

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 748 final

Brussels, 15 December 1983

## REPORT FROM THE COMMISSION TO THE COUNCIL

submitted in accordance with Article 24, paragraph 8  
of the 6th Council Directive of 17 May 1977

(Harmonization of laws relating to turnover taxes)

---

Description, analysis and suggestions  
for the harmonization of national schemes  
for small undertakings  
(Situation as at 31.12.1982)

---

Part one: Analysis of the different exemption schemes operating in  
Member States

1. - The exemption limits vary enormously between  
Member States p. 4
2. - The invoicing of and the right to deduct VAT are  
treated differently, depending on whether the  
exemption scheme in question is based on turnover  
or on the amount of tax p. 9

Part two: Analysis of the different flat-rate schemes operating in  
Member States

1. - The collective flat-rate amounts p. 11
2. - The individual flat-rate amounts p. 15

Part three: Conclusions and proposals for a special harmonized scheme  
for small undertakings

1. - Conclusions in respect of the existing schemes p. 19
2. - Proposal for a harmonized exemption ceiling p. 20
3. - Proposal for a substantially simplified scheme for  
small businesses p. 20

Annexes: Description of special schemes applicable in Member States

- I. Exemption schemes applicable in Member States p. 25
- II. Flat-rate schemes
  - A. Collective flat-rate amounts p. 33
  - B. Individual flat-rate amounts p. 42

Tables:

- I. Table comparing the exemptions and graduated tax relief in the different Member States
- II. Table comparing the changes in the limits set under the special schemes for small undertakings since entry into force of a VAT scheme.
- III. Résumé of the application in Member States of the provision under which a turnover of less than 10,000 ECU is not taken into account in determining VAT own resources
- IV Belgian scheme
- V Table comparing the exemptions in the different Member States No. V
  - . Collective flat-rate amounts
  - . Individual flat-rate amounts

## INTRODUCTION

Article 24(8) of the Sixth Directive (1) stipulates that "at four-yearly intervals, and for the first time on 1 January 1982, and after consultation of the Member States, the Commission shall report to the Council on the application of the provisions of this Article" and the same paragraph also required the attachment of proposals for improvements and for the adaptation of national schemes.

This report reviews the present situation with regard to national schemes for small undertakings and proposes measures intended to bring about the convergence of these systems.

The special schemes for small undertakings are described in the annexes: exemption schemes (except in the case of Italy and Belgium, where no such schemes apply) and flat-rate schemes (except in the case of the United Kingdom, Luxembourg, the Netherlands and Denmark, which do not operate such schemes).

An analysis of the different systems of exemption and flat-rate schemes respectively, are the subjects of the first two parts.

Proposals for improvement and harmonization based on some practical conclusions for simplification are the object of the third part. Those have been elaborated in the perspective of bringing a simplification at the level of the administration as well as for the taxable persons themselves, both at the level of control and of incidence of the tax, at the same time preserving the economic neutrality of specific systems retained for small enterprises.

---

(1) Sixth Council Directive of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes - Common system of value added tax: uniform basis of assessment.

## PART ONE

### ANALYSIS OF THE DIFFERENT EXEMPTION SCHEMES OPERATING IN MEMBER STATES

These schemes are described in Annex I (pp. 25 to 32).

Seven Member States have introduced exemption schemes (Germany, Denmark, France, the United Kingdom, Ireland and the Netherlands), with Belgium and Italy applying flat-rate schemes only.

A comparative analysis of the different schemes provides the following insights:

#### 1. The exemption limits vary enormously between Member States

- a) The situation can be easily assessed where the limit is fixed by reference to turnover. Denmark, for example, has the lowest exemption limit (equal to 1,220 ECU)(1) and does not grant any graduated tax relief or operate any flat-rate scheme for small undertakings. The Danish authorities do not know how many undertakings are involved or the exact size of their turnover, but the fact that their turnover is small means that its practical incidence must be practically zero, except perhaps where purely ancillary activities are concerned.

