



VAT alert

Belgium

European Commission proposal regarding new simplification measures for SMEs

On 18 January 2018, the European Commission published a [legislative proposal](#) to simplify VAT compliance for small and medium-sized companies ('SMEs'). It aims to create a modern, simplified SME scheme, introducing a new EU wide category of SMEs benefiting from administrative simplifications, and a broader and more flexible VAT exemption scheme, which remains based on national thresholds. The new legislation's entry into force is foreseen for July 2022.

Background

The current initiative is part of the [2016 VAT Action Plan](#), which aims to improve the European VAT system. The current SME scheme burdens small businesses with disproportionate compliance costs due to the SME VAT exemption's design, and has distortive effects on competition in both domestic and EU markets.

The EU VAT Directive provisions on the SME scheme have become obsolete, as evidenced by the many derogations for Member States. The SME scheme, which only applies in the Member State of establishment, is also incompatible with the VAT system's shift towards destination based taxation.

European Commission proposal

The proposal includes several fundamental changes to the current SME scheme.

Firstly, the European Commission is proposing to introduce a **European Union threshold** of EUR 2,000,000 (EU annual turnover) for the qualification of a company as a 'small enterprise'. The introduction of this definition allows VAT simplification measures targeted at enterprises which in economic terms are considered 'small', even though their turnover exceeds the VAT exemption threshold. Member states will be requested to introduce VAT simplification measures for these 'small enterprises'; measures related to simplified registration, simplified invoicing rules, simplified record keeping of accounts and VAT returns, etc.

Furthermore, **the SME exemption** scheme, which relieves SME's from VAT and its administrative obligations, will remain optional for Member States with an updated maximum threshold of EUR 85,000.

The national SME exemption's application will not only be open to enterprises established in that Member state, but for all eligible EU businesses. Consequently, a Belgian small business making supplies abroad, such as maintenance or repair works, would not require VAT registration abroad if its supplies in the other Member State do not exceed the national threshold.

However, to manage this cross-border provision's effect, an EU wide **exemption threshold** of EUR 100,000 will be introduced for SME's, so that they can apply the SME exemption in both their own country and abroad. This will prevent larger enterprises from taking advantage of the SME exemption scheme in specific Member States where their turnover remains below the national threshold. In order to ensure effective control of how the exemption's conditions are applied, an enhanced cooperation between Member States will be necessary.

Finally, the proposal would also introduce **enhanced flexibility** for scenarios in which a small enterprise exceeds the exemption threshold in a given year. The small enterprise will be able to continue applying the exemption provided its annual turnover in that Member State during that year does not exceed the threshold by more than 50%.

Next steps

This legislative proposal will be submitted to the European Parliament for consultation and discussion. In a later stage, it will be forwarded to the European Council for adoption.

Since unanimity is required to adopt the proposal, it is at this stage uncertain how this proposal will progress given Member State qualms; something noted by the European Commission.

Contacts

If you have any questions concerning the items in this alert, please contact your usual tax consultant at our Deloitte office in Belgium or:

- Johan Van der Paal, jvanderpaal@deloitte.com, +32 2 600 66 39
- Ivan Massin, imassin@deloitte.com, +32 2 600 66 52
- Danny Stas (Laga), dstas@laga.be, +32 2 800 70 11

For general inquiries, please contact:

bedeloittetax@deloitte.com, + 32 2 600 60 00

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