VAT compliance costs per business estimated for each EU Member State



Source: Deloitte estimates based on estimates found in the literature, PwC and World Bank data and Eurostat data

The estimates obtained show that on average, it costs a business between EUR 140 and EUR 1 540 to comply with VAT obligations across the EU.

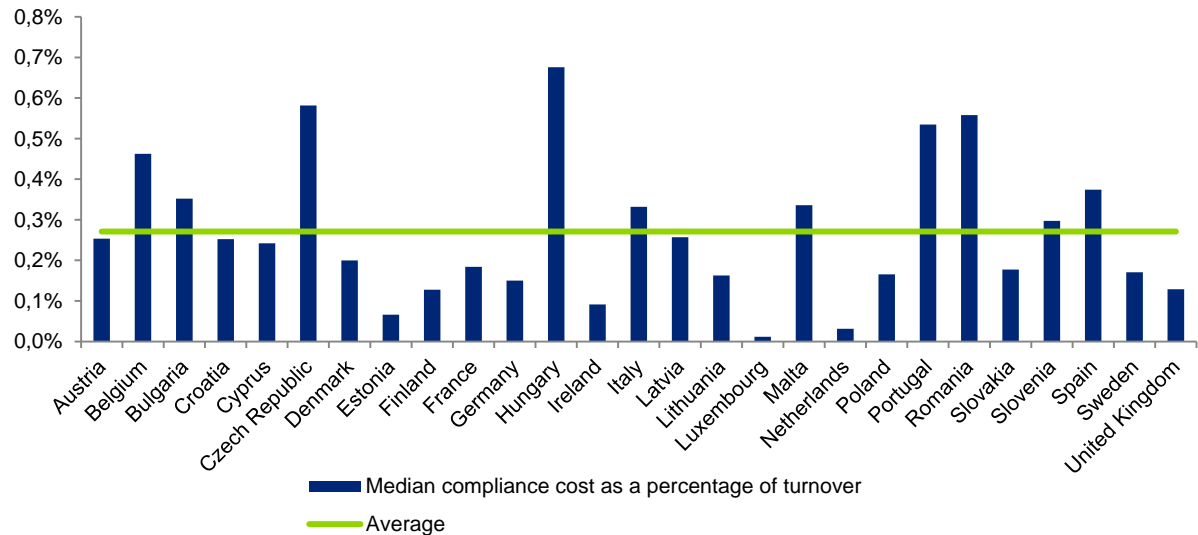
However, because the estimates obtained from the literature were given as a monetary value, they were extrapolated to other Member States taking into account the differences in labour costs. This may under- or over-estimate the actual burden of VAT on businesses: a country with low labour costs may appear to impose a small compliance burden on its businesses even if a lot of hours are spent dealing with VAT obligations. This is the case for example in Bulgaria, whose estimates of VAT compliance costs per business vary between EUR 95 and EUR 1 020, below the EU averages. However when comparing the PwC and World Bank data on the hours spent complying with VAT, Bulgarian businesses appear to spend the most time, at 165 hours a year.

The VAT compliance costs are therefore computed as a percentage of a business's turnover. While this data can be estimated using the results obtained from surveys to tax authorities, some Member States did not provide these estimates. When this was the case, an average turnover per business in each size class was applied based on the EU average, as presented in Annex B. Using the resulting estimates therefore does not take into account the variations in businesses' turnover for the Member States where no tax authority data was provided. To capture this variation, Eurostat datasets on the number of businesses in each EU country and the total generated turnover is used to estimate the average turnover of a business in each Member State.¹⁰³

¹⁰³ Eurostat Structural Business Statistics, 2014. This data is not available for Greece which is therefore excluded from the calculations.

The mid-point VAT compliance cost from the range estimated in each Member States is then used to estimate the compliance burden as a percentage of turnover for each Member State. The results are presented below.

Figure 23 – Median of the VAT compliance costs estimated as a percentage of turnover for an average business in each Member State.



Source: Deloitte estimates

As stressed in the report, the robustness of the estimates should be carefully considered as they present some limitations. As stressed by Chittenden (2002), comparing tax compliance costs estimates across countries raises substantial issues of consistency related to differences in the methodologies used, tax systems and tax populations, time periods studied, sample frames and response rates.

Annex G – Standard Cost Model

This annex describes the approach and methodology used for the analysis of the compliance costs for businesses using the Standard Cost Model, and provides detailed results per each of the SME schemes analysed in the eight Member States chosen for fieldwork.

The quantification of the burden for businesses within and outside of the VAT special schemes is an important component of this study. In keeping with the European Commission's Guidelines, this study uses the Standard Costs Model (SCM) methodology.

The SCM was developed by the Dutch ministry of Finance and is used to measure the administrative burden imposed on businesses and/or citizens through the need to comply with regulation. The SCM identifies Information Obligations (IOs), or tasks associated with regulation which require the delivery of information to public authorities or third parties. The IOs can be further subdivided into Data Requirements (DRs). The SCM provides a simplified and consistent method to measure the impact of regulation. It is used across several Member States and is part of the EU's tool kit for assessing administrative costs imposed by EU legislation¹⁰⁴.

Standard Cost Model:

Administrative burden = Time*Price*Quantity (amount x frequency)

Time: The time spent by the citizen or the employee in the enterprises to comply with an IO

Price: The standard cost to apply to the time spent according to the level of the employee who performs the IO (Information Obligation).

Quantity: The number of IOs to perform per year and their frequency (e.g. monthly, yearly)

G.1 Objectives, scope and sources for the analysis

A key objective of this study is to identify and quantify the compliance costs for VAT-related obligations for SMEs using the special schemes and for those not using them (while eligible). In order to do this, the key IOs these businesses have to comply with on the basis of the current legislation have been identified, and data on the time and costs they incur was collected through interviews in the eight Member States selected for fieldwork.

As the application of the SME schemes differ across Member States, here we present separately the details of each of the schemes assessed in the relevant Member States.

¹⁰⁴ See Impact Assessment Guidelines, annex 10: Assessing administrative costs imposed by EU legislation, p.46

Information from interviews in each Member State (per each of the special scheme analysed) was merged to create a 'typical' SME in the national context. The formula below denotes this process mathematically:

$$\text{Average cost} = \frac{1}{N} \sum_N (\text{Time}_N * \text{Wage}_N)$$

where N is the number of businesses in the sample per each Member State.

Data and assumptions

Data for the exercise came from a variety of sources:

- Real data from business and accountant interviews;
- Commission's official guidelines and standardised data (for hourly costs);
- Expert assessments;
- Third party sources.

Data from businesses interviewed

Data on time and costs for complying with the IOs came from interviews with real businesses both within and outside of the VAT special schemes for SMEs in each of the eight Member States selected for the fieldwork. Businesses were identified and contacted using a variety of channels, such as the Deloitte network, business representative organisations (both at EU and national level), chambers of commerce, and the study team's personal network.

Given the crucial role of business representative organisations (providing fiscal advisory services to their members) and of accountants in supporting businesses to use and benefit from the special VAT schemes, we decided to include interviews with business representative organisations and accountants (in a limited number) in the fieldwork, whenever possible. In particular, for the collection of data for the Standard Cost Model, the SMEs interviewed regularly directed us towards their external accountants as they were in a better position to give such details. Several interviewed accountants were also qualifying SMEs themselves.

The selection of the eight Member States for fieldwork took into account a set of criteria, such as dimension of the countries, geographical distribution and SME schemes implemented.

Given the specific objectives of the exercise, the aim within the sample of businesses in each Member State was to balance to the maximum extent possible businesses using VAT special schemes with businesses not using them (while eligible).

The table below provides an overview of the VAT special schemes analysed in each of eight Member States chosen for fieldwork, and of the sample of businesses interviewed in each of them.

Table 102 – Sample of VAT special schemes and businesses interviewed in the eight Member States selected for fieldwork

| Member State | VAT exemption | Graduated relief | Cash accounting | Flat-rate scheme | Interviews |
|--------------|---------------|------------------|-----------------|------------------|--|
| Belgium | | | | ✓ | <p>9 carried out:</p> <ul style="list-style-type: none"> ✓ 1 Start-up ✓ 1 business with turnover between EUR 50 001 – 100 000 ✓ 3 businesses with turnover between EUR 100 001 – 500 000 ✓ 1 business with turnover between EUR 500 001 – EUR 2 000 000 ✓ 2 accountants ✓ 1 Business Association |
| Estonia | ✓ | | ✓ | | <p>6 carried out:</p> <ul style="list-style-type: none"> ✓ 2 businesses with turnover of less than EUR 100 001 – 500 000 ✓ 4 businesses with turnover between EUR 100 001 – 500 000 |
| France | ✓ | | | | <p>6 carried out:</p> <ul style="list-style-type: none"> ✓ 5 businesses with turnover between EUR 5 001 – 50 000 ✓ 1 Accountant |
| Italy | ✓ | | ✓ | | <p>9 carried out:</p> <ul style="list-style-type: none"> ✓ 2 businesses with turnover between EUR 100 001 – 500 000; ✓ 1 businesses with turnover between EUR 50 001 – 100 000 (accountant) ✓ 4 businesses with turnover between EUR 5 001 – 50 000 ✓ 2 business associations |

| Member State | VAT exemption | Graduated relief | Cash accounting | Flat-rate scheme | Interviews |
|--------------|---------------|------------------|-----------------|------------------|--|
| Poland | | | | ✓ | 2 carried out: <ul style="list-style-type: none"> ✔ 2 accountants¹⁰⁵ |
| Romania | ✓ | | ✓ | | 2 carried out: <ul style="list-style-type: none"> ✔ 2 accountants¹⁰⁶ |
| Spain | | ✓ | | ✓ | 5 carried out: <ul style="list-style-type: none"> ✔ 3 accountants ✔ 1 business with turnover between EUR 5 001 – EUR 50 000 ✔ 1 business with turnover between EUR 500 001 – EUR 2 000 000 |
| UK | ✓ | | | ✓ | 7 carried out: <ul style="list-style-type: none"> ✔ 1 start-up ✔ 1 business with turnover between EUR 5 001 – 50 000 ✔ 1 business with turnover between EUR 50 001 – 100 000 ✔ 2 businesses with turnover between EUR 100 001 – 500 000 ✔ 1 business with turnover between EUR 500 001 – EUR 2 000 000 ✔ SME VAT Forum (discussion) |

Source: Deloitte

¹⁰⁵ It was not possible to interview any businesses using the flat-rate scheme in Poland.

¹⁰⁶ It was not possible to interview any businesses using the schemes in Romania.

It should be noted that the sample cannot be considered statistically representative of the variety of SMEs operating (within and outside of the VAT special schemes) in the Member States, nor is statistical representativeness requested by the SCM methodology.

Other data

Data on hourly earnings is provided by Eurostat¹⁰⁷. Specifically, hourly rates for the category ISCO 2, i.e. for management accounts, were used, as they make up the personnel responsible for VAT-related procedures in businesses. Management accountants are classified under the code 2411 in the International Standard Classification of Occupations elaborated by the ILO.

The results from the SCM were cross-checked using expert judgement findings from existing literature, including recent studies carried out for the European Commission, DG TAXUD, on VAT-related topics¹⁰⁸. It should be noted, however, that figures from existing studies are not necessarily directly comparable, as other studies may be measuring different aspects and using different approaches.

Information Obligations (IOs) used for the analysis

The table below provides the overview of the IOs used in the SCM. The relevant IOs were identified through the current literature and interviews with Deloitte's tax practitioners, and discussed and agreed upon with the Commission in the Inception phase of the study. In addition, the list of IOs was validated by both national tax authorities and the businesses interviewed.

Table 103 – Information Obligations used in the Standard Cost Model

| Type of obligation | Frequency | Description for businesses |
|--|-----------|---|
| VAT registration Re Domestic | One-off | IO1a consists of the one-off registration for VAT purposes in the Member State where the business is established. This includes all tasks necessary to complete the registration such as communication with the relevant authorities and the provision of evidence of taxable activities. ¹⁰⁹ |
| Applying for special scheme ¹¹⁰ | One-off | IO2 consists of the application process (if any) the business has to carry out in order to benefit from the special scheme. This includes all tasks necessary to complete the registration such as communication with the relevant authorities and the provision of evidence of taxable activities. By contrast, the waiting time is not included in the calculation. |
| Charging a flat-rate on its output VAT | | IO4b refers to the situation in which a business applied for the application of a flat-rate scheme and thus is liable to pay a certain flat-rate on its output VAT |

¹⁰⁷ See: http://ec.europa.eu/eurostat/web/products-datasets/-/earn_ses_hourly. The most recent figures date back to 2010, but given the economic crisis, figures are considered still quite accurate by the Commission's services consulted on the topic. Updated hourly earnings should be elaborated by Eurostat by the end of 2015,

¹⁰⁸ The full list of references used is provided in Annex F

¹⁰⁹ Waiting time is not calculated in the Standard Cost Model (SCM), e.g. time for the tax authorities to reply to requests, to finalise the registration, etc.

¹¹⁰ Only applicable to the flat-rate scheme and the exemption scheme in France.

| Type of obligation | Frequency | Description for businesses |
|--|-------------------------------------|---|
| Invoicing Re domestic | Transactional | IO5a consists of the invoicing for each transaction in accordance with the business' home country rules. |
| VAT declaration/ returns Re Domestic | Monthly/bi-monthly/quarterly/annual | IO6a consists of the periodical submission of the domestic VAT return. |
| VAT payment Re Domestic | Monthly/quarterly/annual | IO8a consists of the periodical payment of the VAT related to the business' domestic VAT return. |
| Book-keeping | Ongoing | IO9 consists of the obligations related to the book-keeping for business to comply with the audit rules of the Member State the business is established. |
| Changes or cancelling of VAT registration Re Domestic | One-off | IO10a consists of the one-off cancellation or change of registration for VAT purposes in the Member State the business is established This include all tasks necessary to complete the cancellation or change such as communication with the relevant authorities. ¹¹¹ |

Source: Deloitte analysis based on VAT Directive 2006/112/EC

The list above was originally quite long in order not to dismiss any obligation the business may have to comply with. However, after the interviews it was apparent that some information obligations were not relevant to any businesses at all and were therefore removed from the list. Other information obligations included those related to cross-border activities, the MOSS, the European Sales listing and audits.

Main assumptions used for the analysis

During the analysis, a set of basic assumptions was used uniformly across the different VAT special schemes and the Member States selected for fieldwork, in order to enhance the comparability of the results. Importantly, such homogeneous assumptions were only used in cases where no country- or scheme-specific patterns applied. The assumptions were defined based on evidence from the interviews, literature review, expert assessment and experience in previous studies in related topics.

These assumptions concern the following issues:

- **Frequency of VAT registration:** the frequency with which businesses apply for VAT registration in other Member States was assumed to be 10 years on average. It is based on the observation that generally companies register for VAT in a Member State only once, and this action therefore represents a one-off cost. The figure represents the average lifespan of a company. It was verified by the experts consulted.

¹¹¹ Waiting time is not calculated in the SCM, e.g. time for the tax authorities to reply to requests, to finalise the registration, etc.

- **Frequency of changes or cancelling of VAT registration:** similarly to the above, it was assumed to be 10 years on average. It is based on the observation that this is a very infrequent event in the lifespan of a company. It was verified by the experts consulted.
- **Number of invoices:** the number of invoices and/or fiscal receipts businesses issue on a yearly basis (when they are obliged to issue them) vary greatly across sectors, as data from the fieldwork pointed out. For instance, professionals may issues less than a dozen invoices per year (even only one per year to each of their clients), while other businesses have much larger volumes (for instance, cafe' and restaurants). Based on the information collected during fieldwork, an average of 20 invoices/fiscal receipts per month was considered in the analysis (validated by experts). However, in order to account for such variance, sensitivity analysis was carried out using a larger amount of average invoices/fiscal receipts per year (30 per month, 360 per year), in order to assess the relevance of such costs on the overall compliance costs for businesses.
- **Advisory costs:** data collected via the fieldwork did not allow us to identify the costs of advisory fees for each of the IOs to which they apply. Both businesses and accountants provided us with the lump-sum fees they normally pay (of charge, in the case of the accountants) for the set of obligations relevant to the analysis. Therefore, we decided to add such costs as a lump-sum to the internal costs of businesses.

More detail on the methodology and assumptions applied can be found in **Annex I 'Methodological Note for the analysis of the options'**.

G.2 Detailed results of the Member State analysis

Here we present the detailed results of the analysis for each of the VAT special schemes for SMEs in each of the eight Member States selected for fieldwork, namely:

- ☑ SME exemption scheme;
- ☑ VAT graduated relief;
- ☑ Cash accounting scheme;
- ☑ Other simplification (flat-rate scheme).

For each of the special schemes, we provide the results of the analysis of the compliance costs for businesses in each of the Member States selected for the analysis.

SME exemption scheme

The following Member States among those selected for fieldwork implement the SME exemption threshold scheme:

- ☑ Estonia;
- ☑ France;
- ☑ Italy;
- ☑ Romania;
- ☑ UK.

Below we present the details of the analysis per each Member States, including the composition of the businesses interviewed during the fieldwork, and the compliance costs both for businesses benefiting from the scheme and for businesses not adopting it (while eligible).

Estonia

The VAT exemption threshold applies in Estonia to businesses having an annual turnover below EUR 16 000 in a calendar year.

The application of this special scheme in Estonia exempts businesses not only from charging output VAT (and recovering input VAT) and submitting period VAT returns, but also from additional obligations (including VAT registration, book-keeping for VAT purposes, etc.).

The SME exemption scheme is optional: eligible businesses can opt for the standard VAT regime.

The interviewed sample in Estonia consisted of three businesses and three accountants, who also qualified as SMEs. The following table provides an overview of the interviewed sample.

Table 104 – Sample of businesses interviewed in Estonia

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|-------------------|--------------------|-------------------------|--|
| Accommodation | EUR 5 001 – 50 000 | No | Domestic only |
| Sport-tourism | EUR 5 001 – 50 000 | VAT exemption threshold | Also cross-border (1 MS), below distance sales threshold |
| Marketing company | EUR 5 001 – 50 000 | No | Domestic only |
| Accountant | EUR 5 001 – 50 000 | No | Domestic only |
| Accountant | Below EUR 5 00 | VAT exemption threshold | Domestic only |
| Accountant | EUR 5 001 – 50 000 | No | Domestic only |

Source: Deloitte

Results of the SCM analysis for businesses within the special scheme

The application of the VAT exemption threshold in Estonia relieves businesses from all VAT-related obligations. Therefore, businesses benefiting from this scheme do not have any VAT compliance costs.

Results of the SCM analysis for businesses outside of the special scheme

The following table presents the costs for businesses outside of the VAT exemption threshold in Estonia (Table 105). The table is followed by a discussion of the various information obligations.

Table 105 – Compliance costs for businesses outside of the SME exemption scheme in Estonia

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|--------------|-----------------|---------------|-----------------------|-------------|---------------|
| VAT registration | IN-HOUSE | 8.80 | 180 | 26.4 | 2.64 | | Every 10 years | 0.00 | 2.64 |
| | OUTSOURCE | 8.80 | 0 | 0 | 0.00 | 30 | Every 10 years | 3.00 | 3.00 |
| | TOTAL | 8.80 | 180.00 | 26.40 | 2.64 | 30.00 | Every 10 years | 3.00 | 5.64 |
| Invoicing (re domestic) | IN-HOUSE | 8.80 | 2 | 0.29 | 70.40 | | 240 (20 per month) | 0.00 | 70.40 |
| VAT declarations/returns | IN-HOUSE | 8.80 | 105 | 15.4 | 184.80 | | Monthly | 0.00 | 184.80 |
| VAT payment (domestic) | IN-HOUSE | 8.80 | 5 | 1 | 9 | | Monthly | 0.00 | 8.80 |
| Book-keeping | IN-HOUSE | 8.80 | 240 | 35.2 | 422.40 | | Monthly | 0.00 | 422.40 |
| Advisory services | OUTSOURCE | N/A | N/A | N/A | 0.00 | 180.00 | Annual | 180.00 | 180.00 |
| | | | | | | | | | 872.04 |

Source: Deloitte compilation of data from interviews with Estonian businesses and accountants

In Estonia, it was found that **VAT registration** is not perceived as burdensome by the businesses interviewed. Indeed, interviews revealed that the VAT registration process is quite automated, so that many businesses recur to external advisors only to a limited extent.

Periodic **VAT returns/declaration** account for approximately 21% of the VAT compliance costs for businesses outside of the special scheme. While the actual preparation of invoices and submission of the VAT return is not perceived as burdensome by businesses (it takes businesses about 105 minutes on average to organise and check the invoices and send the information to their accountants), this obligation needs to be carried out on a monthly basis. Contrary to many other Member States, the Estonian VAT framework does not foresee different (lower) frequencies of obligations for businesses depending on their turnover (e.g. quarterly instead of monthly VAT returns/declarations for small businesses as we found in many other Member States selected for fieldwork). The actual submission of the VAT returns/declarations is done by advisors, who also confirmed that the process is relatively simple and straightforward, and benefits from a high degree of automation (it is an electronic service).

Book-keeping was found to be the most burdensome cost, accounting for 48% of the total VAT cost accrued for businesses. Both businesses and accountants commented that the book-keeping requirements are not particularly complex or burdensome (it takes businesses approximately 4 hours per month to carry out this obligation). It should be noted however that the cost for bookkeeping is not reflective of VAT obligations only. Businesses expressed difficulty with separation of this task in terms of VAT-only book-keeping and other book-keeping obligations requires for instance for income tax purposes.

Advisory fees account for about 21% of the total compliance costs for businesses outside of the VAT special schemes in Estonia. This is a relatively low share of external costs (compared to other Member States where it can reach up to 40% of compliance costs), despite the monthly frequency of many IOs. Both businesses and accountants commented this finding as a consequence of the fact that legislative framework for VAT in Estonia is quite clear and straightforward, reducing the need of businesses for external guidance and for relying on external experts.

France

The SME exemption scheme applies in France to businesses with a turnover below EUR 82 200. However the thresholds for application of the exemption scheme can vary between EUR 82 200 and EUR 32 900 depending on the type of supply. Other special thresholds exist for lawyers, performing artists, and authors and other artists.

The application of this scheme exempts businesses from charging output VAT (and recovering input VAT) and submitting period VAT returns. In general, the obligation to register for VAT is removed except if the business carries out any of the following transactions:

- The purchase of services in respect of which it is required to account for VAT under the reverse charge in France per Article 283 of the Tax Code (*Code général des impôts* i.e. CGI);
- The provision of services in respect of which the recipient is exclusively required to account for VAT per Article 196 of the VAT directive;
- The carrying out of intra-EU acquisitions either in excess of the EUR 10 000 threshold or having opted for taxation of such acquisitions.

The interviewed sample in France consists of two businesses inside the scheme and three businesses outside the scheme. The following table provides an overview of the interviewed sample.

Table 106 – Sample of businesses interviewed in France

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|------------------|--------------------|----------------|------------------|
| Consulting | EUR 5 001 – 50 000 | No | Domestic |
| Web press agency | EUR 5 001 – 50 000 | No | Domestic |
| Accommodation | EUR 5 001 – 50 000 | No | Domestic |
| Psychologist | EUR 5 001 – 50 000 | Yes | Domestic |
| Hairdresser | EUR 5 001 – 50 000 | Yes | Domestic |
| Accountant | N/A | N/A | Domestic |

Source: Deloitte

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses within the exemption scheme in France (Table 107). The table is followed by a discussion of the various information obligations.

Table 107 – Compliance costs for businesses within the SME exemption scheme in France

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|----------------------------------|----------|----------------------|------------------|--------------|--------------------|------------------|-----------------------|----------------|---------------|
| Applying for a special scheme | IN-HOUSE | 39.2 | 30 | 1176 | 19.60 | | Annual | 0 | 19.60 |
| Invoicing (re domestic) | IN-HOUSE | 39.2 | 5 | 196 | 784.00 | | 240 (20 per month) | 0 | 784.00 |
| Book-keeping | IN-HOUSE | 39.2 | 20 | 784 | 156.80 | | Monthly | 0 | 156.80 |
| | | | | | | | | | 960.40 |

Source: Deloitte compilation of data from interviews with French businesses and an accountant

Overall, the VAT-related costs for businesses within the scheme are not substantial.

Most of the regular information obligations are removed within the scheme. As mentioned above, there is **no obligation for businesses to register** for VAT. However, the business has to periodically **apply for the scheme**. Although an additional burden, the procedure is not so burdensome and accounts only for 2% of the costs for businesses within the scheme.

Further, there are no tasks for **VAT declarations**.

With regard to **invoicing**, although businesses may be exempt from registering, the obligation to invoice is still required. The invoice from a business not charging VAT needs to contain a clause stating that VAT was not applicable to the transaction in accordance with the law (Art. 293 B of the Tax Code (CGI)). We have taken the assumption that the time for processing an invoice for businesses within the scheme is relatively the same as for those businesses outside the scheme. It was also pointed out by experts that invoicing remains one of the biggest burdens for businesses in general. This is the most burdensome obligation for businesses, accounting for over 80% of their costs.

For **bookkeeping**, the costs are significantly lowered compared to businesses outside the scheme. As the exemption scheme does not oblige businesses to keep detailed accounts, savings are made here. Overall, bookkeeping accounts for just 16% of the obligations inside of the scheme. It should be noted however, that the costs associated with bookkeeping are not entirely VAT-specific in this case. As businesses within the scheme are exempt from complying with VAT-related obligations they do not need to keep detailed records. However as per the general scheme in France, bookkeeping is still required for other purposes.

In addition general **advisory services** for VAT purposes are not needed by the businesses within the scheme, mainly because there are no obligations to file VAT declarations/returns.

Results of the SCM analysis for businesses outside the special scheme

The following table presents the costs for businesses outside of the exemption scheme in France (Table 108). The table is followed by a discussion of the various information obligations.