At the other extreme, Ireland applies an exemption for sales of goods equal to 43,760 ECU for undertakings of whose activities 90 % at least consists in the sale of taxable goods. There are 9,000 exempt undertakings in the country out of a total of 78,500 registered undertakings (2), representing more than 10 % of taxable persons. The turnover limit for supplies of services qualifying for exemption is much lower (21,880 ECU), with the turnover taken being that recorded in the current period.

Some way behind Ireland comes the United Kingdom, albeit with a very generous exemption too (30,700 ECU). No exact figures are available on the number of undertakings concerned or on the turnover achieved by them. The total of 1,383,000 registered undertakings includes about 350,000 undertakings whose turnover is below the exemption limit. These undertakings represent 25 per cent of total taxable persons. The exemption arrangements in the United Kingdom do not feature any graduated tax relief mechanism or any flat-rate scheme.

---

(1) In this report, the conversion into ECU's was made on the basis of its value at 1.7.1982

(2) Subject to the normal VAT scheme

The turnover limit is the same for sales of goods, manufacturing activities and supplies of services.

Next in the rankings come two Member States with turnover limits roughly equal to the ceiling of 5,000 ECU laid down in Article 24 of the Sixth Directive:

Luxembourg applies an exemption of LFr 200,000 exclusive of tax (4,000 ECU) and makes no distinction between sales of goods and supplies of services. Even so, the graduated tax relief mechanism, which has a limit of LFr 1,000,000 (20,000 ECU), permits a maximum reduction in tax of only LFr 8,000.

350 undertakings are covered by the exemption and 1,700 by the graduated tax relief representing in total a shortfall of 7 million LFr or 0.1 % of VAT receipts in 1980.

The turnover taken in setting the limit, which is calculated pro rata temporis, is that achieved the preceding year.

Germany is the only country in which the limit, established by reference to turnover, is VAT-inclusive (20,000 DM = 8,400 ECU). Given a standard VAT rate of 13 %, this is equal to a tax-exclusive figure of 7,500 ECU. The turnover taken into consideration in determining whether an undertaking qualifies for exemption or for graduated tax relief is the turnover in the preceding year, calculated pro rata temporis. In addition, however, an undertaking satisfying this condition must not expect to achieve a turnover in excess of this figure, a small undertaking may, under the "average-rates" scheme, calculate a flat-rate amount for deductible input tax. The graduated tax relief ceiling (DM 60,000 or 25,400 ECU) exclusive of VAT is virtually the same as in Luxembourg (LFr 1,000,000 or 20,000 ECU).

A total of 9,000 (1) small undertakings are covered by the exemption schemes representing a shortfall of DM 2,000,000 in total VAT receipts of DM 93,448 million. Graduated tax relief is enjoyed by 359,000 (1) undertakings, representing a shortfall of DM 305 million or 0,3 % of total VAT receipts in 1980 (2).

- b) The two schemes with exemption limits fixed by reference to the net amount of tax payable annually, applied by France and the Netherlands, do not enable a direct assessment to be made for the purposes of comparison with the other Member States.

---

(1) This does not include the unknown number of undertakings with a turnover of less than DM 12,000.

(2) Provisional calculation for 1980. Based on the statistic in respect of turnover tax, which are still incomplete, the shortfall would be considerably less.

The reference to the net amount of tax payable annually makes it virtually impossible to compute the corresponding turnover unless information based on a specific breakdown at the level of exempt undertakings' returns is made available. Starting from hypotheses based on the margins charged and taking net VAT, an attempt can, however, be made to compute approximately the turnover corresponding to the maximum exemption.

In France, for example, if an undertaking is eligible for the maximum annual exemption of FF 1,350 (200 Ecu); this means that the tax chargeable on its value added as defined for tax purposes amounts to FF 1,350.

