Council of the
European Union

Brussels, 30 September 2020
(OR. en)

11363/20

Interinstitutional File:
2020/0280(NLE)

FISC 189
ECOFIN 867

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	30 September 2020
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2020) 599 final
Subject:	Proposal for a COUNCIL IMPLEMENTING DECISION amending Implementing Decision (EU) 2017/1768 authorising Croatia to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax

Delegations will find attached document COM(2020) 599 final.

Encl.: COM(2020) 599 final

Encl.: COM(2020) 599 final

EUROPEAN
COMMISSION

Brussels, 30.9.2020
COM(2020) 599 final

2020/0280 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) 2017/1768 authorising Croatia to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax

EXPLANATORY MEMORANDUM

Pursuant to Article 395(1) of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax[1] ('the VAT Directive'), the Council, acting unanimously on a proposal from the Commission, may authorise any Member State to apply special measures for derogation from the provisions of that Directive in order to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance.

By letter registered with the Commission on 18 May 2020, Croatia requested an authorisation to continue, after 31 December 2020, to exempt from VAT taxable persons whose annual turnover is no higher than the equivalent in national currency of EUR 45 000.

In accordance with Article 395(2) of the VAT Directive, the Commission informed the other Member States by letter dated 6 June 2020 of the request made by Croatia. By letter dated 11 June 2020, the Commission notified Croatia that it had all the information it considered necessary for the appraisal of the request.

1. CONTEXT OF THE PROPOSAL

- **Reasons for and objectives of the proposal**

Chapter 1 of Title XII of the VAT Directive allows for the possibility for Member States to apply special schemes for small enterprises, including the possibility of exempting taxable persons below a certain annual turnover. This exemption implies that a taxable person does not have to charge VAT on his supplies and, consequently, he or she cannot deduct the VAT on his inputs.

Under Article 287(19) of the VAT Directive, Croatia may exempt from VAT taxable persons whose annual turnover is no higher than the equivalent in national currency of EUR 35 000 at the conversion rate on the day of its accession. By virtue of Council Implementing Decision (EU) 2017/1768[2] Croatia is authorised to apply a higher threshold and thus to exempt from VAT taxable persons with an annual turnover not exceeding EUR 45 000. This Decision expires on 31 December 2020 and Croatia requested to prolong its application.

According to the Croatian authorities, the measure facilitates VAT collection, enabling Croatia to simplify administrative procedures for small enterprises and thus reduce the administrative burden on them. Moreover, the measure also reduces the workload for the tax authorities.

Further, the Croatian authorities observed that in the last years the increase of the threshold did not lead to the reduction of state budget revenues.

The measure has an optional character. Therefore, small businesses whose turnover does not exceed the threshold will still have the possibility to exercise their right to apply the normal VAT arrangements.

Derogations are normally granted for a limited period to allow an assessment of whether the derogating measure remains appropriate and effective. Moreover, the provisions of Articles 281 to 294 of the VAT Directive on the special scheme for small enterprises have recently been reviewed.

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[1] OJ L 347, 11.12.2006, p. 1.

[2] Council Implementing Decision (EU) 2017/1768 of 25 September 2017 authorising the Republic of Croatia to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 250, 28.9.2017, p. 71–72).

Council Directive (EU) 2020/285[3], laying down simpler VAT rules for small enterprises, requires that Member States adopt and publish the laws, regulations and administrative provisions, which are necessary to comply with the new rules, by 31 December 2024 at the latest. Member States will have to apply those national provisions from 1 January 2025.

It is therefore appropriate to authorise Croatia to apply the derogating measure until 31 December 2024.

- **Consistency with existing policy provisions in the policy area**

The derogating measure is in line with the philosophy of Directive (EU) 2020/285 amending Articles 281 to 294 of the VAT Directive on a special scheme for small enterprises, which resulted from the VAT action plan[4], and aims to create a modern, simplified scheme for those businesses. In particular, it seeks to reduce VAT compliance costs and distortions of competition both domestically and at EU level, reduce the negative impact of the threshold effect, and facilitate business compliance as well as monitoring by tax administrations.

Moreover, the threshold of EUR 45 000 is consistent with Directive (EU) 2020/285, insofar as it allows Member States to set the annual turnover threshold required for an exemption from VAT at a level no higher than EUR 85 000 (or the equivalent in national currency).

Similar derogations, exempting from VAT taxable persons whose annual turnover is below a certain threshold, as provided for in Articles 285 and 287 of the VAT Directive, have been granted to other Member States. Malta[5] has been granted a threshold of EUR 20 000; the Netherlands[6] a threshold of EUR 25 000; Italy[7] a threshold of EUR 30 000; Luxembourg[8] a threshold of EUR 35 000; Latvia[9] Poland[10] and Estonia[11] have been granted a threshold of EUR 40 000; Lithuania[12] a threshold of

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[3] Council Directive (EU) 2020/285 of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises (OJ L 62, 2.3.2020, p. 13).

[4] Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on an action plan on VAT – Towards a single EU VAT area – Time to decide COM(2016)148 final.