Table 108 – Compliance costs for businesses outside of the SME exemption scheme in France

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|--------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 39.20 | 70 | 45.73 | 4.57 | 0.00 | Every 10 years | 0.00 | 4.57 |
| | OUTSOURCE | 39.20 | 0 | 0.00 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 39.20 | 70 | 45.73 | 4.57 | 150.00 | Every 10 years | 15.00 | 19.57 |
| Invoicing (re domestic) | IN-HOUSE | 39.20 | 5 | 3.27 | 784.00 | | 240 (20 per month) | 0.00 | 784.00 |
| VAT declarations/returns | IN-HOUSE | 39.20 | 140 | 91.47 | 365.87 | | Quarterly | 0.00 | 365.87 |
| VAT payment (domestic) | IN-HOUSE | 39.20 | 5 | 3.27 | 13.07 | | Quarterly | 0.00 | 13.07 |
| Book-keeping | IN-HOUSE | 39.20 | 70 | 45.73 | 548.80 | | Annual | 0.00 | 548.80 |
| Advisory services | OUTSOURCE | N/A | N/A | N/A | 0.00 | 250.00 | Annual | 250.00 | 250.00 |
| | | | | | | | | | 1 981.31 |

Source: Deloitte compilation of data from interviews with French businesses and an accountant

Compared to the businesses inside the scheme, the costs for complying with VAT-related obligations are higher. The most significant cost is **invoicing** which accounts for almost 40% of all VAT-related costs for the business (assuming that the business produces 20 invoices per month). Presuming that the business would produce 30 invoices per month, the costs would account for approximately 60% of the total VAT-related costs (at EUR 1 176 per year).

Another costly obligation is **bookkeeping** which accounts for approximately 28% of the total VAT-related costs. In France, there are three legally required journals:

- the general journal (*le livre-journal*);
- the inventory journal (*le livre d'inventaire*);
- the general ledger (*le grand livre*).

Outside of the exemption scheme, VAT declarations and payments must be made on a quarterly basis. The SCM finds that the VAT declaration accounts for approximately 18% of the annual VAT-related costs and payments accounts for approximately 0.7%. This minor cost due to the fact that payments are mainly made online or through an automatic direct debit.

Notably, and similar to other Member states analysed, advisory services accounts for a substantial amount of the VAT-costs borne by businesses. Overall, they account for approximately 13% of the total VAT-related costs.

Italy

The SME exemption threshold scheme in Italy changed frequently in the last few years. The 2015 budget law (art. 1, c 111-113 of law 208/2015, introducing the '*regime forfetario*') rationalized the legislative framework (according to both tax authorities and accountants interviewed, the rules introduced in 2015 should remain stable for the next years).

It is an optional regime, i.e. businesses need to opt for it. Businesses do not need to expressly apply for it, as the application of the cash accounting scheme is verified by the tax authorities based on the business conduct ('*comportamento concludente*').

The SME exemption threshold scheme applies to businesses having the following characteristics:

- Being sole traders or professionals (i.e. individuals; the regime does not apply to incorporated businesses, limited liability businesses or partnerships);
- Not having purchased capital goods for more than EUR 20 000 in the previous solar year; and
- Having had an additional income from employment lower than EUR 30 000 income from employment in the previous solar year; and
- Having annual turnover below specific thresholds defined by the law, and different per sectors of economic activity.

The following table provides an overview of such sector-based thresholds.

Table 109 – Sector-based turnover thresholds for VAT exemption in Italy

| Sector of economic activity | Max annual turnover |
|-----------------------------|---------------------|
| Food and beverage | EUR 45 000 |

| Sector of economic activity | Max annual turnover |
|--|---------------------|
| Wholesale and retail trade | EUR 50 000 |
| Itinerant trade of food and beverage | EUR 40 000 |
| Itinerant trade of other goods | EUR 30 000 |
| Real estate | EUR 25 000 |
| Intermediary trade | EUR 25 000 |
| Restaurant and accommodation services | EUR 50 000 |
| Professional activities and Finance and insurance services | EUR 30 000 |
| Other economic activities | EUR 30 000 |

Source: Art. 1, c 111-113 of law 208/2015

This SME exemption scheme also benefits from additional provisions which makes it especially interesting for some businesses. The most important of such provisions related to the taxation of income. Income from economic activities benefitting from the VAT exemption threshold is subject to an income tax of 15%, which merges (and substitutes) the income tax (IRPEF) and related additional taxes, and of the regional taxation on economic activities (IRAP).

With regard to VAT-related obligations, businesses opting for this VAT special scheme are exempted from the following obligations:

- Charging and payment of VAT;
- Registering of invoices issued;
- Storing of books and documents, with the exception of invoices for purchases, invoices and fiscal receipts issued;
- Annual declaration and communication of data related to transactions with economic operators in the so-called 'black-list'; and
- Automated communication of transactions relevant for VAT purposes.

On the contrary, businesses opting for this VAT special scheme still have to comply with the following obligations:

- Registering for VAT purposes;
- Numbering and storing of purchase invoices and duty invoices;
- Reverse charging VAT and presenting INTRASTAT declarations when relevant;
- Issuing of invoicing and/or fiscal receipts, and storing of related documentation;
- Annual income statement and payment of related substitute income tax (via 'UNICO' form);
- Communicate cross-border activity in advance for inclusion in VIES.

The interviewed sample in Italy consisted of six businesses and one accountant, who also qualified as a SME. Two additional interviews were held with business organisations that also provide fiscal advisory services to their members. The following table provides an overview of the interviewed sample.

Table 110 – Sample of businesses interviewed in Italy

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|--------|--------------------|-------------------------|------------------|
| Lawyer | EUR 5 001 – 50 000 | VAT exemption threshold | Domestic only |

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|---|-----------------------|---|------------------|
| Nurse | EUR 5 001 – 50 000 | VAT exemption threshold | Domestic only |
| Private teacher | EUR 5 001 – 50 000 | VAT exemption threshold | Domestic only |
| Web services | EUR 100 001 – 500 000 | Cash accounting | Domestic only |
| Precision mechanical engineering | EUR 100 001 – 500 000 | Cash accounting | Domestic only |
| Architect | EUR 5 001 – 50 000 | No | Domestic only |
| Accountant | EUR 50 000 – 100 000 | No About 30% of clients in the VAT exemption threshold | Domestic only |
| Business organisation providing accounting services | N/A | No Several members in both schemes, and many others in standard regime | N/A |
| Business organisation providing accounting services | N/A | No Several members in both schemes, and many others in standard regime | N/A |

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses within the VAT exemption threshold in Italy (Table 111). The table is followed by a discussion of the various information obligations.

Table 111 – Compliance costs for businesses within the SME exemption scheme in Italy

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|-------------------------|--------------|-------------------|---------------|-------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 38.90 | 150.00 | 97.25 | 9.73 | | Every 10 years | 0.00 | 9.73 |
| | OUTSOURCE | 38.90 | 0.00 | 0.00 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 38.90 | | 0.00 | 9.73 | 150.00 | Every 10 years | 15.00 | 24.73 |
| Invoicing (re domestic) | IN-HOUSE | 38.90 | 5.00 | 3.24 | 778.00 | | 240 (20 per month) | 0.00 | 778.00 |
| VAT return ('Unico') | IN-HOUSE | 38.90 | 129.00 | 83.64 | 83.64 | | Annual | 0.00 | 83.64 |
| Advisory services | OUTSOURCE | 38.90 | | 0.00 | 0.00 | 485.00 | Annual | 485.00 | 485.00 |
| | | | | | | | | | 1 371.36 |

Source: Deloitte compilation of data from interviews with Italian businesses and accountants

As shown by the table above, the costs for **VAT registration** are not particularly elevated (the account for less than 1% of the overall compliance costs). Businesses and accountants interviewed did not perceive this obligation as particularly burdensome, as it is now entirely automated can be carried out online in a simple way.

Invoicing obligations account for more than 55% of the overall compliance costs. While the issuing of the single invoice/fiscal receipt is not particularly long or complex per se (it does not take each of the business interviewed more than 10 minute to issue one), the volume (i.e. the number) of such invoices issued can vary greatly among businesses. For instance, professionals may issues less than a dozen invoices per year (even only one per year to each of their clients), while other businesses have much larger volumes (for instance, cafe' and restaurants). The record-keeping and storing obligations related to invoicing are perceived as more burdensome by the businesses interviewed, as very rarely they invest in IT systems and software that can reduce the time and effort needed to comply with such obligations.

The submission of **VAT returns/declaration** is carried out on an annual basis (via the 'Unico' annual declaration). This obligation only accounts for about 6% of the overall compliance costs, and it is not perceived as a burdensome obligations by the businesses interviewed. The income substitute tax of 15% applying to the SME exemption threshold scheme is particularly appealing for many of the businesses opting for this VAT special scheme.

Advisory fees for businesses within the VAT exemption threshold account for approximately 36% of the compliance costs. Both businesses and accountants interviewed had issues in assessing the exact costs for each of the relevant IOs, as such services are usually offered as a bundle, also including support for other obligations, such as income statement and social security, and generally charged as a lump-sum on an annual basis. Based on the information collected during fieldwork, the average amount of advisory fees for businesses within the VAT exemption threshold in Italy ranges from EUR 500 to EUR 800.

Results of the SCM analysis for businesses outside of the special scheme

The following table presents the costs for businesses outside of the VAT exemption threshold in Italy (Table 112). The table is followed by a discussion of the various information obligations.

Table 112 – Compliance costs for businesses outside of the SME exemption scheme in Italy

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------------------|--------------|----------------------|------------------|---------------|--------------------|------------------|-----------------------|----------------|-----------------|
| VAT registration | IN-HOUSE | 38.90 | 180 | 116.70 | 11.76 | | Every 10 years | 0.00 | 11.76 |
| | OUTSOURCE | 38.90 | 0 | 0.00 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 38.90 | 180 | 116.70 | 11.67 | 150.00 | Every 10 years | 15.00 | 26.67 |
| Invoicing | IN-HOUSE | 38.90 | 5 | 3.24 | 778.00 | | 240 (20 per month) | 0.00 | 778.00 |
| VAT declarations/returns | IN-HOUSE | 38.90 | 150 | 97.25 | 389.00 | | Quarterly | 0.00 | 389.00 |
| VAT payment | IN-HOUSE | 38.90 | 5 | 3.24 | 12.97 | | Quarterly | 0.00 | 12.97 |
| Book-keeping | IN-HOUSE | 38.90 | 1 080 | 700.20 | 700.20 | | Annual | 0.00 | 700.20 |
| Advisory services | OUTSOURCE | | | | | 1 000.00 | Annual | 1 000.00 | 1000.00 |
| | | | | | | | | | 2 906.84 |

Source: Deloitte compilation of data from interviews with Italian businesses

Costs for **VAT registration** outside of the VAT special scheme are not particularly elevated (the account for less than 1% of the overall compliance costs). Businesses and accountants interviewed did not perceive this obligation as particularly burdensome, as it is now entirely automated and can be carried out online in a simple way. Advisory fees for such obligation can vary, ranging from approximately EUR 500 up to EUR 2 000 for the most complex cases (e.g. incorporated businesses).

Invoicing obligations account for about 27% of the overall compliance costs. While the issuing of the single invoice/fiscal receipt is not particularly long or complex per se (it does not take each of the business interviewed more than 10 minute to issue one), the volume (i.e. the number) of such invoices issued can vary greatly among businesses. Businesses outside of the VAT exemption threshold tend to be slightly larger, and tend to have more resources to invest in IT systems and software that can reduce the time and effort needed to comply with such obligations.

The submission of **VAT returns/declaration** can be carried out on an annual basis (if the business is eligible/opt for the annual returns and fills out the 'Unico' annual declaration), or on a quarterly basis. Businesses below the annual turnover thresholds of EUR 400 000 (for businesses providing services) or of EUR 700 000 (for other businesses) benefit from simplified accounting obligations ('*contabilita' semplificata*'), which is reflected in the frequency of the information obligations presented in the table. Businesses opting for the submission (and payment) of quarterly returns face a 1% interest rate on the quarterly returns and on the yearly declaration, as well as higher advisory fees. The decision on whether to option for the annual or the yearly frequency (with the additional 1% interest rate) was taken together with the advisors supporting the businesses, and based on the cash flow needs of the businesses. Overall, the businesses' internal costs for the submission of the VAT returns/declaration represent a limited share of the overall compliance costs (about 13% of the overall compliance costs, as we assumed a quarterly submission, based on the sample of businesses interviewed).

Book-keeping obligations are quite burdensome, as they represent about 13% of the internal businesses' compliance costs. The use of the cash payment or receipt as a basis for the obligation to account for VAT obliges businesses to keep records of invoices as well as of the related cash flows, which they would not do otherwise (unless above the EUR 400 000 or EUR 700 000 threshold)¹¹². Indeed, book-keeping costs are slightly higher for businesses adopting the cash accounting scheme than for those in the standard VAT regime, reflecting the additional book-keeping requirements.

Similarly, **advisory fees** for businesses within the cash accounting scheme are 24% higher than those for businesses in the standard VAT regime. All the businesses interviewed have accountants/external advisors they rely on for VAT and other fiscal and administrative obligations.

¹¹² Interviews with accountants and business organisations, businesses above such thresholds represent a small share of the businesses in Italy, and an even smaller share of those applying the cash accounting scheme.

Romania

The VAT exemption in Romania applies to businesses with a threshold of up to EUR 65 000 (RON 220 000). However businesses under this threshold can also opt to apply the normal regime.

Businesses under the threshold do not have to register for VAT purposes unless they are supplying intra-EU. If the business exceeds the threshold in a calendar year, it has 10 days from the month that the threshold was breached to register for VAT.

The interviewed sample in Romania consists of two accountants with experience of carrying out VAT-related obligations for clients inside and outside of the SME exemption scheme. The following table provides an overview of the interviewed sample.

Table 113 – Sample of businesses interviewed in Romania

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|------------|----------------|---|---|
| Accountant | N/A | Works for clients that apply the scheme | Works for clients supplying domestic and cross-border |
| Accountant | N/A | Works for clients that apply the scheme | Works for clients supplying domestic and cross-border |

Results of the SCM analysis for businesses within the special scheme

The application of the VAT exemption threshold in Romania relieves businesses from all VAT-related obligations. Therefore, businesses benefiting from this scheme do not have any VAT compliance costs.

Results of the SCM analysis for businesses outside the special scheme

The following table presents the costs for businesses outside of the VAT exemption threshold in Romania (Table 114). The table is followed by a discussion of the various information obligations.

Table 114 – Compliance costs for businesses outside of the SME exemption scheme in Romania

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|--------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 6.50 | 180 | 19.5 | 1.95 | | Every 10 years | 0.00 | 1.95 |
| | OUTSOURCE | 6.50 | 0 | 0 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 6.50 | 180 | 19.50 | 0.00 | | Every 10 years | 15.00 | 16.95 |
| Invoicing (re domestic) | IN-HOUSE | 6.50 | 5 | 0.54 | 130.00 | | 240 (20 per month) | 0.00 | 130.00 |
| VAT declarations/returns | IN-HOUSE | 6.50 | 150 | 16.25 | 16.25 | | Monthly | 0.00 | 16.25 |
| VAT payment (domestic) | IN-HOUSE | 6.50 | 5 | 0.54 | 0.54 | | Quarterly | 0.00 | 0.54 |
| Book-keeping | IN-HOUSE | 6.50 | 105 | 11.38 | 136.50 | | Monthly | 0.00 | 136.50 |
| Advisory services | OUTSOURCE | | | | 0.00 | 2 200.00 | Annual | 2 200.00 | 2200.00 |
| | | | | | | | | | 2 500.24 |

Source: Deloitte compilation of data from interviews with Romanian accountants

The compliance costs for businesses for in-house activities are very little when compared with the costs for advisory services. Advisory services in Romania account for on average EUR 2 200 per business per year.

Accountants noted however that the **VAT registration procedure** for businesses is particularly burdensome.

In 2015, the **registration procedure** was amended and businesses now have to fill in an application form known as the Form 088. Form 088 introduces the concept of assessing the business owner(s) intention and capability to carry out a business activity proposed. It is now deemed essential in Romania that this criterion is met and proved, in order to obtain a VAT number.

Form 088 requires businesses to submit a number of documents e.g. diploma certificates of all associates of the company, as well as their earnings of the last 12 months (in Romania and outside). In addition, income statements of all other companies of the associates have to be submitted to the tax authority. The documents have to be submitted as officially certified copies (i.e. certified by a notary) and officially translated into Romanian. Also, the application with Form 088, requires that the business have contracts with clients already as well as contracted employees.

Finally, it was noted by interviewees that it takes a very long time for tax authorities to go through the documentation and to respond to businesses. Interviewed accountants noted that quite often the first couple of applications are not successful (with an estimated refusal rate for 70 – 75%) and this is particularly burdensome for the business as they are faced with filing the documentation up to 3 times.

Thus, if we multiply the time it takes to complete one registration by three, the costs for registering for VAT amounts to approximately EUR 50 per year (although the one-off costs were be significantly more burdensome), accounting for around 2% of the compliance costs overall.

UK

The VAT exemption threshold applies in UK to businesses having an annual turnover below EUR 102 700 in the fiscal year (GBP 81 000) in 2014-2015. The threshold is updated each April at the beginning of the financial year. It only applies to businesses established in the UK (there is a nil threshold for non-established traders). The threshold relates to taxable supplies, where the place of supply is the UK

The VAT exemption threshold applies automatically, so that businesses do not have to apply for it. However, businesses may decide to opt-out and apply the standard VAT regime.

The application of this special scheme is UK exempts businesses not only from charging output VAT (and recovering input VAT) and submitting period VAT returns, but also from additional obligations (including VAT registration, book-keeping for VAT purposes, etc.).

However, a business still must register for Corporate Tax within three months of incorporation.

The interviewed sample in UK consisted of four businesses and two accountants, who also qualified as SMEs. The following table provides an overview of the interviewed sample.

Table 115 – Sample of businesses interviewed in UK

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|--------|----------------|----------------|------------------|
|--------|----------------|----------------|------------------|

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|----------------------------------|-------------------------|---|---------------------------|
| Clothing and accessories | EUR 500 001 – 2 000 000 | No special scheme applied | Domestic and cross-border |
| Services (car maintenance) | EUR 50 001 – 100 000 | No special scheme applied (opt-out) | Domestic only |
| Food and beverage (cafe') | EUR 50 001 – 100 000 | Flat-rate scheme | Domestic only |
| Services (Management consulting) | EUR 100 001 – 500 000 | Flat-rate scheme | Domestic only |
| Accountant | EUR 5 001 – 50 000 | No special scheme applied | Domestic only |
| Accountant | EUR 100 001 – 500 000 | Flat-rate scheme Majority of clients are micro- and small businesses | Domestic only |

Results of the SCM analysis for businesses within the special scheme

The application of the VAT exemption threshold in UK relieves businesses from all VAT-related obligations. Therefore, businesses benefiting from this scheme do not have VAT compliance costs.

Results of the SCM analysis for businesses outside of the special scheme

The following table presents the costs for businesses outside of the VAT exemption threshold in UK (Table 116). The table is followed by a discussion of the various information obligations.

Table 116 – Compliance costs for businesses outside of the SME exemption scheme in UK

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|---------------------|--------------|-------------------|---------------|--------------|-----------------|---------------|-----------------------|-------------|-----------------|
| VAT registration | IN-HOUSE | 38.20 | 70 | 44.57 | 4.46 | | Every 10 years | | 4.46 |
| | OUTSOURCE | 38.20 | | 0 | 0.00 | | Every 10 years | | 0.00 |
| | TOTAL | 38.20 | 70 | 44.57 | 4.46 | 0.00 | Every 10 years | 0.00 | 4.46 |
| Invoicing | IN-HOUSE | 38.20 | 5 | 3.18 | 764.00 | | 240 (20 per month) | | 764.00 |
| VAT return | IN-HOUSE | 38.20 | 60 | 38.2 | 152.80 | | Quarterly | 0.00 | 152.80 |
| VAT payment | IN-HOUSE | 38.20 | 5 | 3.18 | 12.73 | | Quarterly | | 12.73 |
| Book-keeping | IN-HOUSE | 38.20 | 60 | 38.20 | 458.40 | | Monthly | | 458.40 |
| Advisory services | OUTSOURCE | | | | | 1 100.00 | Annual | 1 100.00 | 1 100.00 |
| | | | | | | | | | 2 492.39 |

Source: Deloitte compilation of data from interviews with UK businesses

Costs for **VAT registration** outside of the VAT special scheme are not particularly elevated (the account for less than 1% of the overall compliance costs). Businesses and accountants interviewed did not perceive this obligation as particularly burdensome, as it is now entirely automated can be carried out online in a simple way. Advisory fees for such obligation can vary, and further investigation is undergoing to provide a more accurate estimate of such costs.

Invoicing obligations account for about 30% of the overall compliance costs. While the issuing of the single invoice/fiscal receipt is not particularly long or complex per se (it does not take each of the business interviewed more than 5 minute to issue one), the volume (i.e. the number) of such invoices issued can vary greatly among businesses. Many of the businesses interview have some software that can reduce the time and effort needed to comply with such obligations.

VAT returns/declaration represent just about 6% of compliance costs for businesses. The frequency of such obligations (quarterly) is on the main drivers of this cost.

Book-keeping obligations represent about 18% of the internal businesses' compliance costs. Overall, they are not perceived as particularly burdensome, and businesses devote about one hour per month to carry out them, often with the support of specific software.

Advisory costs are the most significant burden faced by businesses. In particular, it was noted that businesses recur to advisors to carry out their VAT declarations. For VAT related services, accountants charge from about EUR 190 (GBP 160-180 to EUR 360 (GBP 300) for larger declarations. On average we can see that this accounts for more than 40% of the businesses compliance costs.

VAT graduated relief

The following Member State among those selected for fieldwork implements the VAT exemption threshold scheme:

- Spain;

In **Spain**, there is no SME exemption scheme with a VAT threshold and all traders need to register and account for VAT. However, the Spanish tax authorities have introduced a type of graduated relief scheme for individual entrepreneurs and pass-through entities formed exclusively by individuals with turnover up to EUR 250 000.

Businesses who are within the scope of the graduated relief scheme still file a quarterly return, but have simplified VAT accounting obligations (no obligation to keep a sales book) and are not required to issue invoices (save some exceptions in a B2B environment). The scheme is automatically applicable for a period of three years unless a trader chooses to opt-out.

The calculation of the output VAT within the scheme is rather complex and is based on certain indexes (called 'módulos'). However, some additional rules apply in relation to recovery of input tax. The result of the calculation can be a VAT due which is higher or lower than under the normal regime. The Spanish tax authorities consider it an effective measure. They also do not see any disadvantages (such as the potential loss of VAT revenue), most likely because the audit and control of these businesses is also much reduced, and in their opinion this counter-balances the (limited) loss of VAT revenues. Where the final VAT assessment is higher in the simplified regime than the result in the

normal general regime, the latter applies. This implies some form of monitoring for the business and tax authority. The relief also applies to non-established businesses.

Below we present the details of the analysis per for Spain, including the composition of the businesses interviewed during the fieldwork, and the compliance costs both for businesses benefiting from the scheme and for businesses not adopting it.

The interviewed sample in Spain consisted of two business and three accountants. The following table provides an overview of the interviewed sample.

Table 117 – Sample of businesses interviewed in Spain

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|-------------------|-----------------------|----------------|------------------|
| Clothes shop | EUR 5 001 – 50 000 | No | Domestic only |
| Accountant | EUR 5 001 – 50 000 | No | Domestic only |
| Accountant | EUR 100 001 – 500 000 | No | Domestic only |
| Accountant | EUR 100 001 – 500 000 | No | Domestic only |
| Services provider | EUR 500 001 – 200 000 | No | Domestic only |

Spain

Spain applies a type of graduated relief scheme known as the ‘Régimen Simplificado’ which applies to entrepreneurs i.e. not to companies.

The scheme can be applied if the business has an annual turnover below EUR 250 000.

The scheme is optional for eligible businesses. If the business wants to leave the scheme, it has to present a formal declaration to the authorities and it cannot return to the scheme within 3 years.

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses within the scheme in Spain (Table 118). The table is followed by a discussion of the various information obligations.

Table 118 – Compliance costs for businesses within the graduated relief scheme in Spain

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|------------------------|--------------|-------------------|---------------|-------------|-----------------|---------------|-----------------------------------|-------------|---------------|
| VAT registration | IN-HOUSE | 27.60 | 12 | 5.75 | 0.58 | | Every 10 years | | 0.58 |
| | OUTSOURCE | 27.60 | 0 | 0 | 0.00 | 50.00 | Every 10 years | | 5.00 |
| | TOTAL | 27.60 | 12 | 5.75 | 0.58 | 50.00 | Every 10 years | 5.00 | 5.58 |
| VAT declaration/return | IN-HOUSE | 27.60 | 68 | 31.28 | 156.40 | | Quarterly + 1 summary declaration | 0.00 | 156.40 |
| VAT payment | IN-HOUSE | 27.60 | 1 | 0.46 | 2.30 | | Quarterly | 0.00 | 1.84 |
| Book-keeping | IN-HOUSE | 27.60 | 20 | 9.20 | 110.40 | | Monthly | 0.00 | 110.40 |
| Advisory costs | | | 21 | 0.00 | 0.00 | 600 | Annual | 600.00 | 600.00 |
| | | | | | | | | | 874.22 |

Source: Deloitte compilation of data from interviews with Spanish businesses and accountants

The VAT declaration/return is the most burdensome IO under the graduated relief scheme accounting for approximately 18% of the overall compliance costs for businesses.

Bookkeeping is also similarly burdensome with interviewees indicating that it accounts for almost 13% of VAT-related costs.

Like other schemes in the Member States **advisory costs** make up the majority of costs with average costs amounting to approximately EUR 600 per year, accounting for 67% of the overall compliance costs.

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses outside of the graduated relief scheme threshold in Spain (Table 119). The table is followed by a discussion of the various information obligations.