- (i) Assuming that its activities are chargeable to VAT at the standard rate of 18.60 %, its computed value added would be :

$$\frac{1,350 \times 100}{18.6} = \text{FF } 7,260$$

If we then assume that its value added represents 30 % of its turnover, the latter would be equal to :

$$\frac{7,260 \times 100}{30} = \underline{\underline{\underline{\underline{\underline{\text{FF } 24,200}}}}}} \text{ (3,700 Ecu)}$$

- (ii) With a reduced VAT rate of 5.5 , the same calculation would yield a value added equal to :

$$\frac{1,350 \times 100}{5.5} = \text{FF } 24,545$$

If value added represents 30 % of turnover, the latter would be equal to :

$$\frac{24,545 \times 100}{30} = \text{FF } 81,800 \text{ (12,500 Ecu)}$$

To be entirely accurate, we would need to take account of the fact that the exemption limit of FF 1,350 is determined prior to deduction of input tax on investments paid by small undertakings eligible for this scheme. However, the figures yielded provide an acceptable order of magnitude for the purposes of comparison with those Member States operating exemption schemes based on turnover.

If the exemption applies to suppliers of services, who have a higher value added (say, 70 %), the corresponding turnover is much smaller. With a VAT rate of 17.6 %, it works out at:

$$\frac{7,260 \times 100}{70} = \text{FF } 10,350 \text{ (1,580 ECU)}$$

while a rate of 5.5 % gives a turnover equal to:

$$\frac{24,545 \times 100}{70} = \text{FF } 35,000 \text{ (5,350 ECU)}$$

There are 98,000 exempt firms out of a total of 2,200,000 taxable persons, or around 4.5 % while 435,000 undertakings qualify for relief ("décote")(1). Together, they account for 3 % of taxable turnover in France and represent a shortfall of 8,500 million FF or 5.5 % of total receipts in 1979.

In the Netherlands, which applies an exemption of HFL 2,050 and a standard VAT rate of 18 %, value added computed on the basis of the same assumptions as above amounts to:

$$\frac{2,050 \times 100}{18} = \text{HFL } 11,390$$

If value added represents 30 % of turnover, the corresponding turnover amounts to:

$$\frac{11,390 \times 100}{30} = \text{HFL } 37,960 \text{ (14,550 ECU)}$$

At a reduced rate of 4 %, value added is equal to:

$$\frac{2,050 \times 100}{4} = \text{HFL } 51,250$$

and turnover equal to:

$$\frac{51,250 \times 100}{30} = \text{HFL } 170,830 \text{ (65,450 ECU)}$$

In the case of suppliers of services with a value added of 70 %, as in our hypothesis, computed turnover (at the 18 % rate) amounts to:

$$\frac{11,390 \times 100}{70} = \text{HFL } 16,270 \text{ (6,230 ECU)}$$

---

(1) graduated tax relief

This approach shows just how difficult it is to determine turnover where exemptions are calculated by reference to the amount of tax. While the exemption in France may not yield a maximum turnover all that different from the limits applicable in other Member States, the same is not true of the exemption in the Netherlands for small undertakings chargeable to tax at the 4 % rate and with a low value added: assuming a value added of 30 % (1), some of these undertakings would have a turnover equal to 65,450 ECU (cf. the figure of 12,500 ECU for the same value added in France, page 6), which is much higher than the most generous exemptions applied in Ireland and the United Kingdom.

These examples also bring to light the wide disparities that may, if the amount of the exemption is not adjusted, exist between the different activities carried on where the exemption is fixed by reference to the amount of tax: e.g. sales with fairly high margins, whether sales of goods or supplies of services. Depending on the rates applied, the size of exempt undertakings may also vary enormously: in the Dutch example, turnover ranges from HFL 16,000 (6,230 ECU) to HFL 170,000 (65,450 ECU).

In the Netherlands, 103,000 undertakings qualify for the exemption calculated by reference to the amount of tax or for graduated tax relief. Of these undertakings, 10,000 have a turnover in excess of 10,000 ECU. There are 416,000 taxable persons in the Netherlands.

The shortfall arising from these schemes represented 0.5 % of VAT receipts in 1979.

---

(1) That is to say, 30 % of total sales

2. The invoicing of and the right to deduct VAT are treated differently, depending on whether the exemption scheme in question is based on turnover or on the amount of tax

Two exemption schemes are currently in force that differ in terms of the rules governing the invoicing of VAT by small undertakings and their right to deduct VAT.