[5] Council Implementing Decision (EU) 2018/279 of 20 February 2018 authorising Malta to apply a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 54, 24.2.2018, p. 14).

[6] Council Implementing Decision (EU) 2018/1904 of 4 December 2018 authorising the Netherlands to introduce a special measure derogating from Article 285 of Directive 2006/112/EC on the common system of value added tax (OJ L 310, 6.12.2018, p. 25).

[7] Council Implementing Decision (EU) 2016/1988 of 8 November 2016 amending Implementing Decision 2013/678/EU authorising the Italian Republic to continue to apply a special measure derogating from Article 285 of Directive 2006/112/EC on the common system of value added tax (OJ L 306, 15.11.2016, p.11-12).

[8] Council Implementing Decision (EU) 2019/2210 of 19 December 2019 amending Implementing Decision 2013/677/EU authorising Luxembourg to introduce a special measure derogating from Article 285 of Directive 2006/112/EC on the common system of value added tax (OJ L 332, 23.12.2019, p. 155).

[9] Council Implementing Decision (EU) 2017/2408 of 18 December 2017 authorising the Republic of Latvia to apply a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 342, 21.12.2017, p. 8).

[10] Council Implementing Decision (EU) 2018/1919 of 4 December 2018 amending Decision 2009/790/EC authorising the Republic of Poland to apply a measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 311, 7.12.2018, p. 32).

[11] Council Implementing Decision (EU) 2017/563 of 21 March 2017 authorising the Republic of Estonia to apply a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 80, 25.3.2017, p.33)

EUR 45 000; Hungary[13] a threshold of EUR 48 000; Slovenia[14] a threshold of EUR 50 000; and Romania[15] a threshold of EUR 88 500.

As already mentioned, derogations from the VAT Directive should always be limited in time so that their effects can be assessed. The inclusion of an expiry date of the special measure until 31 December 2024, as requested by Croatia, is aligned with the requirements of the new directive on simpler VAT rules for small and medium-sized enterprises. That directive provides for 1 January 2025 as the date on which Member States will have to apply the national provisions, which they are required to adopt to comply with it.

The proposed measure is therefore consistent with the provisions of the VAT Directive.

- **Consistency with other Union policies**

The Commission has been consistently stressing the need for simpler rules for small enterprises in its annual work programmes. In this regard, the 2020 Commission Work Programme[16] refers to "a dedicated SME Strategy that will make it easier for small and medium-sized businesses to operate, scale up and expand". The derogating measure is in line with such objectives, as far as fiscal rules are concerned. It is notably consistent with the 2017 Commission Work Programme[17], which referred specifically to VAT, pointing out that the administrative burden of VAT compliance for small businesses is high and that technical innovations pose new challenges for effective tax collection, and stressed the need to simplify VAT for smaller companies.

Likewise, the measure is consistent with the 2015 single market strategy[18], where the Commission set out to help small and medium-sized businesses grow, inter alia by reducing the administrative burdens that prevent them from taking full advantage of the single market. It also follows the philosophy of the 2013 Commission Communication 'Entrepreneurship 2020 Action Plan:

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12 Council Implementing Decision (EU) 2017/1853 of 10 October 2017 amending Implementing Decision 2011/335/EU authorising the Republic of Lithuania to apply a measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 265, 14.10.2017, p. 15).

13 Council Implementing Decision (EU) 2018/1490 of 2 October 2018 authorising Hungary to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 252, 8.10.2018, p.38).

14 Council Implementing Decision (EU) 2018/1700 of 6 November 2018 amending Implementing Decision 2013/54/EU authorising the Republic of Slovenia to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 285, 13.11.2018, p. 78).

15 Council Implementing Decision (EU) 2017/1855 of 10 October 2017 authorising Romania to apply a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 265, 14.10.2017, p. 19)

16 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Commission Work Programme 2020 – A Union that strives for more (COM(2020) 37 final).

17 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Commission Work Programme 2017 (COM(2016) 710 final).

18 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions upgrading the Single Market: more opportunities for people and businesses (COM(2015) 550 final).

Reigniting the entrepreneurial spirit in Europe'[19], which underlined the need to simplify tax legislation for small businesses.

Finally, the measure is in line with EU policies on small and medium-sized enterprises, as set out in the 2016 Start-Up Communication[20], and the 2008 Communication '"Thinks small first" – a "Small Business Act" for Europe'[21] which called on the Member States to take account of the special features of SMEs when designing legislation and simplify the existing regulatory environment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

Article 395 of the VAT Directive.

- **Subsidiarity (for non-exclusive competence)**

Considering the provision of the VAT Directive on which it is based, the proposal falls under the exclusive competence of the European Union. Hence, the subsidiarity principle does not apply.

- **Proportionality**

The Decision concerns an authorisation granted to a Member State upon its own request and does not constitute any obligation.

Given the limited scope of the derogation, the special measure is proportionate to the aim pursued, i.e. to simplify the tax collection for small taxable persons and for the tax administration.

- **Choice of the instrument**

The Decision concerns an authorisation granted to a Member State upon its own request and does not constitute any obligation.