Table 119 – Compliance costs for businesses outside of the graduated relief scheme in Spain

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|---------------------|--------------|-------------------|---------------|-------------|-----------------|---------------|-----------------------------------|-------------|-----------------|
| VAT registration | IN-HOUSE | 27.60 | 12 | 5.75 | 0.58 | | Every 10 years | | 0.58 |
| | OUTSOURCE | 27.60 | 0 | 0 | 0.00 | 50.00 | Every 10 years | 5.00 | 5.00 |
| | TOTAL | 27.60 | 12 | 5.75 | 0.58 | 50.00 | Every 10 years | 5.00 | 5.58 |
| Invoicing | IN-HOUSE | 27.60 | 5 | 2.3 | 552.00 | 0.00 | 240 (20 per month) | | 552.00 |
| VAT return | IN-HOUSE | 27.60 | 240 | 110.4 | 552.00 | | Quarterly + 1 summary declaration | | 552.00 |
| VAT payment | IN-HOUSE | 27.60 | 1 | 0.46 | 1.84 | | quarterly | | 1.84 |
| Book-keeping | IN-HOUSE | 27.60 | 22 | 10.12 | 40.48 | | quarterly | | 40.48 |
| Advisory services | OUTSOURCE | | | | 0.00 | 800.00 | annual | 800.00 | 800.00 |
| | | | | | | | | | 1 951.90 |

Source: Deloitte compilation of data from interviews with Spanish businesses and accountants

The compliance costs for businesses outside of the VAT exemption scheme are notably higher than those for businesses within the scheme.

This can be explained by the **additional obligation to invoice** which makes up almost 30% of the overall compliance costs.

The **VAT return**, although also an obligation under the scheme is also regarded as more burdensome as it follows a different procedure and accounts for 24% of the overall compliance costs. Like businesses inside the scheme however, businesses still have to file a quarterly declaration and one annual summary return.

Comprising the majority of the VAT-related compliance costs, costs for **advisory services** and software account for 43% of business costs outside the scheme. Accountants in Spain indicated that their fees normally correspond to the size of the business. Thus, given that businesses applying the graduated relief scheme have an annual turnover of less than EUR 250 000, costs for advice is lower (by approximately EUR 200).

Cash accounting scheme

The following Member States among those selected for fieldwork implement the VAT exemption threshold scheme:

- Estonia;
- Italy; and
- Romania;

Below we present the details of the analysis per each Member States, including the composition of the businesses interviewed during the fieldwork, and the compliance costs both for businesses benefiting from the scheme and for businesses not adopting it (while eligible).

Estonia

The cash accounting scheme for VAT with threshold in Estonia applies to businesses with a turnover with the 200 000 EUR threshold. The scheme applies both to input and output VAT. There are no specific limitations for the application of the cash accounting scheme with regard to sectors of economic activity or types of businesses. It is an optional regime.

However, the uptake of such scheme is very low. The main reason for the low uptake is the fact that all businesses (with no threshold and with the only exception of sole traders) are required by the Accounting act to use accrual accounting for their accounting purposes. Therefore, using the scheme would usually increase administrative burden of businesses as they'd need to use reconciliations or parallel accounting schemes. So the only businesses using the scheme are a low number of sole traders, who benefit from the scheme as they use cash accounting also for general accounting and for other taxes (income tax).

Unfortunately, it proved not possible to include any sole traders using cash accounting in the sample of businesses interviewed.

Results of the SCM analysis for businesses within the special scheme

As mentioned above, it was not possible to identify any sole traders using cash accounting in the sample of businesses interviewed. Therefore, no estimation of the compliance costs for businesses using the scheme was possible.

Results of the SCM analysis for businesses outside of the special scheme

The costs for businesses outside of the cash accounting scheme in Estonia were presented already (see Table 105) in the section presenting the results for the VAT exemption threshold for Estonia.

Italy

The cash accounting scheme was introduced in Italy in 2012 (art. 32-bis of DI 83/2012), and applies to transactions as of 1 December 2012.

It applies to businesses with a threshold below EUR 2 000 000, both on input and output VAT. There are no specific limitations for the application of the cash accounting scheme with regard to sectors of economic activity or types of businesses. It is an optional regime, i.e. businesses need to opt for it.

Businesses do not need to apply for it, as the application of the cash accounting scheme is verified by the tax authorities by the business conduct (*'comportamento concludente'*). The adoption of the cash accounting schemes is communicated to the tax authorities via a specific part of the VAT declaration (*'Quadro VO'*) in the first year.

Importantly, once opted for, the scheme applies for three years (unless the business trespass the turnover threshold). After the first three years, the option is automatically applies for each of the following years, unless the business decides to opt out. The decision to opt out is communicated to the tax authorities in the same way as the decision to opt in (i.e. and specific part of the VAT declaration).

The cash accounting scheme as applied in Italy does not include any additional provision or additional simplification, so that all the remaining obligations still apply (including VAT registration, invoicing, etc.). In addition, all invoices issued by businesses benefiting from such scheme need to include the indication that the transaction is subject to the cash accounting scheme, as per art. 32-bis of DI 83/2012.

The sample of businesses interviewed during the fieldwork in Italy was presented already (see Table 110) in the section presenting the results for the VAT exemption threshold for Italy. For the analysis of the compliance costs of the cash accounting, the businesses adopting such schemes and those out of the scheme were used.

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses within the cash accounting scheme in Italy (Table 120). The table is followed by a discussion of the various information obligations.

Table 120 – Compliance costs for businesses within the cash accounting scheme in Italy

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------------------|--------------|----------------------|------------------|--------------|--------------------|------------------|-----------------------|----------------|-----------------|
| VAT registration | IN-HOUSE | 38.9 | 180 | 116.7 | 11.67 | | Every 10 years | 0 | 11.67 |
| | OUTSOURCE | 38.9 | 0 | 0.0 | 0.00 | 150 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 38.9 | 180 | 116.7 | 11.67 | | Every 10 years | 15.00 | 26.67 |
| Invoicing | IN-HOUSE | 38.9 | 5 | 3.2 | 778.00 | | 240 (20 per year) | 0 | 778.00 |
| VAT declarations/returns | IN-HOUSE | 38.9 | 150 | 97.3 | 97.25 | | annual | 0 | 97.25 |
| VAT payment | IN-HOUSE | 38.9 | 5 | 3.2 | 3.24 | | annual | 0 | 3.24 |
| Book-keeping | IN-HOUSE | 38.9 | 1260 | 816.0 | 816.00 | | annual | 0 | 816.00 |
| Advisory services | OUTSOURCE | | | | 0.00 | 1 800 | annual | 1 800 | 1800.00 |
| | | | | | | | | | 3 521.16 |

Source: Deloitte compilation of data from interviews with Italian businesses and accountants

The cash accounting scheme as implemented in Italy does not modify the other information obligations of businesses, therefore the relevant IOs for the analysis (and the related costs) do not differ notably from those of businesses in the standard VAT regime.

As shown by the table above, the costs for **VAT registration** are the same as for businesses in the standard VAT regime, and the obligation is not perceived as particularly burdensome by businesses.

The submission of **VAT returns/declaration** can be carried out on an annual basis (if the business is eligible/optes for the annual returns and fills out the 'Unico' annual declaration), or on a quarterly basis. Businesses below the annual turnover thresholds of EUR 400 000 (for businesses providing services) or of EUR 700 000 (for other businesses) benefit from simplified accounting obligations ('contabilita' semplificata'), which is reflected in the frequency of the information obligations presented in the table. Businesses opting for the submission (and payment) of quarterly returns face a 1% interest rate on the quarterly returns and on the yearly declaration, as well as higher advisory fees. The decision on whether to option for the annual or the yearly frequency (with the additional 1% interest rate) was taken together with the advisors supporting the businesses, and based on the cash flow needs of the businesses. Overall, the businesses' internal costs for the submission of the VAT returns/declaration represent a limited share of the overall compliance costs (about 3%).

Book-keeping obligations are quite burdensome, as they represent about 23% of the internal businesses' compliance costs. The use of the cash payment or receipt as a basis for the obligation to account for VAT obliges businesses to keep records of invoices as well as of the related cash flows, which they would not do otherwise (unless above the EUR 400 000 or EUR 700 000 threshold)¹¹³. Indeed, book-keeping costs are slightly higher for businesses adopting the cash accounting scheme than for those in the standard VAT regime, reflecting the additional book-keeping requirements.

Similarly, **advisory fees** for businesses within the cash accounting scheme are 44% higher than those for businesses in the standard VAT regime (about 20% if we consider the upper bound of the average advisory fees for such businesses of EUR 1 500).

Overall a clear significant costs for businesses within the VAT cash accounting scheme in Italy is the cost of book-keeping and accounting/advisory services. Those costs together represent about 74% of the overall VAT compliance costs for businesses within such scheme.

Results of the SCM analysis for businesses outside of the special scheme

The costs for businesses outside of the cash accounting scheme in Italy were presented already (see Table 112) in the section presenting the results for the VAT exemption threshold for Italy.

The key elements to point out in comparison to the compliance costs for the cash accounting scheme are the overall lower costs for book-keeping and external advisory fees, which reflect the lower book-keeping requirements.

Romania

The cash accounting scheme can be applied by businesses with an annual turnover below RON 2 250 000 (approx. EUR 500 000).

¹¹³ Interviews with accountants and business organisations, businesses above such thresholds represent a small share of the businesses in Italy, and an even smaller share of those applying the cash accounting scheme.

Taxable persons opting to apply the cash accounting scheme must notify the tax authorities by the 25th of January of their intention to apply the scheme. Similarly, to exit the cash accounting VAT scheme, the notification should be submitted to the tax authorities by 25th of the month following the fiscal period in which the threshold is exceeded. The option to exit the scheme cannot be exercised during the first year of application. If the threshold is breached in the first year, the scheme will be applied until the end of the fiscal period following the one in which the threshold was exceeded.

The interviewed sample in Romania consists of two accountants with experience of carrying out VAT-related obligations for clients inside and outside of the cash accounting scheme. The following table provides an overview of the interviewed sample.

Table 121 – Sample of businesses interviewed in Romania

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|------------|----------------|---|---|
| Accountant | N/A | No Works for clients that apply the scheme | Works for clients supplying domestic and cross-border |
| Accountant | N/A | No Works for clients that apply the scheme | Works for clients supplying domestic and cross-border |

Results of the SCM analysis for businesses within the special scheme

The results of the SCM did not produce any results that differentiate the compliance costs for businesses within the special scheme from compliance costs for businesses outside the scheme.

Results of the SCM analysis for businesses outside the special scheme

The costs for businesses outside of the cash accounting scheme in Romania were presented already (see Table 114) in the section presenting the results for the VAT exemption threshold for Romania.

Flat-rate scheme

The following Member States among those selected for fieldwork implement the VAT exemption threshold scheme:

- ☑ Belgium;
- ☑ Poland;
- ☑ Spain; and
- ☑ UK.

Below we present the details of the analysis per each Member States, including the composition of the businesses interviewed during the fieldwork, and the compliance costs both for businesses benefiting from the scheme and for businesses not adopting it (while eligible).

Belgium

The flat-rate scheme applies in Belgium to businesses with the following characteristics:

- ☑ Having an annual turnover below EUR 750 000; and
- ☑ Being active in the following sectors:

- Retailers in nutrition, Butchers, Bakeries and patisseries, Café owners, Hairdressers, Retailers in dairy products and milkmen, Pharmacy/drugstore/chemist, Doctors with a drug depot, Ice-cream makers, Specialised retailers in wild game and poultry, Retailers in shoes, Cobblers, Retailers in fish, Fish peddlers, Snack bars (chip shops), Retailers in various textile and leather goods, Retailers in hardware and tools, Travelling fair operators, Retailers in newspapers and magazines, Retailers in books, Retailers in tobacco products; and
- Their selling activities do not generally involve the obligation to invoice (at least 75% of turnover should have no invoice obligation).

Further, the scheme can only apply to unincorporated businesses (i.e. sole trader or partnership) or a private company with limited liability.

Under the scheme, the taxable turnover (i.e. the basis for calculation) is determined differently according to the sector and/or activity. The taxable turnover is then subject to the normal (or reduced) rates of VAT (i.e. 21%, 12% or 6%). There are three ways which the taxable turnover is calculated:

1. On the basis of profit margins:

The businesses taxable turnover is made up primarily of supplies of goods. The goods must be divided into relevant categories (as defined by the authorities). The supplies are then multiplied by a coefficient established by the authorities on the basis of the average gross profit earned by retailers for goods in the relevant category. Taxable turnover is calculated by applying these coefficients to the total amount of purchases.

2. Flat-rates established on the basis of presumed remuneration:

If the businesses main activity concerns the supply of services, the taxable turnover is determined on a lump sum basis by multiplying the number of working hours by an hourly rate. This technique is used commonly by hair dressers.

3. Flat-rates on the basis of normal return:

Taxable turnover can also be calculated on the basis of the return on raw materials or on products purchased in Belgium or imported.

The coefficients applied in each case vary between sectors and are adjusted each year. It should be noted that when the technique is based on the amount or value of purchased goods, the taxable person is presumed to have sold all goods purchased during the period which needs to be reported in the VAT return (whether or not they were actually sold is irrelevant).

The interviewed sample in Belgium consisted of six businesses and two accountants. An additional interview was held with a business association. The following table provides an overview of the interviewed sample.

Table 122 – Sample of businesses interviewed in Belgium

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|------------------|-----------------------|----------------|------------------|
| Restaurant | EUR 100 001 – 500 000 | No | Domestic only |
| Hairdresser | EUR 100 001 – 500 000 | No | Domestic only |
| Ice Cream vendor | EUR 100 001 – 500 000 | No | Domestic only |

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|-----------------|-----------------------------|---|------------------|
| | 000 | | |
| Pet store owner | EUR 50 001 – 100 000 | No | Domestic only |
| Foodtruck | N/A (startup) | No | Domestic only |
| Hairdresser | EUR 500 001 – EUR 2 000 000 | No | Domestic only |
| Accountant | N/A | 10% of clients in scheme | Domestic only |
| Accountant | N/A | Previous clients in scheme (no clients opting for scheme anymore) | Domestic only |

Source: Deloitte

It should be noted that due to the specific nature of the scheme, it was difficult to identify businesses actually benefitting from the scheme. As indicated by accountancy professionals, the scheme is not very widespread. As also indicated by accountants and business associations, the businesses applying the flat-rate scheme are not necessarily aware of the specificities of VAT and would not have the required knowledge of the scheme to partake fully in interviews.

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses within the flat-rate scheme in Belgium (Table 123). The table is followed by a discussion of the various information obligations.

Table 123 – Compliance costs for businesses within the flat-rate scheme in Belgium

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|---------------------|--------------|-------------------|---------------|-------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 49.3 | 2000 | 1 643.33 | 164.33 | | Every 10 years | 0.00 | 164.33 |
| | OUTSOURCE | 49.3 | 0.00 | 0.00 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 0 | 0.00 | 0.00 | 0.00 | 150.00 | Every 10 years | 15.00 | 179.33 |
| Applying for scheme | IN-HOUSE | 49.3 | 15.00 | 12.33 | 147.90 | | monthly | 0.00 | 147.90 |
| VAT return | IN-HOUSE | 49.3 | 480.00 | 394.40 | 1 577.60 | | quarterly | 0.00 | 1 577.60 |
| VAT payment | IN-HOUSE | 49.3 | 5 | 4.11 | 32.87 | | Bi-monthly | 0.00 | 32.87 |
| Book-keeping | IN-HOUSE | 49.3 | 20.00 | 16.43 | 4 108.33 | | Per working day | 0.00 | 4 108.33 |
| *Advisory services | OUTSOURCE | | | | 0.00 | 3 360 | annual | 3 360.00 | 3 360.00 |
| | | | | | | | | | 9 406.03 |

Source: Deloitte compilation of data from interviews with Belgian businesses and accountants

In Belgium, it was found that **VAT registration** is somewhat burdensome, costing the business at least EUR 200 to complete its registration. In total it was found that VAT registration accounts for 2% of overall VAT compliance costs for businesses within the scheme. It was also noted by interviewees that the process leading up to registration i.e. the organisation of relevant documents before applying for a VAT number is quite burdensome and unclear. It was noted in particular by a startup company that the administrative requirements were not clear and excessive costs were experienced because of this.

With regard to **applying for a special scheme**, it was found that the tax authorities only have to be notified through a simple form that the business is applying the scheme. This obligation was not found to be particularly burdensome and is normally conducted by the accountant for the business. It therefore accounts for just 0.1% of all VAT related obligations.

The **VAT return** accounts for approximately 17% of the VAT obligations for business within the flat-rate scheme. For the businesses, this involves the organisation of invoices for sending to the accountant. Businesses indicated that this can take from half a day to two days. The VAT returns within the scheme are submitted every three months. With regard to the practicalities of the VAT return, accountants indicated that the return under the flat-rate scheme can actually be more burdensome than the normal VAT return. This is because the flat-rate scheme requires an additional calculation (i.e. the taxable turnover). Since the taxable basis is not dependent on the selling price to the customer, the business must first decide which base at which they will calculate the taxable turnover (i.e. one of the three options as explained above). Although only a minor calculation, it still requires an additional effort on the part of the accountant dealing with the VAT return. In addition, a document explaining the calculation must also be accompanied by the VAT return declaration.

Book-keeping was found to be the most burdensome cost, accounting for 44% of the total VAT cost accrued for businesses. Although the flat-rate scheme does not oblige businesses to keep a journal of daily receipts, it was indicated by accountants that businesses perform this task anyway as a normal part of business. In theory therefore, the flat-rate scheme could reduce this burden for businesses however in practice it is more beneficial for businesses to keep track of their daily sales for income purposes and tracking of stock. It should be noted however that the cost for bookkeeping is not reflective of VAT obligations only. Within the scheme also, businesses do not need to document if goods were given away or used for personal purposes. Businesses expressed difficulty with separation of this task in terms of VAT only bookkeeping and other bookkeeping.

Overall a clear significant costs for businesses within the VAT flat-rate scheme is the cost of accounting/advisory services. The cost of an accountant in Belgium accounts for approximately 35% of all VAT costs.

Results of the SCM analysis for businesses outside of the special scheme

The following table presents the costs for businesses outside of the flat-rate scheme in Belgium (Table 124). The table is followed by a discussion of the various information obligations.

Table 124 – Compliance costs for businesses outside of the flat-rate scheme in Belgium

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|-----------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 49.30 | 2 000 | 1643.33 | 164.33 | | Every 10 years | | 164.33 |
| | OUTSOURCE | 49.30 | 0 | 0 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 49.30 | 2 000 | 1 643.33 | 164.33 | 150.00 | Every 10 years | 15.00 | 179.33 |
| Invoicing | IN-HOUSE | 49.30 | 5 | 4.10 | 986.00 | | 240 (20 per month) | | 986.00 |
| VAT return | IN-HOUSE | 49.30 | 480 | 394.40 | 1577.60 | | Quarterly | 0.00 | 1 577.60 |
| VAT payment | IN-HOUSE | 49.30 | 5 | 4.10 | 32.87 | | Bi-monthly | | 32.87 |
| Book-keeping | IN-HOUSE | 49.30 | 15 | 12.32 | 3081.25 | | Per working day | | 3 081.25 |
| <i>Advisory services</i> | OUTSOURCE | N/A | N/A | N/A | 0.00 | 3360 | Annual | 3 360.00 | 3 360.00 |
| | | | | | | | | | 9 217.05 |

Source: Deloitte compilation of data from interviews with Belgian businesses and accountants

There are no major changes with regard to the overall costs for SMEs outside the flat-rate scheme compared to those inside the scheme.¹¹⁴

One significant difference is that there is no longer the IO of *applying for the special scheme* since the business is applying the normal VAT rules. However outside of the scheme, businesses are obliged to provide VAT invoices which accounts for around 11% of all VAT-related compliance costs.

Further, the bookkeeping costs are lower outside of the scheme. This can be attributed to the additional administrative tasks for businesses in calculating the taxable turnover for applying the flat-rate.

Poland

The flat-rate scheme applies in Poland only to individual taxi drivers ('sole traders'; rental of cars with a driver is excluded). Businesses applying this special scheme apply a flat VAT rate on output of 4%, while have no rights to deduct input VAT.

The scheme only covers domestic supplies, but the Polish VAT Act does not limit the application of such the flat-rate scheme to domestic businesses only.

Businesses benefiting from this scheme have to submit simplified monthly VAT returns to tax authorities.

The flat-rate scheme is an optional regime. In fact, data provided by Polish tax authorities show that this special regime is applied in a small minority of cases (only 650 businesses were reported to apply it), so that it can be considered as a marginal regime.

Results of the SCM analysis for businesses within the special scheme

It was not possible to collect data on the administrative costs faced by businesses applying this regime, given the very small number of businesses opting for it.

Results of the SCM analysis for businesses outside the special scheme

The following table presents the costs for businesses outside of the flat-rate scheme in Poland (Table 124). The table is followed by a discussion of the various information obligations.

¹¹⁴ According to accountants in Belgium since no SMEs within the scheme were interviewed.

Table 125 – Compliance costs for businesses outside the flat-rate scheme in Poland

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|--------------|-----------------|---------------|-----------------------|--------------|-----------------|
| VAT registration | IN-HOUSE | 22.20 | 150 | 55.5 | 5.55 | | Every 10 years | | 5.55 |
| | OUTSOURCE | 22.20 | 0 | 0 | 0.00 | 150.00 | Every 10 years | 15.00 | 15.00 |
| | TOTAL | 22.20 | 150 | 55.50 | 5.55 | 150.00 | Every 10 years | 15.00 | 20.55 |
| Invoicing | IN-HOUSE | 22.20 | 5 | 1.85 | 444.00 | | 240 (20 per month) | | 444.00 |
| VAT declarations/returns | IN-HOUSE | 22.20 | 120 | 44.4 | 177.60 | | Quarterly | 0.00 | 177.60 |
| VAT payment | IN-HOUSE | 22.20 | 5 | 1.85 | 7.40 | | Bi-monthly | | 7.40 |
| Book-keeping | IN-HOUSE | 22.20 | 637 | 235.69 | 235.69 | | Annual | | 235.69 |
| <i>Advisory services</i> | OUTSOURCE | N/A | | | 0.00 | 3360 | Annual | 3 360.00 | 3 360.00 |
| | | | | | | | | | 4 245.24 |

Source: Deloitte compilation of data from interviews with Polish accountants

The VAT compliance costs in the normal regime are **above average** in comparison to the other Member States analysed.

Costs for **advisory services** account for the majority (80%) of overall compliance costs. This result is likely to have been influenced by the interview sample which was made up only of accountants. Although accountants estimated the time it takes businesses to carry out the IOs, there may have been an underestimation.

Among the business obligations, **invoicing** is the most burdensome, accounting for 10% of the overall compliance costs.

Bookkeeping accounts for approximately 6% of the compliance costs with accountants estimating that businesses spend about 10 – 15 minutes per week on bookkeeping for VAT purposes.

Unfortunately due to the lack of data a comparison between these costs and the costs for businesses applying the flat-rate scheme could not be drawn.

Spain

The flat-rate scheme is a special and mandatory VAT regime in Spain applying to:

- Unincorporated businesses: retailers¹¹⁵, natural entrepreneurs, or entities subject to the income allocation system in the Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)
- That do not transform the product,
- And are selling to the final consumer.

Business usually complying with such requirements are: pharmacies, clothes shops, beauty clinics, hairdressers (when selling products), florist shops. It is important to highlight that there are some exemptions to this scheme: jewelry, art and luxury products, boats and vessels, airplanes and other aircraft, industrial machinery, and others.

The flat-rate to be paid is provided by the law according to the VAT applied to the product. There are three different VAT depending on the kind of product:

- The general VAT (21%) applies to common products (such as clothes, books, household appliance, jewelry, among others). When the retailer is purchasing these kind of products, he needs to pay a 5.2% flat-rate.
- The reduced VAT (10%) applies to foods in general (although some are applied the super reduced VAT) and other products (such as: products for agricultural activities, water, healthcare products, catering, medicines for animals, and others). If the retailer is purchasing such products, he will need to pay a 1.4% flat-rate.
- The super reduced VAT (4%) applies to basic products (such as bread, dairy products, flour, eggs, fruits, vegetables, cereals, and others). In this case, the retailer needs to pay a 0.5% flat-rate.

¹¹⁵ Are considered as retailers those who usually sell movable goods or livestock without any kind of transformation as long as sells to final consumers represent at least 80% of the total sells.

Table 126 – Flat rates applied in Spain

| VAT | FLAT-RATE |
|--------------------------|-----------|
| General: 21% | 5.2% |
| Reduced: 10% | 1.4% |
| Super reduced: 4% | 0.5% |

Source: Deloitte

Under this scheme, businesses have no VAT return obligation. They are obliged instead to communicate to their providers that they are actually under this special scheme. Hence, businesses under this special scheme will pay the VAT together with the relevant flat-rate to their providers (and not to the tax authorities).

The interviewed sample in Spain consisted of one business and three accountants. The following table provides an overview of the interviewed sample.

Table 127 – Sample of businesses interviewed in Spain

| Sector | Turnover range | Scheme Applied | Type of Supplies |
|-------------------|-----------------------|---|------------------|
| Clothes shop | EUR 5 001 – 50 000 | Yes | Domestic only |
| Accountant | EUR 5 001 – 50 000 | No clients under the flat-rate scheme | Domestic only |
| Accountant | EUR 100 001 – 500 000 | Previous clients in scheme (no clients opting for scheme anymore) | Domestic only |
| Accountant | EUR 100 001 – 500 000 | Clients under the flat-rate scheme | Domestic only |
| Services provider | EUR 500 001 – 200 000 | No | Domestic only |

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs of the businesses inside the special flat-rate scheme in Spain (Table 128). The table is followed by a discussion of the various information obligations.

Table 128 – Compliance costs for businesses within the flat-rate scheme in Spain

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|---------------------|-----------|-------------------|---------------|-----------|-----------------|---------------|--------------------|-------------|-------|
| VAT registration | IN-HOUSE | 27.60 | 12.50 | 5.75 | 0.58 | | Every 10 years | | 0.58 |
| | OUTSOURCE | 27.60 | 0.00 | 0 | 0.00 | 50.00 | Every 10 years | | 5.00 |
| | TOTAL | 27.60 | 12.50 | 5.75 | 0.58 | 50.00 | Every 10 years | 5.00 | 5.58 |

Source: Deloitte compilation of data from interviews with Spanish businesses and accountants

Overall there are almost no compliance costs for businesses applying the flat rate scheme in Spain.

The only cost relates to VAT registration which is approximately EUR 60 – 70. Over 10 years this cost is minimal.

Results of the SCM analysis for businesses outside the special scheme

The costs for businesses outside of the VAT flat rate scheme in Spain were presented already (see Table 119) in the section presenting the results for the graduated relied scheme for Spain.

The key element to point out in comparison to the compliance costs for the flat-rate scheme is the overall lower costs because of the lack of obligations under the scheme.