Under the schemes where the exemption is determined by reference to turnover, small undertakings are not entitled to invoice VAT or to deduct input tax. This mechanism is in keeping with Article 24(5), the principle being that, in exchange for the exemption from tax in respect of its value added, a small undertaking is not permitted to deduct input tax or to invoice VAT to customers who are taxable persons, with an element of residual tax thus being created by these customers' non-deductible purchases from small undertakings.

By contrast, under the schemes where the exemption is determined by reference to the amount of tax (the schemes operating in France and, to some extent, those operating in the Netherlands), the inevitable effect of the mechanism for calculating the exemption by reference to the net amount of tax payable annually is that small undertakings rank as taxable persons invoicing VAT in the normal way and deducting VAT charged on their purchases. Indeed, it is on the basis of net tax payable, i.e. the difference between invoiced VAT (outputs) and deductible VAT (inputs), that undertakings are able to establish at the end of the year whether they qualify for the exemption (which then consists in a straightforward full remission of tax) or for graduated tax relief (i.e. a partial remission).

In France and the Netherlands, purchases by exempt undertakings do not give rise to any residual tax vis-à-vis customers who are taxable persons since small undertakings invoice VAT in the normal way to such customers.

In France, the exemption of FF 1,350 (200 ECU) is applied to the amount of tax payable annually by imputing against gross output tax, input tax charged exclusively on goods and services other than those relating to fixed assets. In addition, refund of VAT charged on fixed assets is limited to the amount exceeding the exemption. As a result, small undertakings that qualify for exemption and that are entitled to deduct in respect of fixed assets VAT amounting to not more than FF 1,350 (i.e. the amount of the exemption) are no longer eligible for exemption. By contrast, undertakings which have not made any investments may retain the full amount of net VAT chargeable up to that limit.

In the Netherlands, small undertakings which are exempt and which are in a tax credit position do not receive reimbursement unless it exceeds the amount of the exemption, thus losing the benefit in such cases. If small undertakings decide not to fulfil their obligations in respect of bookkeeping and the making of returns, they may pass on VAT in their prices but are no longer entitled to show it separately on their invoices.

PART II: ANALYSIS OF THE DIFFERENT FLAT-RATE SCHEMES OPERATING IN MEMBER STATES

These schemes are described in pages 33 to 46 of Annex II.

Analysis of the flat-rate schemes introduced under Article 24 of the Sixth Directive reveals two approaches to the matter of simplification that go beyond mere adjustments to the operating rules and necessitate a critical assessment of the special flat-rate schemes operating in Member States.

1. The first approach is based on the idea that certain activities that are sufficiently uniform either in terms of the composition of their inputs or in terms of the normal profit margin can be identified with a view to fixing, in agreement with the professional organizations concerned, flat-rate percentages or coefficients for calculating input tax or output tax without it being necessary to make any special adjustments in the flat-rate scheme to cater for individual small undertakings.

In theory, there is thought to be less risk of tax evasion where arrangements for computing turnover are concerned since they take as their starting point known or recorded purchases (applied in Belgium and known as equalization tax). By contrast, under flat-rate schemes for determining deductible VAT, sales are declared without any systematic check being carried out.

These collective flat-rate schemes necessarily apply to rather limited activities normally carried on at the retail stage and, in the case of the services sector, by the artisanat or by professional people.

Whether they involve a collective flat-rate amount for calculating deductible input tax (Germany, Italy) or turnover and gross VAT paid (Belgium), these mechanisms genuinely simplify matters, materially and psychologically, not only for the authorities, who do not need to contact individual small taxpayers directly, but also for the small undertakings themselves, which are required simply to keep records of their purchases or receipts and to apply a percentage or coefficient that will enable them to determine the amount they may deduct or the amount they have collected for the account of the Treasury.

- a) It should be noted, however, that of the different collective flat-rate schemes those for calculating turnover are more difficult to apply. Such schemes exist only in Belgium, where they take two quite different forms: one involving an equalization tax and the other flat-rate amounts for the different sectors of activity.

