



ESTABLISHING A HEAD OFFICE TAX SYSTEM FOR SMES (HOT)

#SOTEU2023

What is the problem?

Business taxation in the EU can be complex.

As a result, businesses can face high compliance costs for their corporate income taxes – amounting to as much as €54 billion a year. 90% of this amount is incurred by very small enterprises (less than 10 employees).

SMEs spend approximately 2.5% of their turnover on complying with their tax obligations, while large enterprises spend 0.7%.

This can prevent companies, particularly small and medium-sized enterprises (SMEs), from doing business across the EU.

What are we doing about this?

The Commission is proposing a major simplification of tax rules.

Our proposal will give SMEs operating cross-border (exclusively through permanent establishments) the option to interact with only one tax administration – that of the Head Office.

They will therefore only have to follow one set of rules, rather than having to comply with multiple tax systems.



How does the proposal relate to Business in Europe: Framework on Income Taxation (BEFIT)?

The BEFIT proposal is primarily aimed at large groups operating across the EU. The HOT proposal simplifies rules for SMEs during their early stages of expansion. If SMEs successfully expand and grow, they may outgrow the scope of the HOT rules, but then they will be able to opt into BEFIT. In this way, the two proposals are complementary.

Smaller businesses will be able to choose the best option for their own needs throughout their lifecycle.



What will the impact of this proposal be?

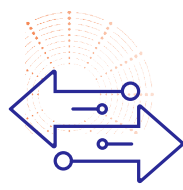
This proposal will:



simplify tax compliance and reduce costs



increase tax certainty



reduce the risk of double taxation or double non-taxation



help companies make the most of the internal market and further boost job creation

The overall savings in the EU will depend on how many SMEs make use of the new system, as the rules will be optional. Depending on this, it is estimated that compliance cost savings for SMEs can be in the region of up to €3.4 billion per year.

This Proposal does not impact:

Member States' competence to set the applicable tax rates



Member States' accounting rules applicable to SMEs



Member States' rules on the (social) protection of workers/employees