UK

The application of the flat-rate scheme in UK is reserved to businesses established in the country. It applies to businesses not exceeding the turnover threshold of EUR 187 500 (GBP 150 000) in the fiscal year.

The regime is optional, so that businesses can decide whether to apply it or to opt for the standard VAT regime.

Businesses applying the flat-rate scheme in UK cannot recover input VAT unless:

- They purchase a capital asset with a VAT inclusive value of £2k or more; or
- In relation to pre-registration input tax.

The flat VAT rate applied on outputs varies with sectors of economic activity, ranging from 4% to 14.5%.

The table below provides an overview of the flat-rates applied¹¹⁶.

Table 129 – Flat-rates applied in UK

| Sector of economic activity | Current VAT flat-rate (%) | Sector of economic activity | Current VAT flat-rate (%) |
|---|---------------------------|--|---------------------------|
| Accountancy or book-keeping | 14.5 | Manufacturing food | 9 |
| Advertising | 11 | Manufacturing not listed elsewhere | 9.5 |
| Agricultural services | 11 | Manufacturing yarn, textiles or clothing | 9 |
| Any other activity not listed elsewhere | 12 | Membership organisation | 8 |
| Architect, civil and structural engineer or surveyor | 14.5 | Mining or quarrying | 10 |
| Boarding or care of animals | 12 | Packaging | 9 |
| Business services not listed elsewhere | 12 | Photography | 11 |
| Catering services including restaurants and takeaways | 12.5 | Post offices | 5 |
| Computer and IT consultancy | 14.5 | Printing | 8.5 |

¹¹⁶ See: <https://www.gov.uk/vat-flat-rate-scheme/how-much-you-pay>, accessed 30 November 2016.

| Sector of economic activity | Current VAT flat-rate (%) | Sector of economic activity | Current VAT flat-rate (%) |
|---|---------------------------|---|---------------------------|
| or data processing | | | |
| Computer repair services | 10.5 | Publishing | 11 |
| Entertainment or journalism | 12.5 | Pubs | 6.5 |
| Estate agency or property management services | 12 | Real estate activity not listed elsewhere | 14 |
| Farming or agriculture not listed elsewhere | 6.5 | Repairing personal or household goods | 10 |
| Film, radio, television or video production | 13 | Repairing vehicles | 8.5 |
| Financial services | 13.5 | Retailing food, confectionery, tobacco, newspapers or children's clothing | 4 |
| Forestry or fishing | 10.5 | Retailing pharmaceuticals, medical goods, cosmetics or toiletries | 8 |
| General building or construction services* | 9.5 | Retailing not listed elsewhere | 7.5 |
| Hairdressing or other beauty treatment services | 13 | Retailing vehicles or fuel | 6.5 |
| Hiring or renting goods | 9.5 | Secretarial services | 13 |
| Hotel or accommodation | 10.5 | Social work | 11 |
| Investigation or security | 12 | Sport or recreation | 8.5 |
| Labour-only building or construction services* | 14.5 | Transport or storage, including couriers, freight, removals and taxis | 10 |
| Laundry or dry-cleaning services | 12 | Travel agency | 10.5 |
| Lawyer or legal services | 14.5 | Veterinary medicine | 11 |
| Library, archive, museum or other cultural activity | 9.5 | Wholesaling agricultural products | 8 |
| Management consultancy | 14 | Wholesaling food | 7.5 |
| Manufacturing fabricated metal products | 10.5 | Wholesaling not listed elsewhere | 8.5 |

Finally, businesses can apply a further 1% reduction on their normal flat-rates in their first year of VAT registration. This measure is meant to encourage businesses to adopt the flat-rate scheme.

The sample of businesses interviewed during the fieldwork in UK was presented already (see Table 115) in the section presenting the results for the VAT exemption threshold for UK. For the analysis of the compliance costs of the flat-rate scheme, the businesses adopting such schemes and those out of the scheme were used.

Results of the SCM analysis for businesses within the special scheme

The following table presents the costs for businesses outside of the VAT exemption threshold in UK (Table 130). The table is followed by a discussion of the various information obligations.

Table 130 – Compliance costs for businesses within the flat-rate scheme in UK

| Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------------------|--------------|-------------------|---------------|-------------|-----------------|---------------|-----------------------|-----------------|-----------------|
| VAT registration | IN-HOUSE | 38.2 | 70 | 44.57 | 4.46 | | Every 10 years | 0 | 4.46 |
| | OUTSOURCE | | | 0.00 | 0.00 | | Every 10 years | 0 | 0.00 |
| | TOTAL | | | 0.00 | 0.00 | | Every 10 years | 0 | 4.46 |
| Applying for scheme | IN-HOUSE | 38.2 | 60 | 38.20 | 3.82 | | Every 10 years | 0 | 3.82 |
| Invoicing | IN-HOUSE | 38.2 | 5 | 3.18 | 763.20 | | 240 (20 per month) | 0 | 763.20 |
| VAT return | IN-HOUSE | 38.2 | 180 | 114.60 | 458.40 | | quarterly | 0 | 458.40 |
| VAT payment | IN-HOUSE | 38.2 | 5 | 3.18 | 12.73 | | quarterly | 0 | 12.73 |
| Book-keeping | IN-HOUSE | 38.2 | 45 | 28.65 | 343.80 | | monthly | 0 | 343.80 |
| <i>Advisory Services</i> | OUTSOURCE | | | | 0.00 | 1 100.00 | annual | 1 100.00 | 1 100.00 |
| | | | | | | | | | 2 686.41 |

Source: Deloitte compilation of data from interviews with UK businesses and accountants

Costs for **VAT registration** outside of the VAT special scheme are not particularly elevated (the account for less than 0.5% of the overall compliance costs). Businesses and accountants interviewed did not perceive this obligation as particularly burdensome, as it is now entirely automated can be carried out online in a simple way. Similarly, applying for the flat-rate scheme is not perceived as burdensome or particularly complex. Advisory fees for such obligation can vary, and further investigation is undergoing to provide a more accurate estimate of such costs.

Invoicing obligations account for about 28% of the overall compliance costs. While the issuing of the single invoice/fiscal receipt is not particularly long or complex per se (it does not take each of the business interviewed more than 5 minute to issue one), the volume (i.e. the number) of such invoices issued can vary greatly among businesses. Many of the businesses interviewed have some software that can reduce the time and effort needed to comply with such obligations.

VAT returns/declaration represent about 60%) of compliance costs for businesses. The frequency of such obligations (quarterly) is on the main drivers of this cost. Businesses recur to advisors to comply with this obligation, which charge about EUR 65 (GBP 50) for this service.

Book-keeping obligations represent about 17% of the internal businesses' compliance costs. Overall, they are not perceived as particularly burdensome, and businesses devote about one hour per month to carry out them, often with the support of specific software.

Advisory costs are the most significant burden faced by businesses. In particular, it was noted that businesses recur to advisors to carry out their VAT declarations. For VAT related services, accountants charge from about EUR 190 (GBP 160-180) to EUR 360 (GBP 300) for larger declarations. On average we can see that this accounts for about 40% of the businesses compliance costs.

Results of the SCM analysis for businesses outside of the special scheme

The costs for businesses outside of the flat-rate scheme in UK were presented already (see Table 116) in the section presenting the results for the VAT exemption threshold for UK.

Annex H – Elements of the Policy Options

This Annex provides an overview and high level assessment of the policy elements, a selection and combination of which has been used in designing the policy options.

The list contains the following policy elements:

1. SME exemption scheme (variations)

- a) General;
- b) Application - to domestic or all SMEs;
- c) Level of threshold – national or standard EU;
- d) Basis – total turnover, cross-border or sales to a Member State of consumption;
- e) Basis – other than turnover;
- f) Optionality;
- g) Number of thresholds;
- h) Graduated thresholds – extent of sales;
- i) Gradual relief – reduction of VAT burden
- j) Graduated thresholds – alternatives;
- k) Flexible threshold;
- l) Transition period.

2. VAT calculations, accounting simplifications and compensation measures

- a) Flat-rate and presumptive tax measures;
- b) Reduced VAT rate for SMEs;
- c) Simplified/fixed input tax credit;
- d) Exemption for supplies to SMEs;
- e) Cash accounting;
- f) Payment flexibility measures;
- g) Less frequent filing of VAT returns;
- h) Special input VAT refund;
- i) Reduced VAT burden.

3. Simplified VAT administrative obligations

- a) Simplified/abolished VAT administrative obligations

4. Treatment as non-taxable person

- a) Harmonised and mandatory treatment as non-taxable person

Table 131 – Elements of the policy options – description and assessment

| | Element | Description | Assessment |
|------------|---|---|---|
| 1. | SME exemption scheme (with variations in its design) | | |
| 1.a | General | <p>Forms a basis of the current SME scheme and provides exemption for supplies below the threshold</p> <p>There is a number of different ways for how the threshold could be set or applied, in order to either maximise the support to SMEs or to address some risks and disadvantages (a combination could be also used).</p> | <p>Main advantages: provides significant support to SMEs and admin cost reduction to tax authorities, especially where combined with additional simplification measures (e.g. relief from VAT registration, declaration, invoicing).</p> <p>Main disadvantages: may create distortions either between different domestic taxpayers or between domestic and foreign taxpayers; also a scope limitation to domestic supplies may limit the simplification effect (and financial support) for SMEs trading both domestically and cross-border. In addition, where significant simplifications are added to the SME scheme, the SMEs exceeding the threshold are required to apply full VAT obligations, which may cause a sudden and significant increase in tax/financial and administrative burden and may discourage the growth of SMEs ('threshold effect'). From the tax authority angle, the main disadvantages are the loss of revenue and the challenges in monitoring compliance on the application of the VAT exemption threshold and SME scheme more generally.</p> |
| 1.b | Application – to domestic or all SMEs | <p>Threshold/SME scheme could be</p> <ol style="list-style-type: none"> 1) applied only nationally (as now, to domestic SMEs); 2) applied equally to all EU SMEs; 3) applied also to non-EU SMEs. | <p>Current territorial application of the scheme creates distortions against the non-established businesses, but at the same time enables the scheme to be fine-tuned for national needs and local business environment.</p> <p>Expansion of the threshold to businesses established in other Member States would level the playing field and fit better for the single market. However, such widening would increase the cost of the scheme (i.e. revenue loss), making it also harder to estimate, and make the compliance control more challenging. The control of the turnover of a non-resident business would require high level of administrative cooperation.</p> <p>Expansion of the threshold and the SME scheme to non-EU businesses would provide full neutrality, however due to more limited administrative cooperation with third countries and complexity of compliance control, it is likely to go too far. However, in a definitive regime based on destination principle, it could be left as a choice of the Member State, as it may</p> |

| | Element | Description | Assessment |
|-----|---|---|---|
| | | | reduce the administrative cost of tax authority. |
| 1.c | Level of threshold – national or standard EU | <p>The level of the threshold could be either</p> <ol style="list-style-type: none"> 1) set by Member States, based on standard criteria; or 2) set at a standard level across the EU | <p>Currently the thresholds are set nationally, based on VAT directive or a derogatory agreement.</p> <p>A standard EU level threshold may be seen as providing a level playing field for SMEs in different Member States and trading internationally (if applicable), as well as simplifying the EU VAT system.</p> <p>However, the national markets, characteristics of SME sectors (e.g. average turnover) and domestic policy environment differ significantly between Member States, therefore, a threshold set at a standard EU level, would have very different impact in Member States, including the revenue impact.</p> |
| 1.d | Basis – total turnover, cross-border or sales to a MSC | <p>The threshold could be calculated based on</p> <ol style="list-style-type: none"> 1) domestic turnover; 2) total turnover, i.e. extended to cross-border supplies; 3) just on cross-border supplies; or 4) supplies to a specific Member State | <p>Current thresholds are based mostly on the business' domestic turnover (including cross-border distance sales below threshold due to domestic place of supply), excluding cross-border supplies taxable in other Member States (e.g. B2C e-services), which creates complexity and additional burden for both businesses and tax administrations.</p> <p>Basing the threshold on the total turnover of the business (in effect extending the threshold also to cross-border supplies taxable in other Member States) would provide additional support to the business and help to target the measure better to the businesses of certain size. However, due to differences in national SME sector characteristics, it may create new distortions in the single market, especially if the thresholds continue to be set nationally. It would also have impact on the revenues of the Member States of consumption and would not follow the destination principle.</p> <p>Basing threshold only on all cross-border supplies taxable in another Member State, as proposed in the E-commerce proposal, would enable more standardised approach to the threshold (depending on how the threshold is set, i.e. level of harmonisation), making it more of a single market measure and simplify the estimation of an impact on Member State of consumption revenues. Although it would not fully follow the destination principle or apply only to businesses of certain size, it would reduce the burden of</p> |

| | Element | Description | Assessment |
|-----|------------------------------------|--|--|
| | | | <p>businesses trading cross-border (especially smaller SMEs).</p> <p>The fourth option of basing the threshold on the amount of sales to a specific Member State (similar to the current distance sales thresholds), would provide the best control for Member State of consumption over their revenue impact and would follow thus best the taxation at destination principle (although compliance control would still be challenging). However, such approach can be complex and burdensome for businesses, especially after abolishment of distance sales rules.</p> <p>The choice between the options for turnover basis would thus depend on the policy objectives and relative priorities as well as on the decisions on the other aspects of thresholds (e.g. national or EU standardised) and potential combination of different elements (e.g. a combination of a national threshold and a cross-border threshold, additional simplifications).</p> |
| 1.e | Basis – other than turnover | Threshold could be calculated on another basis than turnover, such as annual net VAT due. | The turnover is an indication of the size of the business, but may not be always most suitable indicator of the availability of sufficient financial resources for full VAT compliance. Therefore, a use of alternative basis more closely linked to the profit margin of the business may be considered. To avoid the use of the basis of another tax (such as profit for corporate tax purposes), a closest VAT related indicator could be used, such as annual net VAT due (as currently applied in the Netherlands). It may however be considered too significant change to current regime (as generally applied elsewhere) and would contain different compliance risks. |
| 1.f | Optionality | The use of the scheme may be either 1) optional for SMEs or 2) obligatory or 3) obligatory for certain type of SMEs | The current SME scheme is optional for businesses. This provides them maximum level of flexibility, enabling businesses to benefit from the exemption to reduce their tax (and administrative) burden, but opt out and apply the common VAT regime, should this be more beneficial for them (e.g. enabling input VAT deduction, which for a new business making initial investments may exceed the output VAT, thus resulting with business being in VAT refund position). Also, businesses having mostly B2B supplies may prefer to opt out of the scheme. For tax authorities however, the optionality |

| | Element | Description | Assessment |
|-----|---|--|--|
| | | | <p>complicates the scheme (revenue impact and administrative cost are harder to estimate) and makes it more costly, as they need to administer microbusinesses, which increases administrative cost and may not provide additional revenue (or have negative revenue impact due to VAT refunds).</p> <p>The right to opt out of the scheme and register for VAT may increase also VAT fraud risks (especially input VAT fraud and missing trader fraud). Therefore, a change to (partially) compulsory scheme may be considered, to keep the smallest businesses or occasional traders out of the VAT system (although a negative impact on start ups ought to be taken into account). As alternative, a minimum registration period is sometimes used for optional registration, to reduce fraud risks and abuse of the scheme.</p> |
| 1.g | Number thresholds of | Instead of just one threshold, multiple thresholds could be applied, e.g. different thresholds for goods and services or by industries | Effective targeting of special schemes is important for tax authorities, especially where the scheme has direct revenue impact, such as in case of the SME scheme. As the SMEs in different sectors (e.g. goods or services) may have different level of administrative burden (or need different level of support) in comparison to their turnover or are seen as posing different level of fraud risk, tax authorities may find it more appropriate to apply multiple SME VAT exemption thresholds, targeted to certain types of supplies or industries. Such approach is currently used by several Member States. However, multiple thresholds will make the VAT system more complex and may cause challenges and additional burden for businesses potentially falling under more than one threshold. |
| 1.h | Graduated thresholds – extent of sales | Multiple thresholds could be applied also in a graduated way, e.g. depending on how many countries the SME sells to | As above, better targeting of the VAT exemption threshold would reduce the revenue impact. Therefore, on assumption that the threshold applies (also) to cross-border supplies (and SME scheme includes also main simplification measures) and considering that the administrative burden on cross-border trade generally depends on whether business trades in some or many other Member States (e.g. VAT registration cost multiplied by the number of registrations), it may be appropriate to set different thresholds, dependent on how many countries the business sells to. Such approach would however add complexity |

| | Element | Description | Assessment |
|-----|---|--|---|
| | | | to the scheme and be very difficult to monitor by tax authorities. |
| 1.i | Gradual relief – reduction of VAT burden | The supplies below threshold may be subject to reduced VAT burden rather than full exemption | <p>Gradual relief is already regulated in the current VAT system and means that instead of exemption (or in addition to exemption), a reduction of VAT burden is provided to the SMEs below the threshold.</p> <p>Such reduction could theoretically be provided by application of reduced VAT rate on outputs (covered below) or more commonly by a discount to the VAT payable or later partial refund.</p> <p>Similar gradual relief could be also used to support a transfer from exceeding the VAT exemption threshold to full application of VAT regime.</p> <p>Such VAT relief could be seen as a national budget measure (and could as such be applied also outside of the VAT system, keeping in mind state aid limitations), but it could be also designed as part of an EU SME scheme. The aspects to keep in mind in case of such measure are the revenue impact and potential fraud risk of newly registered businesses, which need to be carefully mitigated.</p> |
| 1.j | Graduated thresholds alternatives | The graduation of thresholds may depend on the age of the business | <p>There may be other ways how to use graduation in better targeting of the SME measures. As proven by the OECD study¹¹⁷, the SMEs' need for support and simplification depends not only of its size but also, or even more importantly, of its age. Therefore, the young small start ups may need the biggest support (simplification and financing), whilst more experienced businesses may manage better with regular VAT obligations or full VAT burden.</p> <p>The SME scheme recently implemented in Mexico¹¹⁸ provides an example of an innovative approach based on graduated relief, applied across taxes and combining financial and administrative support.</p> <p>Amongst other supporting measures, the scheme applies relief from tax obligation which decreases gradually by 10% a year for 10 first years of the start of business (from 100% relief to 10% on year 10).</p> <p>Using this idea, a VAT scheme could be designed, providing start ups e.g. 50%</p> |

¹¹⁷ E.g. OECD (2015), Taxation of SMEs in OECD and G20 countries

¹¹⁸ Called *Regimen de Incorporacion Fiscal* (RIF)

| | Element | Description | Assessment |
|----------|---|--|---|
| | | | <p>VAT relief with the right to deduct input VAT and a simplification of other VAT obligations for first 3 years (changing to 25% from year 5 and to 0% from year 7).</p> <p>However, compliance and anti-abuse control of this measure may prove to be complex (e.g. how to define genuine start up and differentiate from artificial splitting of a business). Therefore, some further feedback on the experience from the Mexican system would be useful.</p> |
| 1.k | Flexible threshold | Businesses can fall back to the SME exemption scheme if exceeding the VAT exemption threshold temporarily | One of the perceived problems with VAT exemption threshold is that it may discourage growth. To address this, some Member States are already using a form of 'flexible thresholds'. This means that a business which exceeds the VAT exemption threshold does not need to apply full VAT obligations immediately but can continue to be exempt as long as their turnover does not exceed the threshold by a considerable percentage (or another slightly higher threshold). Such measure would help for example in case of a sudden, one-off or temporary small increase in sales. Such measure could however also be seen as just a higher VAT exemption threshold (with a lower 'warning' threshold). to mitigate this, a time limit could be added to the measure. |
| 1.l | Transitional period | SME exemption scheme will continue to be applied for one (calendar) year after the threshold has been exceeded or until the turnover exceeds the SME exemption threshold by 50%, whichever is earlier | Similarly to the flexible threshold, this element suggests giving SMEs time to smooth the transfer to full taxation. However, it is meant to support all growing SMEs, not just cases where threshold is exceeded temporarily, by providing specific time period (1 year) after which the scheme would cease to apply. As such, it has potential to provide wider support and have more extensive positive impact in reducing 'threshold effect'. A higher threshold would need to be introduced, similarly to flexible threshold, to safeguard impact on tax revenues of the government. |
| 2 | VAT calculation and accounting simplification and compensation measures. | | |
| 2.a | Flat-rate and presumptive tax measures | Existing flat-rate schemes differ significantly in their design, but their purpose is usually to simplify the calculation of VAT payable (e.g. by not requiring input VAT calculations and applying low flat-rate to | <p>Flat-rate schemes are currently used to simplify (and sometimes compensate /provide financial support) the VAT obligations for small businesses.</p> <p>Flat-rate and presumptive tax measures may provide an effective simplification for a business and for tax authority (depending on a design).</p> <p>In the EU, the schemes are currently not</p> |

| | Element | Description | Assessment |
|-----|--|---|--|
| | | <p>gross outputs)</p> <p>These schemes are often targeted to specific sectors or apply generally, but have industry specific VAT rates.</p> <p>In case of a presumptive tax, the business below certain threshold (and in specific sector) may opt for a payment of a fixed amount of tax, relieving it from the precise VAT calculation.</p> | <p>intended to provide a compensation, although potentially they could provide also financial support and in practice some businesses still benefit (if they have lower than average input VAT cost)..</p> <p>As a disadvantage, such schemes add complexity to the VAT system and may disincentivise businesses to grow or widen their activities (i.e. business is 'locked in' to the scheme).</p> <p>For tax authorities it may be challenging (or disproportionately burdensome) to control the compliance of such schemes, especially if the reporting obligations are also significantly simplified. Therefore, the schemes may be open for abuse.</p> |
| 2.b | Reduced VAT rate for SMEs | SMEs below threshold can apply a reduced VAT rate to their supplies | A lower VAT rate could be used to compensate the SMEs. Such measure would in effect be a form of a gradual relief. It could for example be applied as a transitional measure between the VAT exemption threshold and full VAT regime, to compensate the increase in administrative burden and thus ease their transfer to the full regime. However, it would further complicate the VAT system and have direct impact on Member States revenue. |
| 2.c | Simplified/fixed input tax credit | As a simplification, the deductible input VAT may be calculated as a percentage of the turnover (as in Germany and Austria) or a percentage of VAT payable (as in Japan). | <p>Such measure would reduce administrative burden for businesses and may also reduce input VAT fraud.</p> <p>Simplifications for input VAT calculations could be either combined with a flat-rate scheme or applied separately.</p> <p>As a downside, such additional measure would add complexity to the VAT regime.</p> |
| 2.d | Exemption for supplies to SMEs | Businesses would exempt (with right of deduction) their supplies to SMEs (currently used in Turkey). | Although it may provide effective financial support to SMEs as well as a simplification (as they would not need to calculate and deduct input VAT), it would add significant complexity to the VAT system and would be challenging for tax authorities to administer and control, therefore being prone to abuse. |
| 2.e | Cash accounting | <p>Applies cash accounting principles to the calculation of VAT payable, thus VAT becomes payable after receipt of payment from customer</p> <p>A consistent approach is often applied also to the input VAT calculations,</p> | <p>Cash accounting is already quite widely used as a measure to support SMEs, providing effective support regarding their cash flow.</p> <p>By linking their output VAT calculation to the payments from customers, the cash accounting scheme ensures that a business has resources to pay the VAT due.</p> |

| | Element | Description | Assessment |
|--|--|--|--|
| | | <p>prohibiting deduction of input VAT on purchases before they are actually paid for.</p> <p>Cash accounting may be applied also only to outputs.</p> | <p>Despite providing real benefit to small businesses with limited cash resources, such schemes may increase complexity of the system, depending on the design (e.g. the other businesses trading with such SME should be impacted as little as possible).</p> <p>However, the uptake of scheme may be impacted by other regulations, such as accounting standards' requirement for businesses to use accrual accounting.</p> <p>As an improvement to current cash accounting schemes, some further alignment could be considered, especially on the related VAT obligations and administrative tasks.</p> |
| 2.f | Payment flexibility measures | <p>SMEs are allowed to pay advance VAT payments on optional basis (rather than mandatory) (in France, Spain and the UK) or pay VAT due in instalments (Australia) or deferred (Chile) or paid less frequently, together with less frequent VAT declaration (widely applied in the EU).</p> | <p>A number of Member States already offer SMEs more flexibility to adjust their VAT payments as alternative type of measures used to support SME cash flow.</p> <p>Further alignment of such national best practices may be useful.</p> <p>The measure could have negative impact on tax authority's cash flow, but it would be limited and can be managed/controlled by setting an appropriate threshold.</p> |
| 2.g | Less frequent filing of VAT returns | <p>SMEs below certain threshold are allowed to submit less frequent VAT returns (e.g. quarterly instead of monthly, or annual instead of quarterly)</p> | <p>This is one of the most common current SME simplification measures (outside the measures used together with the SME scheme), which reduces the administrative burden for both businesses and tax authorities.</p> |
| 2.h | Special input VAT refund | <p>More flexible or frequent or faster input VAT refund procedures</p> | <p>Such a measure would also support cash flow of SMEs. This measure would be especially valuable for businesses in countries where the regular VAT refunds are cumbersome or limited.</p> |
| 3 Simplified VAT administrative obligations | | | |
| 3.a | Simplified/abolished administrative obligations | <p>Simplified requirements or abolition of VAT related obligations of SMEs:</p> <ol style="list-style-type: none"> 1) VAT registration; 2) VAT return; 3) VAT invoicing; 4) Evidence requirements; | <p>Most Member States provide significant simplification measures to businesses benefitting from the SME exemption scheme. Although the VAT Directive allows the Member States to release businesses benefitting from the scheme either from all or only some tax obligations, many have opted for a full/wide release of VAT obligations.</p> <p>Considering more limited approach in some Member States, keeping some</p> |

| | Element | Description | Assessment |
|--|---|--|--|
| | | 5) Accounting standards. | <p>obligations, such as VAT registration (and e.g. a form of declaration) would increase the administrative burden for both businesses and tax authorities, however it may simplify the compliance control (and reduce avoidance and fraud risk).</p> <p>Another possible approach here could be also to use graduated thresholds, e.g. a lower threshold with full release of obligations and a higher one with partial release from obligations.</p> <p>As the application of such simplification measures can mean that tax authorities collect or business collects or keeps less information on business activities, such measures should be well assessed regarding any potential VAT avoidance and fraud risks.</p> |
| 4 Treatment as non-taxable person | | | |
| 4.a | Harmonised and mandatory treatment as non-taxable person | <p>Harmonised and obligatory treatment as non-taxable persons could be applied to a specific group of businesses:</p> <p>a) Occasional traders – i.e. private individuals whose taxable activity is only incidental;</p> <p>b) Smallest “nano” businesses;</p> <p>c) Smaller “micro” businesses.</p> | <p>Current concept of ‘taxable person’ is very wide and includes e.g. individuals having occasional or incidental business activities. They would be able to benefit from the SME scheme, unless their supplies do not qualify for the scheme (e.g. occasional B2C supply of e-service to another Member State). Current treatment allows also businesses/individuals to register for VAT voluntarily and deduct (proportion of) input VAT on e.g. personal assets partially used for business purposes. This increases the risks of abuse and input VAT fraud and increases the number of VAT registrations with minimal (or negative) VAT revenue.</p> <p>So a mandatory exclusion of such smallest traders may reduce administrative cost and abuse/fraud risks for tax authorities and benefit traders not eligible for SME scheme.</p> <p>At the same time, if targeted just by turnover threshold, it may block start ups from input VAT deductions on initial investments, which would discourage entrepreneurship and growth.</p> <p>So a careful consideration and targeting would be required to make the measure effective.</p> |

Annex I – Methodological note for the analysis of the options

This note presents the methodology and assumptions used to assess the impacts of the policy options (as formulated in Volume I). The note provides detailed explanations of the sources used, the approach adopted, the assumptions made and their basis.