1) Where small retailers are concerned, the advantage of the equalization tax is that it relieves both the administration and the traders themselves of any administrative work (the burden of which is, however, shifted onto the shoulders of the supplier). To the extent that charging of the tax entails the responsibility of a third party, i.e. the supplier of the "equalized" trader, it is not as easy for a small retailer to commit fraud - an offence which is, in any case, sometimes difficult to detect when perpetrated by a small retailer - since it requires the supplier's collusion. The flat-rate amount is here directly applicable to a small undertaking's value added, with no account being taken of the two items entering into the calculation, viz. input and output. In fact, the amount of tax (which is supposed to fall directly on the value added (1) by the "equalized" undertaking) represents a standard percentage of purchases made. Consequently, this scheme is practicable only in the case of a very limited number of business engaged in selling goods where margins are much the same and where no services are involved. Otherwise, the higher the individual margin, the lower the actual burden of the equalization tax.

The main drawback of the equalization tax is that it does not accurately reflect the amount of value added, and as a result its scope is extremely limited but none the less covers a wide range of activities. It applies, for example, to the food sector (2) but not to businesses specializing in poultry and game, fish, confectionery, fruit and vegetables, wines, spirits and other beverages. Under no circumstances does it apply to suppliers of services or to those who sell goods produced and processed by themselves, e.g. pastry makers, bakers, butchers, tailors and dress-makers.

Application of the equalization tax thus rests on the assumption of uniform margins. If this is not the case in practice, undertakings subject to this scheme may be treated as if they fell outside the scope of VAT and were liable to a special tax. However taxable persons applying this scheme may, at any time, opt for the normal VAT system. They are 14,000 such undertakings generating less than 0.2 % of VAT receipts.

By way of conclusion, it is reasonable to say that this hybrid scheme could not be applied as a general scheme for small undertakings. It was, in any case, designed only as a transitional scheme to bridge the gap

(1) Excluding capital goods

(2) And also to retail businesses selling shoes, fabrics, table and household linen, haberdashery, headwear, wedding outfits, ready-to-wear-clothing, furnishing fabrics, hardware (including cleaning products and paint), books and newspapers.

until small traders had adjusted to the VAT regime. It would appear that this adjustment period is now over.

- 2) Collective flat-rate amounts (general or special) reflect the actual situation more closely; they make it possible to compute flat-rate turnover by applying to purchases coefficients adjusted for each sector of activity so as to take account of the value added realised by small undertakings. The margins charged in the sectors concerned need to be fairly uniform if the collective flat-rate amounts for determining turnover on the basis of purchases are to be applied accurately. As a result, only certain sectors are eligible, and only then on condition that the taxable persons concerned carry on their activities under normal, comparable conditions. Collective flat-rate amounts are based either on profit margins ("flat-rate on margins") or on returns ("flat-rate on returns") or on a combination of the two. For the flat-rate on margins the "margin" customarily applied is determined by reference to the purchase price of the goods. For the flat-rate on returns the coefficient to be applied is calculated on the cost price of the services supplied on the goods produced. Furthermore the small undertakings being required to calculate their own amount of deductible input tax. As a result, the figures arrived at are more precise than in the case of the equalization tax scheme, which tends to involve a direct calculation of value added but does not take into account, as does the collective flat-rate scheme, changes in input tax at the level of individual small undertakings.

This uniformity requirement means that:

- in Belgium, these flat-rate amounts are applied only to a limited number of activities (1) (some of which are, and some of which are not, covered by the equalization tax) involving 69,000 undertakings (or 12.7 % of taxable persons) that generate 1.5 % of VAT receipts;
- the predetermined flat-rate bases need to be adjusted whenever any significant changes take place in the components during the course of the year;
- the flat-rate taxpayer is required to show separately any purchases on special terms, to work out the additional profit arising out of such sales and in this connection to deduct rebates granted by him.