Given the limited scope of the derogation, the special measure is proportionate to the aim pursued, i.e. to simplify the tax collection for small taxable persons and for the tax administration.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

No stakeholder consultation has been conducted. The present proposal is based on a request made by Croatia and concerns only this particular Member State.

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[19] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Entrepreneurship 2020 Action Plan: Reigniting the entrepreneurial spirit in Europe (COM(2012) 795 final).

[20] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Europe's Next Leaders: The Start-Up and Scale-Up Initiative (COM(2016) 733 final).

[21] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Think Small First' A 'Small Business Act' for Europe (COM(2008) 394 final).

- **Collection and use of expertise**

There was no need for external expertise.

- **Impact assessment**

The proposal for a Council Implementing Decision increases the threshold of annual turnover below which taxable persons may be exempted from VAT. It therefore extends the scope of the simplification measure which removes many of the VAT obligations for businesses operating with an annual turnover no higher than the equivalent in the national currency of EUR 45 000.

Persons whose taxable turnover does not exceed the threshold will not have to register to be identified for VAT purposes, and thus the administrative burden on them will reduce as a result of the measure, since they will not need to keep VAT records or submit a VAT return. There will also be a reduction in the workload for the tax authorities. This will have a potential positive impact on the reduction of administrative burden for taxable persons currently registered for VAT in Croatia, and subsequently on tax administration.

The budgetary impact in terms of VAT revenue for Croatia has not led to the reduction of the national revenue budget.

4. BUDGETARY IMPLICATIONS

The proposal has no implication for the EU budget because Croatia will carry out a compensation calculation in accordance with Article 6 of Council Regulation (EEC EURATOM) 1553/89.

5. OTHER ELEMENTS

The proposal includes a sunset clause.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax[1], and in particular Article 395(1), first subparagraph, thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) Pursuant to Article 287 point (19) of Directive 2006/112/EC, Croatia may exempt taxable persons whose annual turnover is no higher than the equivalent in national currency of EUR 35 000 from value added tax ('VAT') at the conversion rate on the day of its accession.

(2) By Council Implementing Decision (EU) 2017/1768[2], Croatia was authorised to introduce a special measure derogating from Article 287 of Directive 2006/112/EC ('the derogating measure') to exempt from VAT taxable persons whose annual turnover was no higher than the equivalent in national currency of EUR 45 000 at the conversion rate of the day of its accession, until 31 December 2020 or until the entry into force of a directive amending Articles 281 to 294 of Directive 2006/112/EC, whichever date is earlier.

(3) By letter registered with the Commission on 18 May 2020, Croatia requested an authorisation to continue to apply the derogating measure until 31 December 2024, being the date by which Member States are to adopt the laws, regulations and administrative provisions necessary to comply with Council Directive (EU) 2020/285[3], which lays down simpler VAT rules for small enterprises and *inter alia* deletes Article 287 of Directive 2006/112/EC.

(4) By letter dated 9 June 2020, the Commission informed the other Member States, pursuant to Article 395(2), second subparagraph, of Directive 2006/112/EC, of the request made by Croatia. By letter dated 11 June 2020, the Commission notified Croatia that it had all the information necessary to consider the request.

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1 OJ L 347, 11.12.2006, p. 1.

2 Council Implementing Decision (EU) 2017/1768 of 25 September 2017 authorising the Republic of Croatia to introduce a special measure derogating from Article 287 of Directive 2006/112/EC on the common system of value added tax (OJ L 250, 28.9.2017, p. 71).

3 Council Directive (EU) 2020/285 of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises (OJ L 62, 2.3.2020, p. 13).

(5) According to the information provided by Croatia, it appears that the reasons for the derogating measure remain largely unchanged and the increased threshold had no impact on the overall amount of tax revenue collected at the stage of final consumption. Taxable persons may still opt for the normal VAT arrangements.

(6) Given the potential positive impact of the derogating measure in reducing the administrative burden and compliance costs for small enterprises and for the tax authorities, and the lack of any major impact on the total VAT revenue generated, Croatia should be authorised to continue applying the derogating measure.

(7) The authorisation to apply the derogating measure should be limited in time. The time limit should be sufficient to allow the effectiveness and appropriateness of the threshold to be evaluated. Moreover, Article 287 of Directive 2006/112/EC is deleted by Directive (EU) 2020/285 with effect from 1 January 2025. It is therefore appropriate to authorise Croatia to apply the derogating measure until 31 December 2024.

(8) The derogation has no impact on the Union's own resources accruing from value added tax because Croatia will carry out a compensation calculation in accordance with Article 6 of Council Regulation (EEC, Euratom) No 1553/89[4].

(9) Implementing Decision (EU) 2017/1768 should therefore be amended accordingly,

HAS ADOPTED THIS DECISION:

Article 1

In Article 2 of Implementing Decision (EU) 2017/1768, the second paragraph is replaced by the following:

'This Decision shall apply from 1 January 2018 until 31 December 2024.'

Article 2

This Decision is addressed to the Republic of Croatia.

Done at Brussels,

For the Council
The President

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