I.1 Introduction

The proposed options are the following:

- **Option 1:** Baseline scenario. This includes the following provisions:
 - SME exemption schemes as currently implemented in the Member States;
 - Removal of the intra-EU common distance selling threshold for B2C supplies of goods and of the exemption for importation of small consignments from supplier in third countries. Therefore, as a general rule, all cross-border B2C supplies of goods and services, as well as imports, will be charged in the Member State of the consumer;
 - Extension of the MOSS to intra-EU distance sales of goods and services other than Telecommunication, Broadcasting and Electronic (TBE) as well as to distance sales of goods from third countries;
 - Application of domestic rules in areas such as invoicing and record-keeping for intra-EU sales;
 - Introduction of a common EU threshold (total value of supplies, exclusive of VAT, of EUR 10 000) for all B2C cross-border supplies of goods and services. Up to the threshold, EU businesses will be able to treat intra-EU supplies as domestic transactions. Once the threshold is exceeded, the supplier will be required to register and account for VAT due in all other Member States (or can opt for declaring VAT from intra-EU sales via the MOSS).
- **Option 2:** SME exemption scheme extended to supplies from other Member States and including streamlined simplification measures.
- **Option 3:** Option 2 plus mandatory treatment of occasional traders as non-taxable persons.
- **Option 4:** Option 3 plus measures for a transition period to reduce the negative impact of the 'threshold effect'.

For each of the options, their impact is evaluated on:

1. The number of businesses impacted by the change in policy;
2. The impact on their compliance costs with separate analysis according to the size of enterprises;
3. The impact on the VAT revenue collected by Member State and at the EU-level;
4. The impact on compliance and fraud (qualitative assessment); and

5. The impact on the wider economy, including internal market, cross-border trade growth, and effects on consumers in terms of prices and consumption.

While some data was obtained from tax authorities across the Member States for the quantification of businesses in different size classes across the EU, their generated turnover and VAT revenue, some of the proposed options require very granular data on SMEs' activities to estimate their impacts. As such data was not always available, assumptions had to be made to obtain the required estimates. The following describes the approach taken for evaluating each option and the proposed assumptions used.

As the options relate to the SME exemption scheme or to occasional traders, most businesses impacted by the policy options are likely to be small businesses. Businesses with less than EUR 100 000 of turnover represent less than 3% of the overall EU turnover generated, and this proportion is smaller when considering cross-border trade. Therefore, while sensitivities are carried out around the assumptions to test the overall impacts calculated, these are relatively small in magnitude.

I.2 General Assumptions

As the proposed policy options build on each other, some common assumptions were required throughout to estimate the impacts on the economy. These are outlined and explained in turn below.

Common VAT rate

To assess the impact of the options on the VAT revenue collected, some of the options require applying VAT rates on the turnover at stake. However, VAT rates differ by Member State and by type of supply.¹¹⁹ As the data was generally not granular enough to obtain precise estimates on the type of supplies impacted or the exact Member State in which the sale happens, Member State specific and supply specific rates could not be used. Hence, an effective VAT rate was calculated at the EU level and applied to the turnover at stake in every option to calculate the impact on VAT revenues. Based on the ratio of total VAT revenue collected relative to final consumption, the effective VAT rate in the EU is calculated to be 12.3%¹²⁰. It therefore accounts for:

- The different rates applied across supplies and the weight that each supply contributes to the VAT revenues; and
- The different rates applied across Member States, and again, the weight that each country contributes to the overall EU VAT revenues.

Number of SMEs in the EU

The data obtained from tax authorities is used to estimate the number of businesses and their average turnover within size classes¹²¹ for all 28 Member States. The methodology and results of these calculations are presented in Annexes B to D.

¹¹⁹ There is generally a standard rate, a reduced rate and a zero rate.

¹²⁰ Using Eurostat National Accounts data

¹²¹ Defined as: Less than EUR 5 000, EUR 5 000 to EUR 50 000, EUR 50 000 to EUR 100 000, EUR 100 000 to EUR 500 000, EUR 500 000 to EUR 2 000 000, over EUR 2 000 000.

Treatment of Domestic SME Exemption Thresholds

For all of the options, it is assumed that domestic SME exemption thresholds do not change. Although there is scope for further EU-level legislative alignment of the domestic thresholds for the SME exemption across the EU, a fully harmonised threshold level is not foreseen, still allowing Member States to apply their own thresholds within the limits set at EU level.

In assessing the impact of extending the domestic threshold to non-established businesses, the relevant threshold to consider for a business exporting to a country is the one in place in the country of destination. However, while the data obtained indicated how many SMEs trade within the EU, it is not granular enough to know to which exact Member States they trade in, making it challenging to use the Member State-specific thresholds. Therefore, a weighted average threshold was used for calculations across the EU.

Since the Member States most impacted by extending their domestic thresholds to non-established businesses are the ones with higher imports, the thresholds in place are weighted by the share of intra-EU imports to a given country obtained from Eurostat.¹²² The levels of thresholds vary across Member States from EUR 0 (i.e. no exemption scheme currently available) in Spain, Sweden and the Netherlands to GBP 83 000 in the UK. However, the UK's threshold is an outlier as it is by far the highest in the EU – most thresholds are set between EUR 10 000 and EUR 50 000 in other Member States. Including the UK could therefore overestimate the number of businesses actually impacted as it would set the average threshold virtually high. It was therefore decided that UK would be excluded from the calculations and a weighted average threshold of EUR 26 000 was used.

It is important to note that the calculations using the threshold levels were conducted during Autumn of 2016 and therefore do not take into account any subsequent changes to thresholds or application of the exemption scheme in additional Member States. Specifically, this means that the following adjustments made to the application of the exemption scheme in the Member States were not taken into account for the impact analysis:

- The application of the SME exemption scheme in Sweden (brought in in January 2017);
- France threshold levels for the SME exemption scheme which were updated in February 2017;
- Luxembourg threshold levels for the SME exemption scheme, which were updated in January 2017.

Cross-border transactions in scope

For the purpose of assessing the number of business impacted by each policy option and the related changes in compliance costs, it is important to clearly state the scope of the analysis (i.e. market segments included or excluded), as well as the interaction of the VAT exemption threshold with the common EU threshold for B2C supplies and the ability to use the MOSS for intra-EU sales.

¹²² http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods

B2B transactions

Under the current legislative framework, in cross-border transactions between businesses (i.e. B2B transactions), the reverse charge mechanism applies. For all options, it is assumed that the reverse charge mechanism would continue to apply for B2B transactions and the supplier would not have VAT obligations in the Member State of destination. As such, the compliance costs for B2B cross-border transactions are already included in the analysis of the compliance costs for businesses in option 1 (baseline scenario).

In cross-border B2B transactions the supplier (whether within the SME scheme in its own Member State or not) will not benefit from the extension of the VAT exemption threshold of the customer State, as it has already no VAT obligation in that State, besides VAT obligations (such as invoicing and declaring) on this transaction in its Member State of establishment.

Under Option 2, businesses engaged in B2B cross-border trade could potentially benefit from the wider simplification package in their own Member State, provided that they are eligible for the SME exemption scheme. However, the final effect of such simplification package is uncertain, as in those Member States that currently impose minimal obligations the actual compliance costs for business may increase due to additional obligations (such as the obligation to register). As a general provision, however, the cost of each measure included in the simplification package is calculated individually. Therefore, businesses engaged in B2B transactions are out of scope for the analysis with regard to their cross-border transactions, while their compliance costs for domestic obligations are included in estimates for options 2 to 4.

B2C transactions

EU businesses engaged in intra-EU B2C transactions face different options for the treatment of such sales. These options differ under the baseline scenario and the policy options considered, and each is considered in turn below.

Baseline scenario

Businesses carrying out intra-EU B2C sales can be separated into two groups: those whose values of B2C cross-border sales fall below the common EU-threshold of EUR 10 000 and those who fall above.

In the first case, businesses with turnover of less than EUR 10 000 from intra-EU trade face the following choices with regard to VAT on their B2C cross-border sales:

- They can treat these as domestic supplies, and be subject to the VAT obligations in their home country. Note that these sales might be exempt from VAT if the business is eligible, and opts for the SME exemption scheme in its home country;
- They can declare and pay VAT via the MOSS; or
- They can register for VAT in the Member State of destination, and be subject to the obligations in this country.

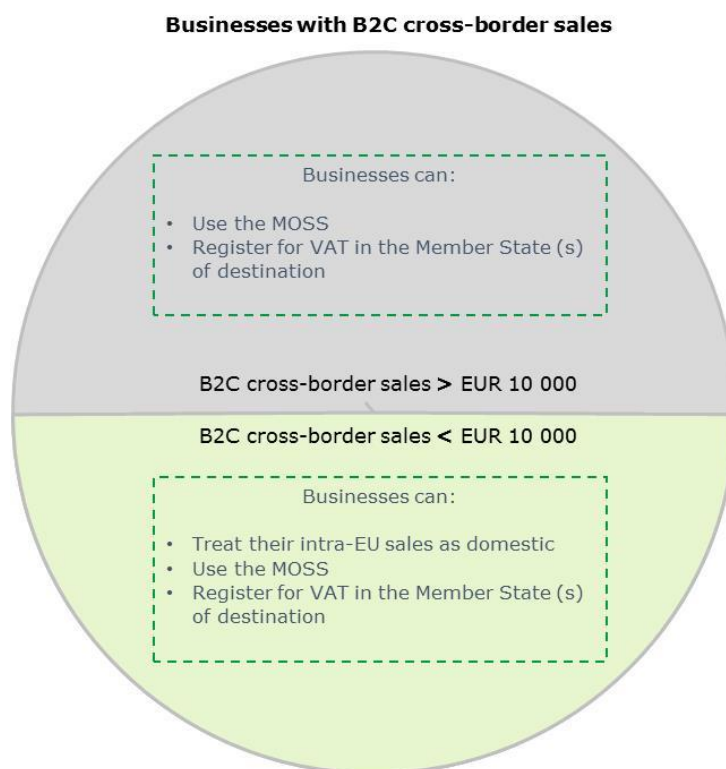
If the B2C cross-border sales of businesses are higher than the common EU-threshold of EUR 10 000, businesses face the following choices:

- They can declare and pay VAT via the MOSS; or

- They can register for VAT in the Member State of destination and be subject to the obligations in this country.

The choices faced by the different types of businesses described above are summarised in the figure below.

Figure 24 – Summary figure of choices faced by businesses carrying out B2C intra-EU sales in the baseline



Source: Deloitte elaboration

The decisions of businesses might be impacted by a number of factors, including the simplicity and certainty of the legal framework they will operate in, the compliance costs of each option, the number of Member States they trade with and the competitive advantage they might obtain by being exempt from VAT. For small businesses with a limited turnover from intra-EU trade (below EUR 10 000), the use of domestic rules represents the simplest solution, as they need only comply with domestic rules (with which they are more familiar) and may benefit from SME exemption from VAT. It is also possible that such businesses decide to opt for the MOSS immediately, for instance if they plan to expand their intra-EU presence, or if they are already using it for TBE services.

For small businesses with a turnover from cross-border trade above EUR 10 000, the option of using the MOSS is likely to be a pragmatic and effective option, given the limited compliance costs of the system and the application of one set of (domestic) rules¹²³. The option of registering for VAT purposes directly in the Member States of destination is also theoretically possible for small businesses, however unlikely, as it entails higher compliance costs and legal complexity.

¹²³ Clearly, the use of the MOSS (either below or above the common EU threshold of EUR 10 000) requires businesses still to know and apply the appropriate VAT rate for their goods and services (i.e. the VAT of the Member State of consumption).

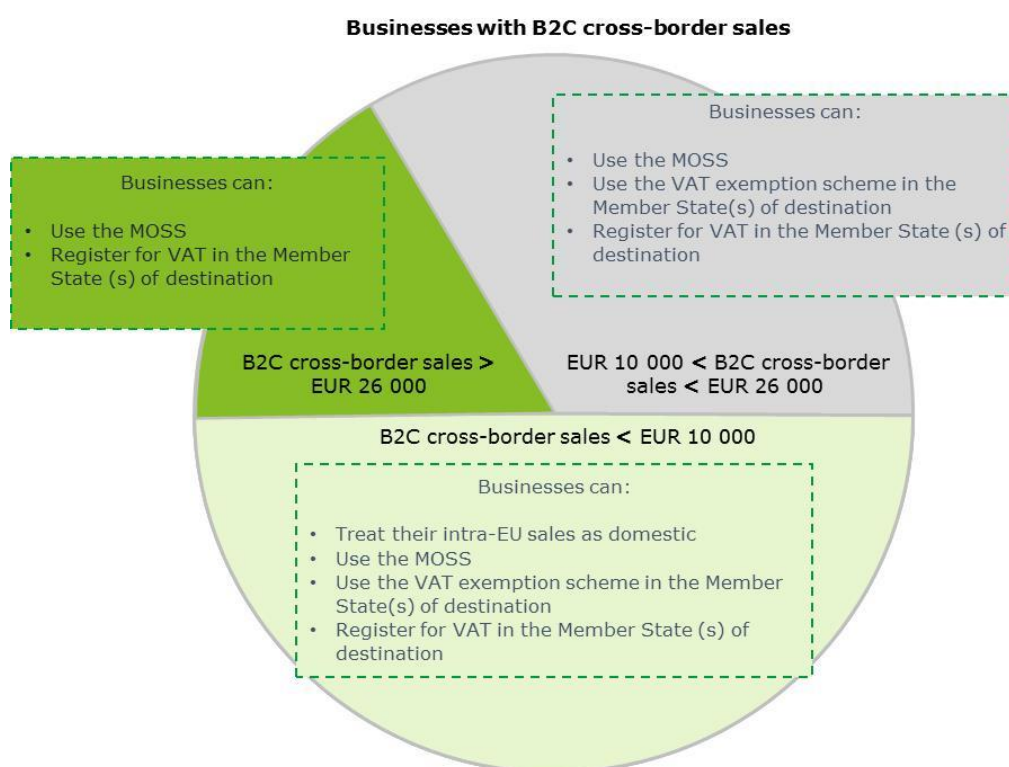
Options 2 - 4

When SME exemption schemes are opened to non-established businesses (Options 2-4), businesses engaged in B2C trade will have an additional possibility for the treatment of intra-EU sales: they can now use the SME exemption scheme in other Member States if they meet the eligibility requirements.

Under this, businesses carrying out intra-EU B2C sales can be divided to three groups: those whose values of B2C intra-EU cross-border sales fall below the common EU-threshold of EUR 10 000, those whose intra-EU turnover fall between the common EU threshold and the average VAT threshold of EUR 26 000, and finally those whose intra-EU sales fall above the VAT average threshold. .

For businesses in the first two groups, this means that the option of applying for the SME exemption scheme is now added to the options set out above. The figure below shows the extended set of possibilities available to businesses of different sizes under Option 2.

Figure 25 - Summary figure of choices faced by businesses carrying out B2C intra-EU sales in the policy options



Source: Deloitte

Under this Option, many businesses will therefore face a choice between using the MOSS and applying for the SME exemption scheme in another Member State. Using the MOSS has the advantage of a simpler set of rules (as domestic rules apply, apart from the VAT rate of the Member State of the consumer), but businesses lose the competitive advantage of being exempt from VAT, and thus applying lower consumers' prices. On the other hand, the decision of applying for the SME exemption scheme in another Member State will depend on the trade-off between facing the

compliance costs of such a decision and the competitive advantage of lower consumers' prices thanks to the exemption from VAT.

The choice is likely to depend on the patterns of cross-border trade of each individual business. It is more likely that businesses will opt to apply for the SME exemption scheme in another Member State if they have a significant volume of trade with countries with a high VAT rate, where this advantage is more likely to offset the compliance costs. Another important element is the number of Member States businesses trade with, and the turnover from each. If the cross-border trade is concentrated in one Member State, and they are eligible for the SME exemption scheme in that country, then the compliance costs and legal complexity linked to that option may be offset by the competitive advantage of being exempt from VAT (and able to apply lower consumers' prices). However, if businesses have limited turnover in several Member States, the lower compliance costs and simpler set of rules related to the MOSS may prevail over the advantages of the cross-border VAT exemption.

With the data at hand, it is however difficult to predict the proportion of businesses that will opt for one regime or the other when given the choice. The impact of the options on the number of businesses affected the VAT revenues and the compliance costs were therefore calculated as a range to account for the inherent uncertainty.

Goods vs services

Data was collected during the study for both goods and services, and was elaborated per sector using the NACE classification¹²⁴. Data collected does not have the granularity necessary to exclude those services subject to specific VAT regimes (such as holiday and travel services sold by travel agents including online, which fall under the taxation of the margin regime).

The estimates of the impacts of the policy options for reviewing the SME schemes include both goods and services, with no exclusions of those services subject to another special VAT regime (unless otherwise specified). While this can be an over-estimation of the impacts of the policy options in terms of VAT revenues, it has to be considered that SMEs subject to the policy options represent only a small proportion of EU businesses trading cross-border and an even smaller share of VAT revenues (see Table 133). Therefore, the possible upward bias in the estimation of VAT impacts is likely to be negligible.

Number of SMEs trading cross border

The policy option that extends the domestic SME exemption scheme to non-established businesses will only impact businesses that trade cross-border, and whose value of cross-border sales in an individual Member State falls below this Member State's threshold, or for the purpose of this analysis, below a weighted average threshold of EUR 26 000. Data from a Flash Eurobarometer on the Internationalisation of SMEs¹²⁵ suggests that only a proportion of SMEs' turnover (around 27%) is generated from cross-border sales. This implies that a majority of businesses impacted by this option, i.e. whose cross-border sales fall below the threshold, have turnover below EUR 100 000, as 27% of a value greater than EUR 100 000 will give a value of cross-border sales above EUR 26 000. A

¹²⁴ See: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Statistical_classification_of_economic_activities_in_the_European_Community_\(NACE\)](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Statistical_classification_of_economic_activities_in_the_European_Community_(NACE))

¹²⁵ Flash Eurobarometer 421, Internationalisation of Small and Medium-sized Enterprises (2015)

business with larger turnover is therefore less likely to be eligible to the SME exemption scheme in the Member State of destination. In obtaining estimates of cross-border activities of SMEs, the research therefore focused on this group of businesses.¹²⁶

While the inherent uncertainty around this assumption implies that more or fewer businesses may be impacted by the policy change, SMEs with less than EUR 500 000 of turnover only make up around 8% of the overall turnover in the EU (this proportion is less than 3% when only businesses with turnover below EUR 100 000 are considered). Hence, while sensitivities are carried out around this number, the overall impact is expected to be small.

Data collected from tax authorities, Ipsos MORI surveys and the Flash Eurobarometer on the Internationalisation of SMEs¹²⁷ suggests that between 10% and 30% of SMEs trade cross-border. However, the Flash Eurobarometer study gives data which enables for the calculation of estimates by businesses' size classes, suggests that between 12% and 15% of the smallest SMEs (turnover below EUR 100 000, which are more likely to be impacted by the exemption scheme) trade cross-border. Some country specific studies exist as well, for example, data from IfM Bonn suggests that in 2009, less than 5% of SMEs in Germany with turnover below EUR 100 000 exported.¹²⁸ A comparison between the data obtained from the Flash Eurobarometer study and IfM Bonn is presented below.

Table 132 – Comparison of Flash Eurobarometer and IfM Bonn data on exporting businesses

| Size class | Percentage of firms exporting | | Exports as a percentage of turnover | |
|-----------------------------|-------------------------------|---------------|-------------------------------------|---------------|
| | Flash Eurobarometer data | IfM Bonn data | Flash Eurobarometer data | IfM Bonn data |
| Less than EUR 50 000 | 12% | 2.7% | 32% | 25% |
| EUR 50 000 – EUR 100 000 | 15% | 4.7% | 23% | 20% |
| EUR 100 000 – EUR 250 000 | 25% | 8.2% | 21% | 17% |
| EUR 250 000 – EUR 500 000 | | 14.3% | | 15% |
| EUR 500 000 – EUR 1 000 000 | 40% | 21.9% | 23% | 14% |

¹²⁶ The estimated proportion of the turnover of SMEs with less than EUR 100 000 of turnover generated from cross-border sales is consistent with another study carried out in Germany in 2009, which estimated this to be between 20% and 24.5%. Source: Taxud/2010/DE/328: "A retrospective evaluation of elements of the EU VAT system"

¹²⁷ Flash Eurobarometer 421, Internationalisation of Small and Medium-sized Enterprises (2015)

¹²⁸ Some country specific studies exist; for example, data from IfM Bonn suggests that in 2009, less than 5% of SMEs in Germany with turnover below EUR 100 000 exported. However, the Flash Eurobarometer study contains estimates for the EU as a whole, and makes the distinction between intra-EU trade and exports outside the EU. In addition, the study offers more recent data as the fieldwork was conducted in 2015.

| Size class | Percentage of firms exporting | | Exports as a percentage of turnover | |
|-------------------------------|-------------------------------|---------------|-------------------------------------|---------------|
| | Flash Eurobarometer data | IfM Bonn data | Flash Eurobarometer data | IfM Bonn data |
| EUR 1 000 000 - EUR 2 000 000 | | 30.9% | | 15% |

Source: Deloitte estimates based on Flash Eurobarometer 421, *Internationalisation of Small and Medium-sized Enterprises (2015)*, Taxud/2010/DE/328: “A retrospective evaluation of elements of the EU VAT system”

While differences exist, especially in the percentage of businesses exporting among very small firms, the Flash Eurobarometer contains estimates for the EU as a whole, and makes the distinction between intra-EU trade and exports outside the EU. In addition, the study offers more recent data as the fieldwork was conducted in 2015. Therefore when considering the impact of exempting cross-border sales from VAT in the destination country, an assumption of 15% is made on the proportion of SMEs trading cross-border. Given the inherent uncertainty, sensitivities were carried out around this number to assess the impact of a smaller or larger amount of SMEs trading cross-border.

However, as indicated above, B2B intra-EU cross border transactions will not be impacted by policy options involving cross-border trade, as the VAT obligations in the destination country lie with business customer. These transactions therefore need to be excluded from the calculations. Data from the Flash Eurobarometer was used to estimate that 67% of trading SMEs sold B2B supplies. These businesses were not considered when assessing the impact of exempting cross-border sales from VAT. Note that when trading businesses recorded selling both B2C and B2B supplies, no data was available on the proportion of sales allocated to each type of supply. They were therefore given equal weighting to calculate the overall percentages of businesses to consider. In addition, the data revealed that among SMEs, i.e. businesses with less than EUR 2 000 000 of turnover, the average turnover of a business exporting B2B or B2C supplies was not significantly different (less than 3% different).¹²⁹

Hourly costs for the Standard Cost Model

A key parameter for the calculation of administrative burden using the Standard Cost Model (SCM) is the labour costs of the personnel having to carry out the tasks for businesses to comply with the information obligations identified as relevant.

We used the **hourly wage rates** for the category ISCO 2, i.e. for management accounts, as they make up the personnel responsible for VAT-related procedures in businesses. Management accountants are classified under the code 2411 in the International Standard Classification of Occupations elaborated by the ILO.

We used the EU average hourly costs of EUR 32.1, which already includes the 20% overhead costs, as indicated by the Commission’s Impact Assessment Guidelines.

¹²⁹ Whilst less reliable given the smaller sample, the analysis gave the same conclusion amongst the different size classes of SMEs.

Costs for businesses to use the MOSS

Businesses registering for and using the MOSS to account for and pay VAT on intra-EU B2C transactions face the costs of registering and using the online platform. These costs were estimated as part of a previous study¹³⁰, based on the costs declared by businesses using the MOSS for TBE services in the first months of its functioning.

We used the same estimations, which quantified the costs of using the MOSS about (on average) EUR 690 per company on an annual basis for the first Member State they sell cross-border. In addition, the use of the MOSS entails economies of scale for businesses, estimated to be of about 95% on an annual basis for filing and payment VAT returns for the subsequent Member State.

I.3 Option 1 – Baseline scenario

This scenario considers the costs to SMEs at the EU level in the baseline situation, based on the following metrics:

- Number of businesses in the baseline scenario; considering the following:
 - Businesses inside and outside the SME exemption scheme
 - Businesses inside and outside the flat-rate scheme
 - Businesses inside and outside the graduated relief
- Businesses' compliance costs; and
- VAT revenue collected for each Member State and at the EU level.

The following paragraphs outline the method that was applied to conduct the calculations including the technical assumptions needed.

Number of businesses under the under the baseline scenario

Number of businesses inside and outside the VAT exemption threshold

Data collected via surveys to Member States' tax authorities, Ipsos MORI survey and available literature provided the basis for the estimation of number of businesses in each turnover bracket and the take-up rate of the SME exemption scheme in Member States.