(1) The activities in question are those carried on by retailers in the general food sector, retailers of milk and milk products, retailers of poultry and game, retail fishmongers, itinerant fishmongers, butchers (including pork butchers), bakers/pastry makers, footwear retailers, retailers of textile products, ironmongers, dealers in hardware (including cleaning products and paint), pharmacists, doctors who, in addition, sell medicines, newsagents, stationers, cafe proprietors, hairdressers, shoe repairers, ice-cream sellers and retailers of manufactured tobacco.

Although there is, therefore, no individual flat-rate amount proper, special adjustments have to be made once any specific business conditions are introduced, even if they relate to ancillary transactions. In this case, small undertakings are once again caught by the obligation to keep fairly complicated accounts, and this brings with it the risk of making mistakes. The intended benefit of simplicity is thus nullified, both for the taxpayer, who has to make a fairly complicated return (cf. the attached sheet for calculating the flat-rate amount)(2), and for the administration, which must carry out the necessary checks.

- b) The other types of collective flat-rate schemes involving deduction of input tax are operated in Germany and Italy.

The main advantage of these schemes is the ease with which the amount of deductible VAT can be calculated by small undertakings and monitored by the administration. The flat-rate approach enables small traders, the artisanat and certain suppliers of services (a total of 508,000 undertakings are covered by this scheme in Italy) to calculate the total amount of deductible VAT, the basic principle being that all input components (purchases as well as overheads and investments) are uniform in each sector. In Germany (1), however, a number of occupations (shown on list B of the annex to the rules relating to turnover tax) which do not display the same degree of uniformity operate a mixed scheme: they only calculate at a flat-rate the proportion of deductible VAT relating to overheads and investments in fixed assets and deduct separately the VAT actually invoiced for expenditure that varies in line with the activity in question (goods intended for resale, property investments including rents).

This flat-rate scheme for determining deductible VAT has certain advantages: it is much less of a burden for the small taxpayer to apply the principle of deductibility in that he now has simply to apply a particular percentage in order to know the precise amount he is entitled to deduct, and it does not presuppose a uniform amount of value added since the small taxpayer is required to record his receipts in the normal way

---

(1) In Germany, the following occupations are allowed to apply an average rate for calculating at a flat-rate the total amount of input tax: building contractors, ready-made clothing, bakers, printers, binders, farriers/blacksmiths, hairdressers, gardeners, garage proprietors, certain tradespeople in the food sector and in the clothing and textile sector, electricians, dealers in hardware (including cleaning products and paint), florists, newspaper vendors, taxi and car-rental operators, cleaners, café proprietors, ice-cream sellers and certain professional people (artists, professors, journalists and writers).

The following apply average rates that enable them to calculate only a proportion of input tax: architects, lawyers, patent agents and business consultants.

(2) See table IV

in order to determine gross VAT paid. The aim of simplifying the arrangements without distorting VAT mechanisms would thus seem to have been achieved particularly since, as in the practice for certain cases in Germany, this flat-rate calculation can include a deduction in respect of specific inputs (such as certain types of investment).

In conclusion it will be observed that the main advantage of this first flat-rate approach is that it is a genuinely simplified scheme and makes it easier for the small taxpayer to comply with VAT bookkeeping obligations. In addition, the administration does not need to carry out numerous costly checks. Against this, unduly approximate figures are sometimes produced if different percentages are not applied for different sectors.

2. The second approach is, by contrast, based on an individual discussion with each taxable person, the aim being to yield data that give the truest possible picture of the real position. It uses quite detailed particulars which are provided by taxable persons and which the administration compares with standard business profiles for the activity in question. This scheme applies automatically in France to all small undertakings (except those carrying on certain very specific activities - cf. Annex II, p. 43). The fact that information compiled by the undertaking itself is taken into account in determining the annual flat-rate amount calls for quite detailed accounts making it possible to record at least purchases and VAT charged on them, receipts and gross VAT, and a stock inventory. This requires a breakdown of these figures by VAT rate or by type of goods and service and a return listing investments made and the corresponding amount of VAT, together with the amount of VAT charged in respect of overheads.