Number of businesses inside and outside the VAT flat-rate threshold

Data collected via surveys to Member States' tax authorities, information collected as part of the fieldwork and available literature provided the basis for the estimation of the number of businesses in each turnover bracket and the take-up rate of the VAT flat-rate scheme in the eight Member States implementing these¹³¹.

Number of businesses inside and outside the VAT graduated relief threshold

Data collected via surveys to Member States' tax authorities, information collected as part of the fieldwork and available literature provided the basis for the estimation of the number of businesses in

¹³⁰ Deloitte (2016) VAT Aspects of cross-border e-commerce - Options for modernisation, available: https://ec.europa.eu/taxation_customs/sites/taxation/files/vat_aspects_cross-border_e-commerce_final_report_lot2.pdf.

¹³¹ As the baseline and the policy options considered for the analysis concern the SME exemption scheme only, we will present the analysis of the number of businesses using the VAT flat-rate scheme (and related compliance costs) in Chapter 4 of the final report.

each turnover bracket and the take-up rate of the VAT graduated relief thresholds in the three Member States implementing these¹³².

Number of businesses trading cross-border within and outside of the VAT special schemes for SMEs

The proportion of businesses trading cross-border in the EU was calculated from data gathered in surveys and fieldwork interviews and is included in the general assumptions above. We applied this proportion to the number of businesses currently using the SME exemption scheme.

Further, we assume that the average business currently trading cross-border trades with one other Member State (generally, a neighbouring country). This assumption was validated via expert assessment (businesses associations were contacted to test this assumption), and sensitivities around it were carried out.

Businesses' compliance costs

Costs for businesses inside and outside the SME exemption scheme

The average cost per information obligation (IO) was based on the SCM data gathered from the fieldwork countries plus data from the Deloitte Tax Network Survey.

As a first step, the IOs relevant for the application of the scheme were selected. For these, the average time was calculated from the data gathered from the fieldwork countries and the Deloitte tax network survey. The results were put in context with available literature and subject to sensitivity analysis (e.g. calculation of median values and standard deviation) to better qualify the results.

The average time obtained was multiplied by the hourly wage costs as described in Section I.2.

For the average costs per IO, the most common frequency per IO was used. The most common frequency of information obligations was derived from the data gathered for the SCM, the Deloitte tax network survey to each Member State and expert assessment. Final results were also validated via expert assessment.

The same procedure was repeated to estimate the compliance costs for businesses inside and outside of the VAT exemption scheme.

To the extent possible, the analysis of compliance costs for businesses in the status quo included advisory fees that businesses face to obtain the support of accountants/advisors with VAT-related obligations. Data on advisory fees were collected for the eight Member States selected for fieldwork.

However, the list of relevant IOs for businesses benefiting from the VAT exemption scheme differ among Member States, as not all countries exempt businesses from all VAT-related obligations. In fact, eight Member States oblige businesses benefitting from the VAT exemption scheme to register for VAT and/or to issue invoices. In these cases, to calculate the cost of VAT registration for SMEs under the exemption scheme at EU level, only the number of businesses in these countries obliging registration/issuing of invoices were taken into account.

¹³² Ibid

Costs for businesses inside and outside the flat-rate scheme

Data gathered during the fieldwork in the Member States provide estimates on the administrative burden for SMEs within and outside of the flat-rate scheme. The same procedure described above for estimating the compliance costs of businesses inside and outside of the VAT exemption scheme was followed¹³³.

Costs for businesses inside and outside the graduated relief

Data gathered during the fieldwork in the Member States provide estimates on the administrative burden for SMEs within and outside of the VAT graduated relief scheme. The same procedure described above for estimating the compliance costs of businesses inside and outside of the VAT exemption scheme will be followed¹³⁴.

Compliance costs for businesses trading cross-border within and outside of the VAT special schemes for SMEs

As described in Section I.2, B2B cross-border transactions are out of scope, as it is assumed that the reverse charge mechanism would continue to apply for B2B transactions and supplier would not have VAT obligations in the destination Member State. As such, the compliance costs for B2B cross-border transactions are already included in the analysis of the domestic compliance costs for businesses.

Compliance costs for businesses in B2C cross-border trade are assumed to be included in the estimations of domestic compliance costs, (provided that the turnover from cross-border sale is below the common EU threshold). Businesses face costs for monitoring the VAT exemption threshold, even if such costs are not captured by the SCM, as they do not correspond to any IO. Such 'hidden costs' were accounted for in the estimations as an ad-hoc adjustment, which was quantified via expert assessment. We contacted a sample of businesses and business organisations (especially those already included in the fieldwork in a sample of eight Member States).

The case of a business benefiting from the domestic VAT exemption threshold but with a turnover from cross-border B2C transactions above the distance sales threshold is theoretically possible, however unlikely (based on the data available and on expert assessment).

VAT revenue collected

Data on VAT revenue was collected from Member State tax authorities.

I.4 Option 2 - SME exemption scheme extended to supplies from other Member States and including streamlined simplification measures

Extending the SME exemption scheme to non-established businesses will impact businesses that:

- Trade cross-border;
- Whose value of sales taxable in a single, foreign Member State falls below the VAT exemption threshold in place in that Member State;; and

¹³³ As the baseline and the policy options considered for the analysis concern the SME exemption scheme only, we will present the analysis of costs for businesses using the VAT flat-rate scheme in Chapter 4 of the final report.

¹³⁴ Ibid

- Choose to opt for the SME exemption scheme in the Member State of destination, instead of:
 - Opting out and paying VAT in the Member State of destination while being subject to the simplified VAT obligations in place in that Member State;
 - Declaring VAT via the MOSSMOSS; or
 - If eligible, using the common EU threshold on their B2C cross-border supplies and being subject to the VAT rules in the Member State of origin (home country rules).

As explained previously, applying the VAT exemption in the Member State of destination is optional. We assume that businesses (and/or their advisors and accountants) in cross-border transactions have knowledge of this option and of the eligibility requirements and functioning of the VAT exemption scheme in the Member State of destination. The acquisition of such knowledge requires an effort from businesses (and/or their advisors and accountants) to collect information about which schemes are available in neighbouring Member States, what are the requirements and the related IOs, costs and benefits, in order to make a choice on whether to use them or not. Such effort (and related costs) are modelled as a one-off adjustment, which were quantified via expert assessment.

Including streamlined simplification measures to the SME VAT exemption scheme will impact businesses that:

- Are eligible for the SME VAT exemption scheme in their country of establishment, or in another Member State in which they sell cross-border supplies, whether they choose to opt in or out of the scheme.

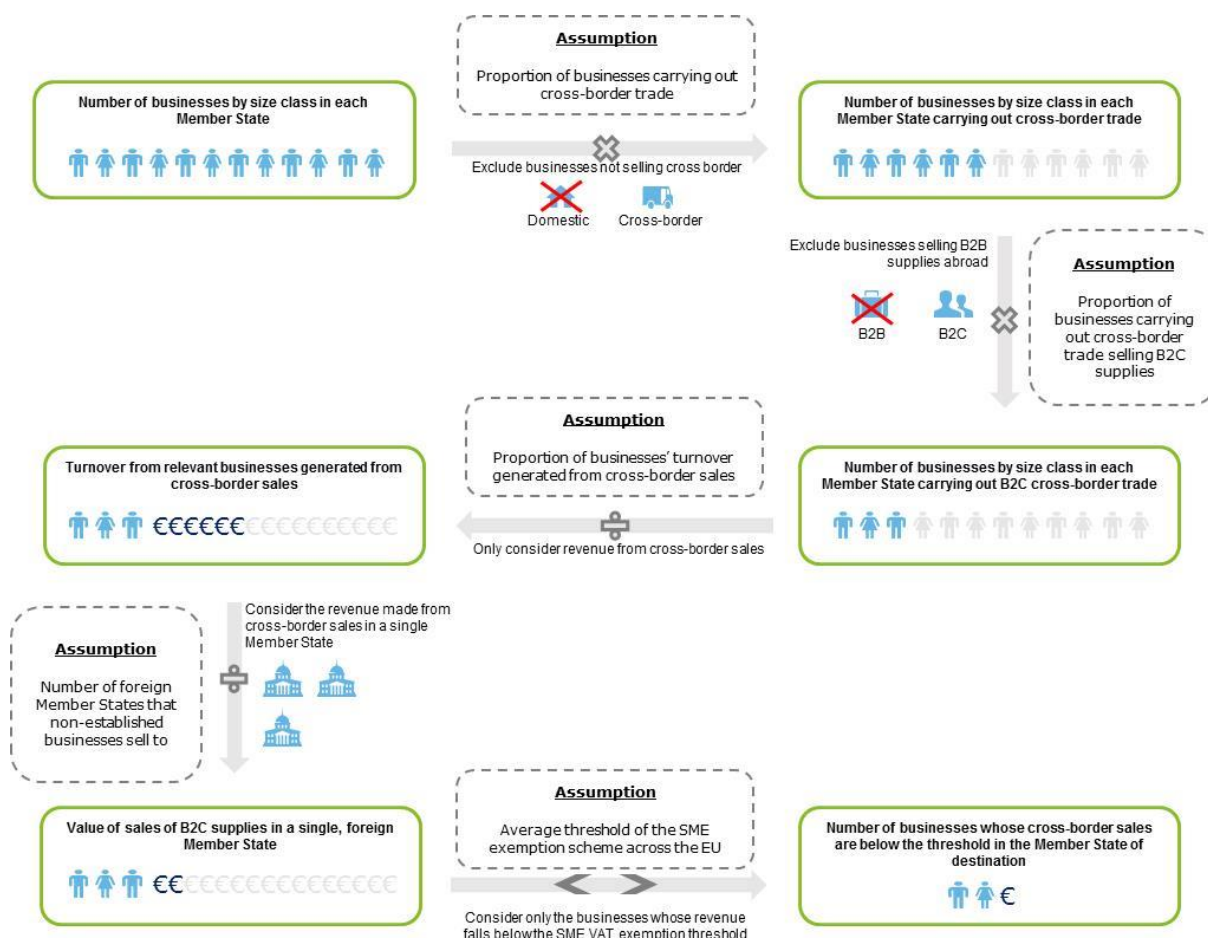
The proposed measures (presented above) will have a number of impacts on the VAT revenues collected by Member States, the compliance costs faced by businesses and the knock-on impacts on the wider economy. The first step required in quantifying these impacts is to understand the number of businesses impacted by the policy change.

Number of businesses impacted by the extension of the threshold to non-established businesses and turnover at stake

As a first step, the number of businesses eligible for the policy change was quantified, and the methodology and assumptions used to do so are summarised in the figure below and explained in more detail thereafter. However, this gives an upper bound of the number of businesses actually impacted by the policy change, as some may choose to opt out of the scheme as mentioned above. The approach to identify the number of businesses actually impacted is also discussed below.

Determining the number of eligible businesses for the extension of the VAT exemption threshold

Figure 26 – Summary of the assumptions needed to obtain the number of businesses eligible for the policy change in Option 2



Source: Deloitte

The steps taken to calculate the number of businesses eligible for VAT exemption on their cross-border sales, as well as the assumptions used are described in more detail below. To mitigate the inherent uncertainty of the final estimates due to the number of assumptions required, a number of sensitivity scenarios were carried out on each of the key parameters forming the set of assumptions.

1. The data obtained from tax authorities is used to estimate the number of businesses and their average turnover within size classes as previously defined for all 28 Member States.
2. As mentioned in the general assumptions (Section I.2), 15% of businesses are assumed to trade-cross border. However, sensitivities were carried out around this assumption.
3. As B2B intra-EU cross border transactions will not be impacted by this policy, only the proportion of SMEs trading cross-border that sell B2C supplies are relevant for this analysis.

This number was estimated to be 33%, using data from a Flash Eurobarometer study on the internationalisation of SMEs.¹³⁵

4. The numbers obtained from 1. 2. and 3. were used to calculate the number of businesses selling B2C supplies cross-border, and their generated turnover. However, not all of these businesses or their generated turnover will be impacted by the policy change as some of their cross-border sales might fall above the threshold in the Member State of destination. Data from the Flash Eurobarometer study mentioned above¹³⁶ was used to estimate that on average, 27% of the turnover of SMEs that trade cross-border is made from sales in other EU countries.¹³⁷ This proportion is applied to the average turnover of businesses in each size class estimated above to obtain the value of the cross-border sales.
5. However, since these sales may take place in several Member States, only a proportion of the overall value would be subject to the SME exemption threshold. As previously mentioned, based on stakeholder feedback, SMEs trading cross-border and selling B2C supplies are estimated to trade with only 1 other Member State. The turnover of businesses from different size classes, made from B2C cross-border sales in a single Member State can therefore be obtained.
6. To assess whether these businesses will be eligible for the change in policy, the amount of sales calculated in 5. was compared to the SME VAT exemption threshold in the Member State of destination. As explained earlier, a weighted average threshold of EUR 26 000 was used across the EU.¹³⁸ Any cross-border sales from a non-established business falling below this threshold would be considered eligible to be exempted from paying VAT under the SME exemption scheme in this policy option.

From the above methodology, it is estimated that around 1.64 million businesses would be potentially affected by the change in policy, or 33.9% of all businesses in the EU.¹³⁹ These businesses generate only 0.11% of the overall turnover in the EU, and the turnover at stake (i.e. generated from the cross-border sales and subject to exemption under this policy option) represents only 0.03% of EU turnover.

These estimates are however dependent on a number of assumptions made throughout the calculations. To test how sensitive these numbers are to the assumptions made, each parameter was varied in turn while holding the others constant, and the proportion of EU businesses impacted and turnover at stake is reported in the table below.

¹³⁵ Flash Eurobarometer 421, Internationalisation of Small and Medium-sized Enterprises (2015)

¹³⁶ Flash Eurobarometer 421, Internationalisation of Small and Medium-sized Enterprises (2015)

¹³⁷ As previously mentioned, this estimate is consistent with another study done in Germany (Taxud/2010/DE/328: "A retrospective evaluation of elements of the EU VAT system"). However, sensitivities were carried out around this assumption to reflect the inherent uncertainty.

¹³⁸ The weighted average is calculated based on the thresholds in place for the SME exemption schemes across the EU (including where there is no exemption scheme, so that the threshold is effectively 0), weighted by the share of intra EU imports. The UK was excluded as it is an outlier due to its unusually high threshold.

¹³⁹ Note that the initial estimates were calculated excluding Austria and Luxembourg, for which the data obtained from tax authorities did not provide sufficient information to classify businesses within the turnover brackets specified. In order to adjust the estimates obtained, an uplift was applied based on the share of intra-EU imports in Austria and Luxembourg of 4.1% in total.

Table 133 – Sensitivities on the assumptions used to calculate the number of impacted businesses by Option 2

| Variable | Main assumption (bold) and sensitivity analysis | Proportion of EU businesses impacted and sensitivity analysis ¹⁴⁰ | Proportion of EU turnover at stake ¹⁴¹ and sensitivity analysis ¹⁴² |
|--|---|--|---|
| Proportion of businesses trading cross-border | 10% | 2.6% | 0.02% |
| | 15% | 3.9% | 0.03% |
| | 20% | 5.2% | 0.04% |
| Proportion of cross-border trading businesses selling B2C supplies | 25% | 2.9% | 0.02% |
| | 33% | 3.9% | 0.03% |
| | 50% | 5.9% | 0.04% |
| Proportion of SMEs turnover which comes from cross-border sales | 10% | 4.6% | 0.03% |
| | 27% | 3.9% | 0.03% |
| | 45% | 3.9% | 0.04% |
| Number of Member States that cross-border trading SMEs sell to | 1 | 3.9% | 0.03% |
| | 2 | 4.6% | 0.08% |

Source: Deloitte analysis

While the table above shows how the results are sensitive to a single parameter, it is possible that multiple parameters take extreme values at the same time. It is however unlikely that all will deviate from their average values. Hence, as an additional sensitivity analysis, the following scenarios were tested:

1. **Lower bound:** given that the results seem to be most sensitive to the proportion of businesses trading cross-border and the proportion of cross-border trading businesses selling B2C supplies, the lower values were tested while keeping the other variables constant at the main assumption.
2. **Upper bound:** given that the proportion of EU turnover at stake seems to be sensitive to the number of Member States that cross-border trading SMEs sell to, this variable and the proportion of cross-border trading businesses selling B2C supplies are varied. The high range values were tested for these while keeping other variables constant at the main assumption.

In addition, the impacts were tested using the ImF Bonn data on the percentage of businesses exporting and the percentage of turnover generated from exports. Note that the average of the data given for businesses with turnover between EUR 17 500 and EUR 50 000, and EUR 50 000 to EUR 100 000 was considered.

¹⁴⁰ Sensitivity analysis is carried out on the main variable (proportion of EU businesses) holding other variables constant.

¹⁴¹ Defined as the turnover which could be exempted from VAT under the new policy

¹⁴² Sensitivity analysis is carried out on the main variable (proportion of EU turnover) holding other variables constant.

The results of this additional sensitivity analysis are presented in the table below.

Table 134 – Sensitivities on the number of businesses impacted by Option 2

| | Main assumptions | Lower bound assumptions | Upper bound assumptions | ImF Bonn assumptions on exporting businesses |
|--|------------------|-------------------------|-------------------------|--|
| Proportion of businesses trading cross-border | 15% | 10% | 15% | 4% |
| Proportion of cross-border trading businesses selling B2C supplies | 33% | 25% | 50% | 33% |
| Proportion of SMEs turnover which comes from cross-border sales | 27% | 27% | 27% | 22% |
| Number of Member States that cross-border trading SMEs sell to | 1 | 1 | 2 | 1 |
| | | | | |
| Proportion of EU businesses impacted | 3.9% | 2.0% | 7.0% | 1.2% |
| Proportion of EU turnover at stake ¹⁴³ | 0.03% | 0.01% | 0.12% | 0.01% |

Source: Deloitte analysis

The above sensitivity shows that depending on the assumptions used, the proportion of EU businesses eligible for the policy change could be between 1% and 7%, and the turnover at stake could represent between 0.01% and 0.12% of the overall EU turnover.

Determining the number of businesses choosing the exemption

The calculations presented above estimated the total number of businesses that can potentially benefit from the extension of VAT exemption schemes to cross-border supplies. Assuming that all of these businesses take advantage of the change in policy and have their cross-border sales exempted from VAT in the destination country, the above calculations give an upper bound to the number of businesses impacted and the turnover at stake. However, not all eligible businesses will necessarily choose this option; as mentioned before some of these businesses might instead:

¹⁴³ Defined as the turnover which could be exempted from VAT under the new policy

- Choose to pay VAT in the Member State of destination and comply with the simplified VAT obligations in that Member State;
- Pay VAT in the Member State of destination but through the MOSS; or
- If eligible, make use of the common EU threshold of EUR 10 000 and have their B2C cross-border supplies subject to the home country rules. This may imply that:
 - Their overall turnover, including the B2C cross-border supplies, falls below the VAT exemption threshold in place in their home country and all supplies are exempt from VAT if the businesses opt to use the domestic scheme; or
 - Their overall turnover falls above the VAT exemption threshold and they pay VAT in their home country.

Determining the exact number of businesses impacted is therefore challenging, and assumptions need to be made on businesses' behaviours as little evidence is available at this level of granularity. While it is therefore difficult to obtain a precise estimate, it is possible to identify some businesses which are more likely not to use the VAT exemption scheme in the Member State of destination on their cross-border sales, and arrive at a new upper bound on the number of businesses impacted by the policy option.

In particular, it is possible to estimate the number of businesses that are eligible to benefit from the option but are unlikely to do so given that they already qualify for their domestic exemption scheme. This is done by comparing their total turnover with the thresholds in place in their domestic country. Assuming all these businesses do not pay VAT currently, and will continue to be exempt with the introduction of the policy option 2 would give a new upper bound on the revenue at stake¹⁴⁴.

The remaining businesses either:

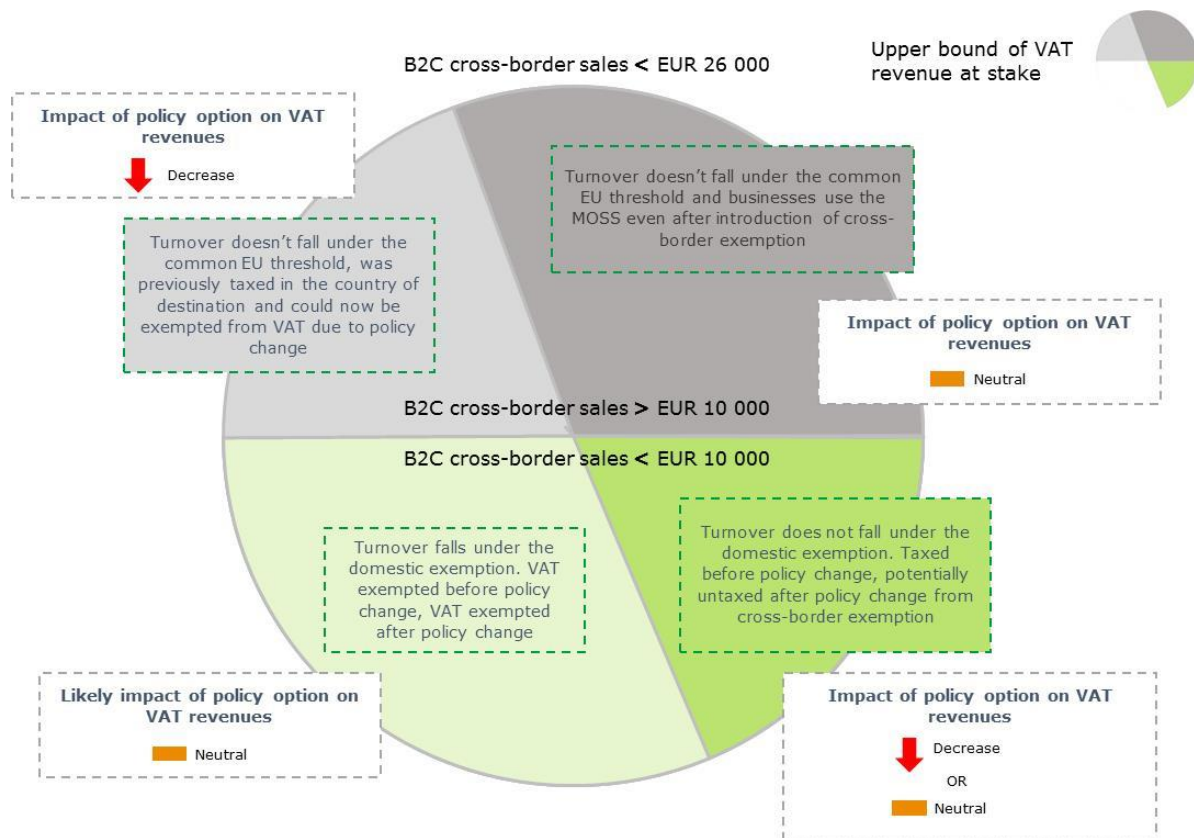
- Have B2C cross-border sales above EUR 10 000, in which case they must be paying VAT in the country of destination (via the MOSS or direct registration) and can now benefit from the exemption; or
- Have B2C cross border sales below EUR 10 000 but a total turnover above their domestic VAT exemption threshold. In this case, they must be paying VAT:
 - In the country of destination via the MOSS;
 - In the country of destination via direct registration;
 - In the country of origin, by making use of the common EU threshold.

These businesses can continue to pay VAT, or benefit from exemption in the country of destination.

The figure below illustrates the situations described above and the expected impacts on different groups.

¹⁴⁴ Note that this makes the implicit assumption that all of the businesses considered and which are eligible for the domestic SME exemption take advantage of the scheme and are exempt from paying VAT. While data from tax authorities revealed that the take-up rate of this option is around 63% across the EU, the businesses considered here are restricted to businesses generally selling B2C supplies. Interviews with relevant stakeholders (tax authorities and businesses) revealed that the businesses most likely to opt out of the scheme were B2B businesses or start-ups. Hence, it is likely that the take-up rate of the businesses considered is higher than that of the general population.

Figure 27 – Illustration of the VAT revenue at stake from policy option 2



Source: Deloitte

As previously discussed, when given the choice between using the MOSS or the exemption in the country of destination, a number of factors will be considered by SMEs such as the compliance costs faced, the competitive advantage from not paying VAT or the number of Member States they trade to.

Hence, the impact on the VAT revenue was calculated as an upper bound as illustrated in the figure above. Using this methodology, it is estimated that up to 1.4% of all EU businesses would be impacted by the policy change and the turnover at stake up to 0.02% of the overall turnover generated in the EU.

Number of businesses impacted by the Streamlined Simplification Package

Businesses impacted by the streamlined simplification package are businesses that:

- Are eligible for the VAT exemption scheme in their domestic country, whether they choose to opt in or out of the scheme;
- Trade cross-border, are eligible for the VAT exemption scheme in the Member State(s) in which they trade, and do not make use of the MOSS or common EU threshold.

Businesses eligible for the domestic VAT exemption scheme were calculated in the following way:

- When this data was provided directly by tax authorities, these estimates are used;

- When it was not provided, the number of exempted businesses in each Member State was estimated, as well as an average take-up rate of the scheme across the EU of 63%, allowing for the number of eligible businesses to be calculated.

Note that around 60% of eligible businesses were derived from data obtained directly from tax authorities. In addition, the methodology used to estimate the number of exempted businesses in Member States where tax authorities did not provide this data was tested, by applying it to Member States where data was provided and compare the estimates to the actual data. This analysis showed that whilst the estimates tended to over- or under-estimate the number of actual businesses exempted, there was no systematic over- or underestimation.

Based on this methodology, the number of businesses eligible for the domestic VAT exemption schemes is estimated to be around 39.9% of all EU businesses.

As part of the General Assumptions, the number of businesses trading cross-border and eligible for the VAT exemption in the Member State of destination were calculated. The average turnover of these businesses can be compared to their domestic thresholds to assess whether they are already eligible for the scheme domestically, and therefore already accounted for in the previous step. Based on this methodology, it is estimated that an additional 1.4% of all EU businesses would be impacted by the streamlined simplification package.

Therefore, in total around 41.3% of all EU businesses would be impacted by this policy option. Not all of these businesses will be impacted in the same way however: some may see their compliance costs rise due to new obligations arising from this package, while some may see their compliance costs fall due to the new package being simpler than their current obligations. This is further discussed below.