In Belgium, an individual flat-rate scheme akin to the flat-rate scheme operating in France applies exceptionally where it is found that the collective flat-rate amounts referred to above cannot be applied to a particular activity.

Although individual flat-rate schemes make for some refinement of the particulars contained in the standard business profiles and used in connection with the collective flat-rate schemes and although they provide a truer picture of the real situation, the drawback is that they generate a significant amount of work for the administration, which has to examine each file individually in order to determine in discussions

with the taxpayer, what the flat-rate amount should be in each case; even though such discussions take place only every two years as in France, some 1,000,000 individual files have to be examined. Moreover, it would appear that, for the small taxpayer, it is only the administrative formalities that are simplified: he is required to submit only one return each year and makes payments on account but, in order to answer the questions set out in the annual return, he has in fact to keep genuine accounts which, in the final analysis, would enable him to complete a return equivalent to that required under the normal scheme. The reduction in the amount of paperwork is not necessarily the prime factor in the small taxpayer's decision to remain within the flat-rate scheme. His decision might be prompted by the fact that, in view of the approximate nature of calculations under even the individual flat-rate schemes, he believes that he might pay less tax than if he opted for the normal scheme (not to mention the normally definitive calculation of the amount of VAT payable, further checks only being carried out where a new economic factor has arisen or where the taxpayer has supplied incorrect details).

#### Flat-rate breakdown of receipts by rate

The other individual flat-rate schemes mentioned in Table V (Italy and Ireland) do not constitute genuine flat-rate schemes for determining input tax, turnover or - in a direct manner - value added as defined for tax purposes. Where they are liable to several VAT rates, small undertakings are allowed simply to apply to their sales the weighted average rate charged on their purchases (and determined using one of the calculation methods indicated). This does, of course, simplify matters, albeit only where determining the basis of the appropriate VAT rate is concerned. These flat-rate schemes are just some of the schemes that simplify the way in which the components entering into the calculation of the taxable amount are determined. However, they are not geared specifically to the needs of small undertakings since other undertakings are (with certain modifications) eligible in each Member State for similar treatment where several tax rates apply.

PART THREE

Conclusions and proposals for harmonizing the special scheme for small undertakings

1. The wide disparities between the exemptions allowed in the various Member States indicate that the exemption limits should be brought closer together.

Nevertheless, we must examine whether there is actually a need to retain an exemption mechanism if a scheme comprising genuine technical simplifications were to be introduced for small businesses: purely from the taxation point of view, all businesses would then be on the same footing vis-à-vis the final consumer; no element of residual taxation would remain, so that neutrality would be complete; in the context of own resources, the discontinuation of exemption would put an end to the difficult problems caused by disregarding the transactions performed by taxable persons whose annual turnover does not exceed the exemption ceiling, and would at the same time broaden the own resources base; lastly, taking a purely practical view, the extremely low turnover ceilings in Denmark (1220 ECU), Luxembourg (4000 ECU), the Federal Republic of Germany (7500 ECU) and France (200 ECU in tax) mean that the exemption can apply only to ancillary activities; in Ireland and the United Kingdom, the two Member States in which the exemption ceilings are higher, the ending of exemptions would remove the temptation for businesses to restrict their activities in order to remain within the exemption limits, or to evade VAT; this temptation probably exists where turnover is approaching the limits, and is increased by the lack of a graduated tax relief mechanism.

However, despite these considerations of principle, we must not lose sight of the problems involved for the national authorities in having to handle a very large number of small cases; this is liable to cost more than the revenue such cases would generate if the exemption were withdrawn. Retention of a minimum exemption limit is therefore advisable so that this difficulty can be avoided.

With regard to the common exemption system, the two objectives of simplification for small businesses and the tax authorities and of ending the distortions in the calculation of own resources would seem to be best achieved by retention of a ceiling based on turnover, together with non-entitlement to invoice VAT or to deduct input VAT, i.e. strict compliance with the provisions of Article 24 of the Sixth VAT Directive.