Impact on businesses compliance costs

Under Option 2, the extension of the VAT exemption scheme to non-established businesses from other Member States is accompanied by a package of streamlined simplification measures. These measures are expected to mitigate the costs for businesses while providing tax authorities with the necessary information to monitor the compliance of these businesses. The implication of this option is different at domestic and cross-border level for reasons explained below.

Member States will be required to offer the same set of obligations to domestic and non-domestic businesses. While they have other means to monitor domestic businesses (for example through registration for other tax purposes), this is not necessarily the case for non-established businesses. It is therefore plausible that Member States currently requiring minimal or no information about businesses exempted from paying VAT under the scheme may seek to increase these obligations to improve monitoring of non-established businesses now eligible for the scheme. At the same time, Member States generally limit most of the simplification measures currently to domestic businesses benefitting from the SME scheme. Therefore the compliance cost of eligible businesses not benefitting from the scheme ought to decrease, however the extent of the decrease will depend on the current set of obligations and the choice of Member State on the simplification package under this option. Hence, the compliance costs may change for domestically established businesses eligible for the scheme. Given the inherent uncertainty around what Member States will choose to do, and the fact that they each already impose a different set of obligations, a range of scenarios were considered to assess the impact of this option on businesses.

However, businesses trading B2C cross-border supplies under the baseline and not using the MOSS must register for VAT in the Member State(s) of destination and fulfil all the required obligations. With the introduction of a simplification package, these businesses are likely to see a reduction in their compliance costs.

The two situations are discussed in turn below.

Determining the impact on compliance costs of extending the VAT exemption scheme for domestic businesses

Currently, Member States differ substantially in the way in which they implement the VAT exemption scheme, and in the administrative obligations they impose on businesses benefiting from this scheme. As discussed above, there is some inherent uncertainty around the changes Member States may make to their obligations following the extension of the SME exemption scheme to non-established businesses. However, a range of scenarios can be considered to analyse the magnitude of the impact on businesses' compliance costs, from Member States moving towards a very simple package to a more complicated one. The impact for businesses currently using the scheme in each Member State will therefore depend on the pre-existing set of obligations and on the content of the streamlined simplification measures adopted under each scenario, for example:

- A generalised simplification scenario, under which simplification packages move towards a very simple set of obligations, i.e. where compliance costs in every country would be similar to the current lowest range. The change in compliance costs would therefore be neutral for countries with such obligations already, and decrease for others.
- A middle ground simplification scenario, where obligations include registration, reporting and simplified bookkeeping. Under this scenario, domestic compliance costs for businesses are likely to decrease in some Member States and increase in others.
- A minimum simplification scenario, where the measures introduced align with the higher set of obligations allowed under the option. Under this scenario, domestic compliance costs for businesses would generally increase or stay constant, depending on the changes in obligations with respect to the current ones.

The businesses eligible, but not benefiting from the VAT exemption scheme in the baseline scenario are subject to more burdensome VAT obligations in the baseline than businesses using the scheme. Since the simplification package will be applied to all eligible businesses, their compliance costs are expected to decrease from the introduction of this policy option. Their compliance costs in the baseline were calculated as part of the baseline analysis and compared to the estimates calculated above in each scenario to quantify the extent of this reduction.

Given that the proposed package of simplification measures has not yet been defined and the inherent uncertainty over whether some Member States would retain a reduced set of obligations, we cannot determine which of those scenarios will prevail. However, the analysis provides an order of magnitude for the impact of the worst and best case scenarios, as well as for a possible middle-ground.

Determining the impact on compliance costs of Streamlined Simplification Measures on intra-EU trading businesses

Businesses engaged in cross-border B2C trade are faced with the following options:

- Use the MOSS: The cost of using the MOSS was estimated to be EUR 690 on an annual basis for filing and paying VAT returns in one Member State, with significant economies of scale when used to file VAT declarations for more than one country.
- Register for VAT in the country of destination: The cost of full VAT registration in another Member State was estimated to be EUR 4 700 per Member State on an annual basis, with the possibility to recover input VAT directly.
- Use the VAT exemption in the country of destination: The cost of using the VAT exemption for the Member State of destination is the same as that estimated for the domestic VAT exemption scheme under the streamlined simplification measures.
- Use the common EU threshold: The smallest businesses with cross-border turnover of less than EUR 10 000 may make use of the common EU threshold and have their B2C cross-border supplies subject to their home country rules. Such businesses are likely to be making use of domestic schemes and their supplies will fall under the scope of the domestic discussion above.

Therefore, a comparison of the costs (and the benefits associated with VAT exemption) of each of these possibilities will determine the choice of businesses, and therefore the overall compliance costs associated with Option 2.

We used the middle ground simplification scenario described above as the basis for this assessment, under the assumption that it will be the set of streamlined simplification measures applied uniformly by all Member States, and calculated the average costs for this scenario at EU level. This estimation method allowed us to obtain a realistic estimate at EU level, given that data available do not allow more precise assessment of the trade patterns of businesses (for instance, with how many countries, and which ones, businesses trade with). The other two scenarios were included as sensitivity analysis.

Impact on the VAT revenue collected

Only the extension of the SME exemption threshold to non-established businesses will have an impact on the VAT revenue collected, as the streamlined simplification measures do not affect the level or amount of taxation. A methodology was described above to estimate the number of businesses impacted as well as the turnover at stake in each Member State (that is, the turnover made from cross-border sales which would be exempted from VAT under the new policy). However, calculating the exact foregone VAT revenue requires holding information on which VAT rates are used on which supplies (as Member states typically have a standard rate, a reduced rate and a zero rate) and in which specific Member States sales are made to.

As previously mentioned, the data at hand is not granular enough to gather the required evidence, and it was explained in the general assumptions section that an effective VAT rate in the EU of 12.3% was used for the purpose of these calculations.¹⁴⁵ Applying this rate on the revenue at stake will therefore give the change in VAT revenue due to the policy option. In addition, since the Member States which import the most from other EU countries will be the most impacted by this policy option, the impact on each Member State's VAT revenue was calculated by allocating the EU-wide fall in VAT revenue to each country based on their share of intra-EU import (as a percentage of total intra-EU imports in the EU).

¹⁴⁵ The effective rate is calculated by dividing the total VAT revenues obtained in the EU with final consumption.

Impact on the wider economy

The effects of the policy options on the wider economy was tested using a dynamic general equilibrium model of the EU. Changes to VAT revenues, compliance costs or businesses' activities are entered as inputs, and the model then calculates the knock-on impact on the wider economy.

The impacts of the extension of the VAT exemption threshold to non-established businesses and the introduction of streamlined simplification measures were assessed as follows:

- The change in VAT revenue resulting from the policy was entered into the model, which then estimated how this change flows through to the wider economy. As estimating the number of businesses impacted and the resulting change in VAT revenue required a number of assumptions, the range of values obtained from the different sensitivities were also entered into the CGE model to check how the impact on the wider economy varied with the assumptions used.
- The change in compliance costs faced by businesses was entered into the model as a change in the proportion of time/labour which is allocated to VAT compliance activities, which in turn affects average labour productivity. The number of businesses impacted included sensitivities to check how the overall impact varies with the assumptions used.
- The reduction in labour costs and the removal of VAT will in turn be expected to reduce prices, which are determined endogenously in the model. There may be differential impacts on domestic and export prices:
 - The extension of the domestic SME exemption scheme to importing businesses will reduce the costs of trade for those businesses that cannot take advantage of their domestic scheme. By removing VAT, this can potentially reduce the prices charged by such businesses and make them more competitive. However, given that the exemption is estimated to affect 0.03% of activity the impact on the overall price level will not be significant.
 - The proposed simplification measures will benefit both domestic and exporting businesses. While not changing their VAT obligations, these proposals can reduce labour costs and hence prices in those markets that currently have significant obligations for businesses using the exemption scheme; however, there is a risk that the imposition of a registration requirement across all EU Member States increases the burden in a majority of countries. The SCM was used to estimate the net direction and magnitude of these effects and hence the impact on prices. However, the fact that businesses using the SME scheme account for just 0.3% of total turnover – and eligible businesses account for about 0.5% of turnover – again suggests that the impact on the overall price level will be small.

The outputs of the SCM were used to understand the impact on labour costs (as described above), which in turn feeds into both domestic and export prices. The effects of enabling exporting businesses to benefit from VAT exemption schemes in the countries to which they trade is reflected through a reduction in the average VAT rate on such transactions.

If the extension of the VAT exemption threshold leads to a decrease in administrative burden from cross-border trade, SMEs may increase their cross-border activities. It is however difficult to predict the exact magnitude of this effect, and it is therefore tested based on the proportional change in compliance costs and sensitivities around the magnitude of the impact.

I.5 Option 3 - Option 2 plus mandatory treatment of occasional traders as non-taxable person

This policy option builds on Option 2. It proposes to extend the SME exemption threshold to non-established businesses and to introduce streamlined simplification measures, and in addition it proposes to treat occasional traders as non-taxable persons.

The businesses which would be impacted by the extension of the threshold to non-established businesses and the introduction of streamlined simplification measures have been previously discussed. Treating occasional traders as non-taxable persons will impact businesses that:

- Carry out economic activity on occasional basis or whose economic activity is incidental, where
- The amount of VAT potentially collected would be minimal (or negligible), and where
- Their treatment as non-taxable persons would not create significant distortions of competition.

Businesses identified as occasional traders would be fully kept out of the VAT system and as such would not have any VAT related obligations, including on intra-EU purchases. They would have no right to register for VAT or claim input VAT refunds, unless they prove planned or existing continuous and non-incidental business activity.

The identification of sole traders is problematic, also in consideration of the different definitions and VAT treatment in Member States. This problem is described in the 'problem assessment' section of Volume I, where relevant examples are also mentioned (e.g. the case of solar panels in houses and private households becoming taxable persons for the purposes of VAT in the Netherlands (see CJEU case C-219/12)).

The key challenge in estimating the impact of this option is to identify the occasional traders and quantify the VAT revenue they generate and the compliance costs they face. As for Option 2, very granular data on SMEs' activities is required to appropriately identify the businesses impacted, however such data is lacking. A number of sources were investigated to form estimates of the proportion of businesses that could be classified as occasional traders, their compliance costs and generated VAT revenue, and are described below.

Number of businesses impacted by the treatment of occasional traders as non-taxable person

Identifying these occasional traders is a challenging task as no granular data is available on SMEs activities to analyse the frequency of their economic activity. However, it is expected that only the smallest businesses identified from the data obtained from tax authorities (i.e. turnover below EUR 5 000) will potentially classify as occasional traders. These represent about 38% of all businesses in the EU, but only 0.04% of the generated turnover. In addition, occasional traders are more likely to be single individuals without employees rather than legal entities. Tax authorities in 4 Member States¹⁴⁶ were able to provide the percentage of their businesses that are sole traders. Based on the information received, it is estimated that around 40% of businesses with less than EUR 5 000 turnover could classify as occasional traders. However, sensitivities were carried out around this assumption given the inherent uncertainty. The table below shows the percentage of businesses

¹⁴⁶ Belgium, Ireland, Finland and Lithuania

potentially identified as occasional traders, when the percentage of sole traders assumed for businesses with less than EUR 5 000 of turnover is varied.

Table 135 – Number of businesses identified as occasional traders and sensitivities

| Variable | Main assumption (bold) and sensitivity analysis | Proportion of EU businesses impacted and sensitivity analysis ¹⁴⁷ |
|---|---|--|
| Proportion of businesses with less than EUR 5 000 of turnover considered to be occasional traders | 20% | 7.5% |
| | 40% | 15.1% |
| | 60% | 22.6% |

Source: Deloitte analysis

Note that while these businesses will be impacted by this policy change as they will now be considered as occasional traders and as such, as non-taxable persons, a proportion of these businesses will already be exempt from paying VAT under the SME VAT exemption scheme. Hence, not all of the turnover generated will be subject to a change in VAT revenue collected.

Impact on businesses' compliance costs

To calculate the impact on the business compliance costs, the costs in option 2 were firstly taken into account.

For treatment of occasional traders as non-taxable persons, an estimate on the number of occasional traders is required (which is provided above).

Therefore, the number of occasional traders quantified were not taken into account for the estimate of the businesses' compliance costs in option 3, as occasional traders would qualify as non-taxable persons, their supplies being not subject to VAT. At an EU level, the number of businesses affected by compliance costs will decrease therefore reducing the overall business compliance costs across the EU.

As indicated above, to calculate the reduction in compliance costs, costs currently associated with businesses in the lower turnover bracket (i.e. turnover below EUR 5 000) were used.

Impact on the VAT revenue collected

The data obtained from tax authorities was used to obtain estimates on the average net VAT revenue generated by businesses in each size class. However, it is not clear how the VAT revenue collected from an occasional trader would differ from other businesses. While tax authority data revealed that businesses with less than EUR 5 000 of turnover on average contributed negatively to the net VAT

¹⁴⁷ Note that data obtained from tax authorities in Austria and Luxembourg was not granular enough to identify the number of businesses with less than EUR 5 000 of turnover. The analysis was therefore initially carried out excluding these 2 Member States and an uplift based on the shares of SMEs in Austria and Luxembourg compared to the rest of the EU was applied. Eurostat estimates of the number of businesses with 0 to 9 employees was used. Based on this data, Austria and Luxembourg were estimated to contribute to 1.47% of SMEs in the EU.

revenue collected at the EU level, this wasn't the case in every Member State. In addition, it could be due to a combination of start-ups making large initial investments and recovering VAT on these as well as occasional traders registering as taxable persons in order to recover VAT paid on their inputs or engaged in input VAT fraud.

Given the inherent uncertainty, it was unclear whether the impact of this option on VAT revenues collected will be positive, by successfully treating fraudulent occasional traders (e.g. engaged in input VAT fraud) as non-taxable persons, or negative, as it will also treat as non-taxable persons occasional traders which were generating positive VAT revenues for the government. However, given that the businesses considered, with turnover below EUR 5 000, make up a negligible amount of the overall EU turnover (0.04%) this impact is expected to be limited. To estimate its potential magnitude the following was considered:

- Where tax authorities provided data on the net VAT revenues generated by businesses below EUR 5 000 of turnover which were overall negative, it was estimated that these make up - 1.3% of the overall net VAT revenue generated.¹⁴⁸ An upper bound on the positive impact that this policy option could have on VAT revenues was therefore calculated. Given that only 40% of these businesses would potentially classify as occasional traders, it is estimated that the positive revenue impact of this policy option could be an increase in revenues of up to 0.52%.
- Where tax authorities provided data on the net VAT revenues generated by businesses below EUR 5 000 of turnover which were overall positive, it was estimated that these made up 0.6% of the overall net VAT revenue generated.¹⁴⁹ Similarly, this could be used to calculate a lower bound on the negative impact that this policy option can have on VAT revenues, which is estimated to be a decrease of 0.24% if 40% of these businesses were to be treated as non-taxable persons.

Impact on the wider economy

As per Option 2, the impact on the wider economy was tested through the use of a CGE model. To compare against the status-quo, the changes from Option 2 were considered as part of this option as well, with the additional changes in VAT revenues and compliance costs calculated above as additional inputs. The model then calculated how these changes flow through to the wider economy to estimate their impact.

I.6 Option 4 - Option 3 plus measures for transition period reducing the negative impact of the 'threshold effect'

This policy option encompasses the changes proposed in Options 2 and 3 which were described previously. In addition, this policy option will extend the SME exemption scheme to businesses:

- Which exceed the SME exemption threshold for one calendar year; or
- Whose turnover exceeds the SME exemption threshold by 50%, whichever is earliest.

¹⁴⁸ This is based on data obtained for Belgium, Denmark, Estonia, Finland, Ireland, Italy, Lithuania, Malta, Poland, Slovenia, Spain and Sweden. Slovakia was excluded from the calculations as they were found to be an outlier in terms of the magnitude of the negative net VAT revenues generated by this group of businesses, for which the tax authorities were unable to provide an explanation.

¹⁴⁹ This is based on data obtained for Bulgaria, Czech Republic, France, Hungary, Latvia and the Netherlands.

This extension gives SMEs a period of time to prepare for the application of a full set of VAT obligations, both financially and administratively. Compared to the status-quo, this implies that each year some businesses which were previously moved onto the VAT system will now still be exempt from paying VAT and complying with the full VAT obligations. This will have an impact on the VAT revenue collected by Member States and on the compliance costs faced by businesses.

Number of businesses impacted by measures for the transitional period

As per Option 3, the key challenge in estimating the impact of this option is to identify the businesses which are affected in a given year. In order to quantify these businesses the following methodology was used:

- Mint Global data was used to estimate the number of businesses with turnover between the VAT exemption threshold and 150% of the threshold in a given Member State. This was done by taking the number of businesses in each relevant bracket estimated as part of the status-quo analysis, and using Mint Global data to estimate the proportion lying between the lower/upper bound of this bracket and the relevant thresholds. This was done for every Member State, except Austria and Luxembourg where the data provided by tax authorities could not be used to infer these estimates.
- Tax authorities in some Member States¹⁵⁰ were able to provide the proportion of businesses between their VAT exemption threshold and 150% of the threshold which are newly VAT registered businesses each year. Based on the data received, this was estimated to be around 11.4%.
- Combining the above two estimates, 11.2% of the businesses in each Member State which have turnover between the relevant VAT exemption threshold and 150% of this threshold are assumed to be impacted by policy option 4.

Based on the above methodology, the proportion of businesses impacted at an EU-level and by Member State was obtained.

Table 136 – Proportion of businesses impacted by policy option 4, EU-level and by Member State

| Member State | Proportion of businesses impacted by the policy change |
|----------------|--|
| EU-28 | 0.6% |
| Austria | 0.3% |
| Belgium | 0.8% |
| Bulgaria | 0.6% |
| Croatia | 1.0% |
| Cyprus | 0.5% |
| Czech Republic | 0.3%** |
| Denmark | 0.3% |
| Estonia | 0.6% |

¹⁵⁰ Belgium, Finland, Ireland, Malta

| Member State | Proportion of businesses impacted by the policy change |
|----------------|--|
| Finland | 0.4% |
| France | 0.5% |
| Germany | 0.8% |
| Greece | 0.4% |
| Hungary | 0.8% |
| Ireland | 0.8% |
| Italy | 1.3% |
| Latvia | 0.5% |
| Lithuania | 0.5%** |
| Luxembourg | 0.5% |
| Malta | 0.8% |
| Netherlands | 0%* |
| Poland | 1.3% |
| Portugal | 0.5% |
| Romania | 0.7% |
| Slovakia | 0.4% |
| Slovenia | 0.6% |
| Spain | 0%* |
| Sweden | 0%* |
| United Kingdom | 0.7% |

Source: Deloitte analysis

*Note: the Netherlands, Spain and Sweden do not have the SME VAT exemption scheme in place, hence no businesses in their countries will be impacted by the extension of the threshold for a temporary period.

**Note: Mint Global data did not identify enough businesses in the Czech Republic and Lithuania to obtain reliable estimates. In these two instances, EU-estimates were collected from Mint Global instead to derive these estimates.

The variation of the proportion of businesses impacted between Member States depends on several factors, such as the thresholds in place, the number of businesses overall within the turnover brackets specified, and the proportion of businesses lying within the relevant brackets, identified using Mint Global data. For example, Denmark has one of the lowest thresholds in the EU with EUR 10 000, and only 0.3% of businesses are expected to be impacted by this measure.

Impact on businesses' compliance costs

To calculate the impact on the business compliance costs, the costs in option 3 are firstly taken into account.

For treatment of businesses benefitting from this option, an estimate on the number of businesses in transition period on a yearly basis is required (as calculated above).

Businesses in the transition period only have to face compliance costs from trespassing the VAT exemption in a later period. Until the end of the transition period then, their compliance costs are the same as benefiting from the VAT exemption threshold. However, the transition period shall be used by businesses to prepare for the larger set of obligations deriving from trespassing the VAT exemption threshold. Therefore, businesses in the transition period will face transition costs to prepare for the larger set of obligations in the following period. Such transition costs were modelled as a one-off adjustment, quantified via expert assessment.

As a result, at EU level, the number of businesses facing VAT compliance costs will decrease therefore reducing the overall business compliance costs across the EU.

Furthermore, it is likely that monitoring businesses in such transition period will increase the monitoring tasks (and possibly costs) for tax authorities in Member States. A qualitative analysis of this aspect is provided in the section on impact on compliance and fraud for option 4 of Volume I.

Impact on the VAT revenue collected

Whilst the number of businesses impacted by this option will change every year, there will be a fall in VAT revenue collected due to the introduction of a transition period for the SME VAT exemption scheme compared to the status-quo. This is due to the fact that each year, a proportion of the businesses which under the current rules would be obliged to register and pay VAT due to exceeding the threshold would remain exempted for, at most, another year.

The number of businesses impacted by this policy change in each Member State was estimated in the section above. In addition, an estimate of the average turnover generated by these businesses is obtained by taking the average of the VAT exemption threshold and 150% of this threshold in each country. An effective VAT rate for the EU of 12.3% was used to calculate the resulting fall in VAT revenue collected, at the EU-level and by Member State.

Impact on the wider economy

As per the other options, the impact on the wider economy was tested through the use of a CGE model. To compare against the status-quo, the changes from Options 2 and 3 are considered as part of this option as well, with the additional changes in VAT revenues and compliance costs calculated above as additional inputs.

In addition, this option may increase the amount of economic activity carried out by SMEs, by making the transition from the SME VAT exemption scheme to more burdensome VAT obligations easier. However, the exact magnitude of this increase is very uncertain as it is challenging to predict the response of businesses. As such, a few scenarios were tested from no change in activity to a 10% increase to assess the impact on the wider economy and the sensitivity of the results to this assumption.

Annex J – Assessment of policy options – Compliance costs

This annex presents the detailed set of compliance costs for businesses estimated as part of the assessment of the policy options.

For each of the policy options, the estimation of the compliance costs for businesses included the classification of the impacts on different groups of businesses, the identification of the relevant administrative obligations imposed by Member States and the assessment of the related costs (including advisory costs, hidden costs and one-off adjustment costs, as applicable).

The analysis focuses on a specific sub-set of SMEs, those that are more likely to be directly impacted by the provisions of the policy options, i.e. those eligible for the VAT exemption threshold. This sub-set of businesses have been identified as those below the turnover threshold of EUR 100 000, estimated in approximately 32 million (31 932 639)¹⁵¹.

The details of these estimations are provided below of each of the policy options.

J.1 Baseline scenario

Under the baseline scenarios, three main groups of SMEs were identified as relevant, namely:

- ✘ Businesses using domestic VAT exemption schemes;
- ✘ Businesses opting out of domestic VAT exemption schemes; and
- ✘ Businesses engaged in cross-border trade likely using the MOSS.

In addition, a sub-set of businesses (still in the same turnover range) were taken into account, i.e. businesses not eligible for the VAT exemption scheme in their Member State.

Below we describe the compliance costs for businesses active in their Member State of establishment only, and for those engaged in cross-border trade separately.

Impact on businesses trading domestically

The compliance costs for businesses trading domestically only and opting for the VAT exemption scheme were assessed as the same as under the Status Quo.

Similarly, the compliance costs for businesses trading domestically only and opting out of the VAT exemption scheme were assessed as the same as under the Status Quo.

¹⁵¹ More details are provided on Volume II Annex D.

Such estimates are provided already in Volume I Section 6.2 and in Volume II Annex .I.3.

Impact on businesses trading cross-border

Within the baseline scenario, SMEs engaged in intra-EU B2C trade, have different options for accounting for and paying VAT, depending on whether their turnover from intra-EU trade falls below or above the common EU threshold of EUR 10 000.

In the first case (i.e. turnover from intra-EU B2C trade below EUR 10 000), SMEs can:

- Treat these sales as domestic supplies, and be subject to VAT obligations in their home country¹⁵²;
- Declare and pay VAT using the MOSS; or
- Register for VAT in the Member State(s) of destination, and be subject to the standard VAT regime in this country (or countries).

In the second case (i.e. turnover from intra-EU B2C trade above EUR 10 000), SMEs can:

- Declare and pay VAT using the MOSS; or
- Register for VAT in the Member State(s) of destination, and be subject to the standard VAT regime in this country (or countries).

The following costs were estimated:

- Treating cross-border sales as domestic sales: costs already included in the domestic compliance costs;
- Declare and pay VAT using the MOSS: EUR 690 per year, with economies of scale for businesses, estimated to be of about 95% on an annual basis for filing and payment VAT returns for the subsequent Member State.
- Register for VAT in the Member State(s) of destination, and be subject to the standard VAT regime in this country (or countries): same costs as the standard VAT regime (i.e. approximately EUR 3 000 per year).

J.2 Option 2 - SME exemption scheme extended to supplies from other Member States and including streamlined simplification measures

Within policy option 2, the following groups of SMEs were identified as relevant, namely:

- Businesses only trading domestically, either benefiting from the domestic VAT exemption scheme, or using the streamlines simplification package or being in the standard VAT regime; and
- Businesses engaged in cross-border trade, and using the MOSS or the cross-border VAT exemption scheme.

In addition, three different scenarios were identified for the streamlined simplification measures, namely:

¹⁵² In this case, sales might be exempt from VAT if the business is eligible and opts for the SME exemption in its home country.

- A **generalised simplification scenario**, under which the streamlined simplification package move towards a very simple set of obligations, i.e. where compliance costs in every Member States are similar to the lowest range in the Status Quo;
- A **medium simplification scenario**, where the set of obligations include registration, reporting and simplified book-keeping (and VAT returns and payment for non-exempt businesses); and
- A **minimal simplification scenario**, where the measures introduced align with the highest set of obligations allowed under the option.

The table below summarises the set of obligations included in each of the scenarios above

Table 137 – Scenarios for streamlined simplification packages under policy option 2

| | Generalised simplification scenario | Medium simplification scenario | Minimal simplification scenario |
|---|--|--|--|
| <i>Businesses trading domestically</i> | | | |
| <i>Using VAT exemption scheme</i> | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO5a: Invoicing; ➤ IO6a: VAT return; ➤ IO9: Book-keeping |
| <i>Opting out of VAT exemption scheme</i> | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO5a: Invoicing; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping |
| <i>Business trading cross-border</i> | | | |
| <i>Using VAT exemption scheme</i> | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO5a: Invoicing; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping |
| <i>Opting out of VAT exemption scheme</i> | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping | <ul style="list-style-type: none"> ➤ IO1: VAT registration; ➤ IO5a: Invoicing; ➤ IO6a: VAT return; ➤ IO8a: VAT payment; ➤ IO9: Book-keeping |

As well as these specific obligation, eligible businesses face the hidden cost of monitoring the threshold, as in the baseline scenario (option 1).

In addition, the extension of the VAT exemption scheme to non-established businesses implies additional learning costs for businesses (or, most likely for their accountants and advisors). The decision on whether to apply the VAT exemption scheme in another Member State requires the knowledge (by businesses and/or their accountants and advisors) of the eligibility requirements and

obligations related to such schemes. Such costs are estimated to amount to approximately EUR 1 500, i.e. the cost of a training¹⁵³ course on VAT exemption schemes in place in neighbouring countries. This is a one-off cost, that businesses (most likely their accountants and advisors) incur when the schemes are extended, but do not constitute an administrative obligation. In addition, it is likely that accountants and advisors will distribute the costs of such training on all their clients, with minimum impact on businesses' advisory costs (if any). In the medium-term, such costs (e.g. for updating knowledge of cross-border exemption schemes) are likely to become running costs, as for updates on national schemes.

Impact on businesses trading domestically

With regard to the businesses trading only domestically and opting for the VAT exemption scheme, three different sets of compliance costs were estimated, depending on the simplification scenario.

As a general provision, the compliance costs for businesses trading domestically and subject to the standard VAT regime were assessed as the same as under the Status Quo.

Generalised simplification scenario

The tables below provides the overview of the estimated compliance costs for businesses trading domestically under the generalised simplification scenario.

¹⁵³ It is assumed that accountants do not have to become certified in other Member States.

Table 138 – Compliance costs for businesses trading domestically and applying the VAT exemption scheme under option 2 (Generalised simplification scenario)

| IO# | Administrative task | | Tariff (national) | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------|----------------------|-----------|-------------------|---------------|-----------|-----------------|---------------|--------------------|-------------|------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 280 | 150 | 15 | | 10 years | | 15 |
| | | OUTSOURCE | 32.10 | 0 | 0 | 0 | 225 | 10 years | 22.50 | 23 |
| | | TOTAL | 32.10 | 280 | 150 | 15 | 225 | 10 years | 22.50 | 37 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | | 240 per year | | 0 |
| IO6a | VAT return | IN_HOUSE | 32.10 | 20 | 11 | 11 | | Yearly | | |
| | | OUTSOURCE | | | | | 320 | Yearly | 320 | |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 320 | Yearly | 320 | 0 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | 0 | 0 | 0 | | Yearly | | 0 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 8 | 4 | 51 | | Monthly | | 51 |
| | | OUTSOURCE | | | | | 7 | Monthly | 80 | 80 |
| | | TOTAL | 32.10 | 4 | 2 | 26 | 7 | Monthly | 80 | 131 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 20 | 11 | 128 | | Monthly | | 128 |
| Total | | | | | | | | | | 297 |

Source: Deloitte estimates

Table 139 – Compliance costs for businesses trading domestically and opting out of the VAT exemption scheme under option 2 (Generalised simplification scenario)

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------|----------------------|-----------|--------|---------------|-----------|-----------------|---------------|--------------|-------------|------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 280 | 150 | 15 | | 10 years | 0,00 | 15 |
| | | OUTSOURCE | 32.10 | 0 | 0 | 0 | 225 | 10 years | 22,50 | 23 |
| | | TOTAL | 32.10 | 280 | 150 | 15 | 225 | 10 years | 22,50 | 37 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | | 240 per year | 0 | 257 |
| IO6a | VAT return | IN_HOUSE | 32.10 | 20 | 11 | 11 | | Yearly | 0 | 11 |
| | | OUTSOURCE | | | | | 320 | Yearly | 320 | 320 |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 320 | Yearly | 320 | 331 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | 5 | 3 | 3 | | Yearly | | 3 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 8 | 4 | 51 | | Monthly | | 51 |
| | | OUTSOURCE | | | | | 7 | Monthly | 80 | 80 |
| | | TOTAL | 32.10 | 8 | 4 | 51 | 7 | Monthly | 80 | 131 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 20 | 11 | 128 | | Monthly | | 128 |
| Total | | | | | | | | | | 887 |

Source: Deloitte estimates

Medium simplification scenario

The tables below provides the overview of the estimated compliance costs for businesses trading domestically under the medium simplification scenario.

Table 140 – Compliance costs for businesses trading domestically and applying the VAT exemption scheme under option 2 (Medium simplification scenario)

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|---------------------|----------------------|-----------|--------|---------------|-----------|-----------------|---------------|-----------|-------------|------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 350 | 187 | 19 | 0 | 10 years | 0,00 | 19 |
| | | OUTSOURCE | 32.10 | 0 | 0 | 0 | 225 | 10 years | 22.50 | 23 |
| | | TOTAL | 32.10 | 645 | 345 | 35 | 225 | 10 years | 22.50 | 41 |
| IO6a | VAT return | IN_HOUSE | 32.10 | 24 | 13 | 13 | | Yearly | | 13 |
| | | OUTSOURCE | | | | | 360 | Yearly | 360 | 360 |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 360 | Yearly | 360 | 373 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 8 | 4 | 51 | 0 | Monthly | 0 | 51 |
| | | OUTSOURCE | | | | | 8 | Monthly | 90 | 90 |
| | | TOTAL | 32.10 | 4 | 2 | 26 | | Monthly | | 141 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 25 | 13 | 161 | | Monthly | | 161 |
| Total | | | | | | | | | | 716 |

Source: Deloitte estimates

Table 141 – Compliance costs for businesses trading domestically and opting out of the VAT exemption scheme under option 2 (Medium simplification scenario)

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|---------------------|----------------------|-----------|--------|---------------|-----------|-----------------|---------------|--------------|-------------|------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 350 | 187 | 19 | 0 | 10 Years | 0,00 | 19 |
| | | OUTSOURCE | 32.10 | 0 | 0 | 0 | 225 | 10 Years | 22.5 | 23 |
| | | TOTAL | 32.10 | 645 | 345 | 35 | 225 | 10 Years | 2.50 | 41 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | 0 | 240 per year | 0 | 257 |
| IO6a | VAT return | IN-HOUSE | 32.10 | 24 | 13 | 13 | 0 | Yearly | 0 | 13 |
| | | OUTSOURCE | | | | | 360 | Yearly | 360 | 360 |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 360 | Yearly | 360 | 373 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | 5 | 3 | 3 | 0 | Yearly | 0 | 3 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 8 | 4 | 51 | 0 | Monthly | 0 | 51 |
| | | OUTSOURCE | | | | | 8 | Monthly | 90 | 90 |
| | | TOTAL | 32.10 | 4 | 2 | 26 | | Monthly | | 141 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 25 | 13 | 161 | 0 | Monthly | 0 | 161 |
| Total | | | | | | | | | | 975 |

Source: Deloitte estimates

Minimal simplification scenario

The tables below provides the overview of the estimated compliance costs for businesses trading domestically under the minimal simplification scenario.

Table 142 – Compliance costs for businesses trading domestically and applying the VAT exemption scheme under option 2 (Minimal simplification scenario)

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------|----------------------|-----------|--------|---------------|-----------|-----------------|---------------|--------------|-------------|-------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 450 | 241 | 24 | | 10 years | 0,00 | 24 |
| | | OUTSOURCE | 32.10 | | | | 225 | 10 years | 22.50 | 23 |
| | | TOTAL | 32.10 | 450 | 241 | 24 | 225 | 10 years | 22.50 | 47 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | | 240 per year | | 257 |
| IO6a | VAT return | IN-HOUSE | 32.10 | 30 | 16 | 16 | | Yearly | | 16 |
| | | OUTSOURCE | | | | | 400 | Yearly | 400 | 400 |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 400 | Yearly | 400 | 416 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | | | | | Yearly | | 0 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 10 | 5 | 64 | | Monthly | | 64 |
| | | OUTSOURCE | | | | | 8 | Monthly | 100 | 100 |
| | | TOTAL | 32.10 | 4 | 2 | 26 | 8 | Monthly | 100 | 164 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 25 | 13 | 161 | | Monthly | | 161 |
| Total | | | | | | | | | | 1044 |

Source: Deloitte estimates

Table 143 – Compliance costs for businesses trading domestically and opting out of the VAT exemption scheme under option 2 (Minimal simplification scenario)

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency (annual) | Other costs | TOTAL |
|--------------|----------------------|-----------|--------|---------------|-----------|-----------------|---------------|--------------------|-------------|-------------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 450 | 241 | 24 | | 10 years | | 24 |
| | | OUTSOURCE | 32.10 | | | | 225 | 10 years | 22.50 | 23 |
| | | TOTAL | 32.10 | 450 | 241 | 24 | 225 | 10 years | 22.50 | 47 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | | 240 per year | | 257 |
| IO6a | VAT return | IN-HOUSE | 32.10 | 30 | 16 | 16 | | Yearly | | 16 |
| | | OUTSOURCE | | | | | 400 | Yearly | 400 | 400 |
| | | TOTAL | 32.10 | 30 | 16 | 16 | 400 | Yearly | 400 | 416 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | 5 | 3 | 3 | | Yearly | | 3 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 10 | 5 | 64 | | Monthly | | 64 |
| | | OUTSOURCE | | | | | 8 | Monthly | 100 | 100 |
| | | TOTAL | 32.10 | 10 | 5 | 64 | 8 | Monthly | 100 | 164 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 25 | 13 | 161 | | Monthly | | 161 |
| Total | | | | | | | | | | 1047 |

Source: Deloitte estimates

Impact on businesses trading cross-border

With regard to the compliance costs for businesses trading cross-border, the following estimates were defined:

- Costs of using the MOSS: same as under the baseline scenario (Option 1);
- Compliance costs for businesses using the cross-border VAT exemption scheme: same as those for businesses opting out the VAT exemption scheme under the different scenarios for the streamlined simplification packages.

J.3 Option 3 - Option 2 plus mandatory treatment of occasional traders as non-taxable person

Option 3 does not modify the administrative obligations imposed on businesses, therefore the same compliance costs adopted for option 2 were used.

J.4 Option 4 - Option 3 plus measures for transition period reducing the negative impact of the ‘threshold effect’

Within option 3, an additional sub-set of impacted businesses was identified, i.e. those businesses within the transitional period.

Such businesses are expected to use the transitional period to prepare for the full set of VAT obligations, which includes at least some of the following:

- Understanding of the VAT system (use of advisors/accountants);
- Change from annual to quarterly (or even monthly) accounting;
- Information to the tax authorities; and
- Re-calculation of sales prices (and possible new pricing policy).

It is therefore estimated that the compliance costs for this group of businesses will increase during the transitional period, up to EUR 1 325 (i.e. a 36% increase from the streamlined simplification package). This way, the further expected increase to the full set of VAT obligations (quantified at EUR 2 964 per year) is expected to be less complex.

The table below provides the overview of the information obligations and related costs estimated for this group.

Table 144 – Compliance costs for businesses within the transitional period under option 4

| IO# | Administrative task | | Tariff | Time (minute) | Wage cost | Tot. WAGE costs | External Fees | Frequency | Other costs | TOTAL |
|--------------------|---|-----------|--------|---------------|-----------|-----------------|---------------|--------------|-------------|-------|
| IO1 | VAT registration | IN-HOUSE | 32.10 | 350 | 187 | 19 | 0 | 10 Years | 0,00 | 19 |
| | | OUTSOURCE | 32.10 | 0 | 0 | 0 | 225 | 10 Years | 22.5 | 23 |
| | | TOTAL | 32.10 | 645 | 345 | 35 | 225 | 10 Years | 2.50 | 41 |
| IO5a | Invoicing | IN-HOUSE | 32.10 | 2 | 1 | 257 | 0 | 240 per year | 0 | 257 |
| IO6a | VAT return | IN-HOUSE | 32.10 | 24 | 13 | 13 | 0 | Yearly | 0 | 13 |
| | | OUTSOURCE | | | | | 360 | Yearly | 360 | 360 |
| | | TOTAL | 32.10 | 24 | 13 | 13 | 360 | Yearly | 360 | 373 |
| IO8a | VAT payment | IN-HOUSE | 32.10 | 5 | 3 | 3 | 0 | Yearly | 0 | 3 |
| IO9 | Book-keeping | IN-HOUSE | 32.10 | 8 | 4 | 51 | 0 | Monthly | 0 | 51 |
| | | OUTSOURCE | | | | | 8 | Monthly | 90 | 90 |
| | | TOTAL | 32.10 | 4 | 2 | 26 | | Monthly | | 141 |
| Hidden costs | Monitoring threshold | IN-HOUSE | 32.10 | 25 | 13 | 161 | 0 | Monthly | 0 | 161 |
| One-off adjustment | Bcoming familiar with the full set of VAT obligations | | | | | | | Yearly | 350 | 350 |
| Total | | | | | | | | | | 1 325 |

Source: Deloitte estimates

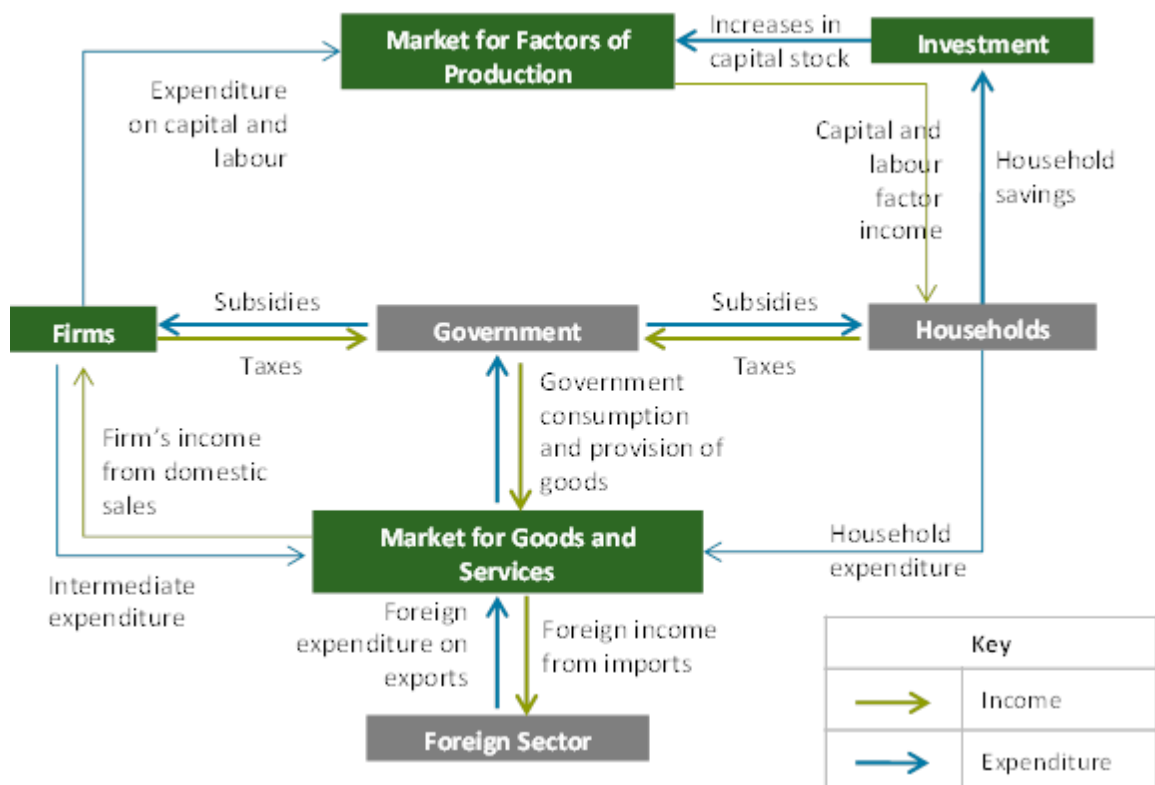
Annex K – CGE model

This annex outlines the theoretical aspects of the computable general equilibrium (CGE) model that was employed to evaluate the potential impacts of the different policy change options.

K.1 Multi-sector Computable General Equilibrium (CGE) model

The figure below illustrates the structure of a typical CGE model. The CGE model is based on a set of simultaneous equations describing the behaviour of the key segments in the economy – households, firms in different sectors, the government and the foreign sector – and the interactions between these segments within each region. The interactions between these agents determine equilibrium output, factor demands, consumption and prices in each sector. This equilibrium is based on the principle that one agent’s expenditure is another agent’s income and therefore all spending throughout the economy are accounted for. Prices are determined by the equilibrium between demand for and supply of goods and services and factors of production.

Figure 28 - Circular Flow of Income



Below we describe the components of the model:

- **Households** own the factors of production, labour and capital, which they supply to firms for their use in the production process. Income from these factors is used for the consumption of goods and services, which may be supplied by either foreign or domestic firms. Income that is not used for consumption is saved, contributing towards total investment and the capital stock as a result.
- **Firms** purchase capital and labour from households and intermediate goods from other domestic sectors and the foreign sector. These are used as inputs to production, with the final goods being sold to either the domestic or the foreign sector.
- The **government** receives tax revenues from households and firms that it uses to provide public goods for the use of households and firms and purchase goods and services for government consumption. The government may also save a share of its income, thereby contributing to the capital stock of the economy.
- The **foreign sector**, i.e. non-EU companies and households, completes the circular flow of income by representing the flows into and out of the domestic economy. Foreign agents purchase exports from domestic firms and domestic households and firms purchase imports from the foreign sector.

The CGE model used for this analysis was an extension of a model previously developed in order to support a separate project investigating the economic impacts of change to the VAT treatment of e-commerce. This model has been developed with the support of academic experts and has the following features, which will also be included in the CGE model for this analysis:

- The model is a single-region model of the EU. Impacts at the national level are calculated outside the model based on the contribution of each sector to the economy.
- The model distinguishes between domestic (within-country), intra-EU and non-EU transactions in order to reflect the fact that these transactions may differ in their VAT treatment and hence in the effective VAT rate faced by consumers.

The model reflects both fixed and variable costs of VAT compliance facing firms. Again, these costs are allowed to differ depending on whether firms are selling domestically, within the EU, or outside the EU.

Outputs of the model

Some of the key economic outputs that were estimated by the CGE model at the EU aggregate level are:

- The output and growth of the different sectors;
- Investment in different sectors of the economy;
- Employment by different types of labour (skilled, unskilled);

- Demand and consumer prices;
- Government revenues.

The model is fully dynamic and forward-looking. It can therefore cover the short-, medium- and long-run impacts of a potential policy change. The dynamics of the model are calibrated using historic data on the contribution of SMEs to the economy and expert insights into trends in this market.

K.2 Data strategy

The CGE model draws on three main sources of data:

- **Macro-economic data for the EU-27:** The majority of the data required for the baseline CGE model can be found in a social accounting matrix (SAM); this is a square matrix that represents the various transactions made between commodities, factors and institutions taking place in an economy. This matrix is constructed using supply and use tables and national accounts data from Eurostat¹⁵⁴.
- **Data on the contribution of SMEs:** data was collected on the contribution of SMEs to the EU economy. This was used to assess the extent to which the policy options affect the size of the market and employment.
- **Data on the administrative burden:** The information required for the scenario analysis comes from the outputs of the Standard Cost Model. This data includes the administrative burden associated with the different policy options and estimates of the impact of changing the VAT threshold.

K.3 Macro-economic data

The primary source of data used for the development of the core CGE model is found in a Social Accounting Matrix for the EU. This matrix accounts for flows of income expenditure between different actors in the economy – firms, households, the government and the foreign sector – and is based on the principle that one agent's income must be another another's expenditure. The Social Accounting Matrix therefore contains the following information:

- Production activity by sector;
- Demand for intermediate inputs by sector (the Input-Output table);
- Payments to capital and labour by sector;
- Final consumption expenditure by sector;
- Capital formation and inventory investment by sector;
- Imports and outputs by sector;
- Taxes and subsidies by sector and by revenue base;

¹⁵⁴ Supply and Use data is not available for Croatia; the estimates will therefore be adjusted upwards based on Croatia's estimated contribution to EU GDP and its contribution to e-Commerce (from the consumer survey).

- Direct taxation and transfers by domestic actors;
- Payments made/received by domestic actors to/from the rest of the world;
- Domestic actors' net savings and the net savings from the rest of the world;

K.4 Construction of the EU Social Accounting Matrix

At present, a Social Accounting Matrix for the EU is not available and so its construction was a key task for the development of the CGE model. The information required to construct the matrix can be found in Supply and Use tables for the EU-27 and in National Accounts data for each of the Member States. Both have been made publicly available by Eurostat, albeit with the Supply and Use tables only being updated to 2011.¹⁵⁵

An important characteristic of the Social Accounting Matrix is that it is 'balanced' – i.e. for every actor, institution and activity, total income received must equal to total expenditure made (inclusive of savings). This requires a certain level of consistency and completeness in the data sources that is not always possible due to a lack of sufficient detail, measurement accuracy, or differences in data collection/collation methodology. The following is a general data reconciliation strategy to ensure consistency of the data sources used to complete the Social Accounting Matrix:

- Where possible, data points from the Supply and Use tables are used without further assumptions or reconciliation¹⁵⁶;
- Where the Supply and Use tables have gaps in data points required, National Accounts data is used;
- Where National Accounts data is lacking in sufficient granularity, suitable assumptions are made to estimate the data points required¹⁵⁷;
- Where for the same data point the Supply and Use tables are significantly different from National Accounts data, suitable assumptions are made using information from both sources to estimate a single data point¹⁵⁸. If the differences are small, Supply and Use table data is used;
- As a last resort, if the Social Accounting Matrix is complete but does not balance, an estimation procedure involving re-weighting of the data in the matrix can be conducted.

Figure 29 illustrates the basic structure of the Social Accounting Matrix as well as the sources for each data point required.¹⁵⁹ Columns represent expenditures/outlays made, while rows represent incomes received. For example, reading down from the Households column and across to the

¹⁵⁵ Due to the latest Supply and Use tables being updated only to 2011, Croatia is not included in the tables and so only an EU-27 aggregate can be calculated.

¹⁵⁶ The tables have been constructed by Eurostat with a high level of consistency (i.e. total supply of a good or service is equal to total use/demand) and in most cases a significant level of granularity.

¹⁵⁷ National Accounts data tables in Eurostat often do not provide data points in sufficiently granular detail.

¹⁵⁸ Due to differences in definitions or data collection methodologies, the Supply and Use tables and National Accounts data do not always report the same value for the same data point.

¹⁵⁹ Implied data points are calculated residually after filling the SAM with all other data points.

Commodities row represents household final consumption expenditure on goods and services. Table 145 describes the primary data inconsistencies encountered and the specific data reconciliation strategy used to correct for these inconsistencies.

Figure 29: Basic structure of the Social Accounting Matrix

| Social Accounting Matrix | Activities | Commodities | Labour factor | Capital factor | Net taxes on production | Net indirect taxes | Households | Government | Rest of the World | Savings-investment |
|--------------------------|--|--|---------------------------|--------------------------|-------------------------|--|---|---|-------------------------------------|-------------------------|
| Activities | | Output | | | | | | | | |
| Commodities | Intermediate consumption (Derived from Input Output table) | | | | | | Household final consumption expenditure | Government final consumption expenditure | Exports | Gross Capital Formation |
| Labour factor | Payments to capital | | | | | | | | | |
| Capital factor | Payments to labour | | | | | | | | | |
| Net taxes on production | Net taxes on production | | | | | | | | | |
| Net indirect taxes | | Net Indirect taxes on products (i.e. VAT receipts and other taxes) | | | | | | | | |
| Households | | | Total payments to capital | Total payments to labour | | | | Payments from government to households (i.e. Social Benefits and other transfers) | Net payments from ROW to households | |
| Government | | | | | Net taxes on production | Taxes less subsidies on products (i.e. VAT receipts and other taxes on products) | Total direct taxes paid by households | | | |
| Rest of the World | | Imports | | | | | | Net payments from government to ROW | | Net foreign savings |
| Savings-investment | | | | | | | Net Household Savings | Net Government Savings | | |

National Accounts data
 Supply and Use tables
 Mix of National accounts data and Supply and Use tables
 Implied data points

Table 145 - Primary data inconsistencies encountered and the specific data reconciliation strategy

| Data point | Data inconsistency/challenge | Data reconciliation strategy |
|--|--|--|
| Payments to/from Rest of World | <p>National Accounts data: Provides payments to/from Rest of World</p> <p>Supply and Use tables: Provides no data on payments to/from Rest of World</p> | National Accounts data used. |
| Final consumption expenditure at market prices by households, government and gross capital formation | <p>National Accounts data relative to Supply and Use tables: Reports slightly higher final consumption expenditure for households and government. Reports even higher gross capital formation Reports slightly higher total final consumption expenditure.</p> | Supply and Use tables used in conjunction with an assumed actor disaggregation of mixed income to compensate for the differences. |
| Direct taxation and transfers | <p>National Accounts data: Reports total tax on income and wealth; Reports current transfers; Reports social contributions; Reports social benefits.</p> <p>Supply and Use tables: Provides no data on direct taxation and transfers</p> | National Accounts data used. |
| Indirect taxes: VAT by sector | <p>National Accounts data: Reports total VAT but not by sector or by actor.</p> <p>Supply and Use tables: Reports taxes less subsidies on products paid in final consumption by households, government and gross capital formation. However, does not report by sector</p> | <p>VAT receipts in National Accounts data used as total VAT in SAM. Assumed to be contained completely within taxes less subsidies on final consumption products reported in Supply and Use Tables. After netting out VAT from taxes less subsidies, assumed that remainder is other net taxes on products. VAT and other net taxes disaggregated by sector and by agent using suitable assumptions.</p> |
| Payments to capital: Gross operating surplus, mixed income | <p>National Accounts data: Provides both gross operating surplus and mixed income but not by sector.</p> | <p>Mixed income calculated by subtracting Supply and Use tables data from National Accounts data. Gross operating surplus reported by Supply and Use tables used in conjunction with an assumed sector disaggregation of mixed income as payments to capital.</p> |

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