The simplicity essential in this area is not provided by a mechanism which defines the exemption by reference to the amount of tax: it obliges small businesses to keep accounts recording the VAT deductible on purchases and the VAT invoiced on receipts and, at the same time, requires the authorities to make the calculations necessary to determine the net tax: however, if this is below the exemption ceiling it is not recovered.

2. Analysis of the different flat-rate systems in force in the Member States reveals the disadvantages of schemes which compute turnover on a flat-rate basis either by applying percentages to types of purchases, or by making a calculation for each business: they lack precision and must therefore be applied very sparingly, or are cumbersome to implement and hence unattractive.

The advantages of collective schemes which calculate the deductible VAT on a flat-rate basis seem more real, making them the type of system which could be applied more widely.

3. The political principle that VAT should also apply to small taxpayers, accepted on adoption of the Sixth VAT Directive, and the desire to reduce the administrative burden of managing and monitoring such small files require the introduction of a flat-rate scheme and a simplified normal taxation scheme which draw on the experience of ten years of applying VAT in the Member States.

On the basis of the analysis of the various exemption and flat-rate schemes in force in the Member States and the conclusions which have just been drawn, the Commission considers that the Council should adopt the following proposals:

- (1) An exemption scheme, which inevitably creates distortions of competition and problems of residual tax, should be retained only in order to eliminate small files which would cost the tax authorities more to administer than they would be expected to produce in revenue if the exemption were withdrawn.  
The aim should therefore be the harmonization of the exemption in the Member States at the same level, based solely on the average cost to the authorities. So as to make this match the level which was chosen for the collection of VAT own resources and to put an end to the technical difficulties involved in reconstituting a harmonized base in this area, the limit should be set initially at 10 000 ECU. It could be raised in line with administrative costs, on the basis of parameters chosen for this purpose. The Member States which have no exemption (Italy and Belgium) or those where the exemption is 10 000 ECU or less (the Federal Republic of Germany, Denmark, France, Luxembourg and the Netherlands in certain cases) could adjust to the 10 000 ECU figure as soon as the new harmonization arrangement was introduced. The Member States in which exemption now stands at a higher level (United Kingdom, Ireland and the Netherlands in certain cases) could freeze that level until the Community ceiling had caught up as a result of increases in administrative costs.

(2) The harmonized exemption scheme should be accompanied by the introduction of a simplified normal scheme for small businesses which would be designed to simplify the structure of the tax without distorting it so that it could be extended to a large number of small taxpayers at no real extra cost.

- The basis for determining VAT should be the bookkeeping procedures used by small businesses and tradesmen, namely cash accounts which record purchases when they are invoiced and receipts when payment is made. This means redefining the chargeable event for small businesses by derogating from the delivery rule and replacing it with the payment and cash receipt rule.

Of course, if this is to be a genuine simplification, it should be accompanied by similar measures for the determination of taxable profit and of direct tax liability.

- An effort should be made to simplify the rules for deducting input VAT. This would be practicable only if the rules governing the deductibility of input VAT are not subject to numerous exceptions which are difficult to interpret and necessitate specialist assistance. Similarly, rules such as the deferment of deduction of input tax for one month as still applied in one Member State should disappear under this simplified scheme. With a view to simplifying these rules, a flat-rate scheme could be introduced for businesses whose activities were relatively homogeneous, so that the amount of deductible input VAT could be calculated at a flat-rate, directly proportionate to turnover.

- Return procedures should also be simplified. Hence, small businesses would have to make an annual return, designed to summarize the transactions of the past calendar year. Even at the risk of loss of certain statistical data, the return should contain only the information strictly necessary for calculation of the VAT payable (turnover broken down by rates, the corresponding VAT received, and the total input tax deductible).
  
- Lastly, the procedures for paying the tax should be simplified. Since the return would be made once a year only, advance payments would have to be made monthly or quarterly, representing, for example, one twelfth or one quarter of the VAT paid for the preceding calendar year. The advance payments would be set against the amount of the tax calculated in the annual return. In certain Member States, the quarterly payment of VAT may perhaps favour small taxpayers as they will keep the VAT collected on behalf of the Treasury for a longer period, but this advantage will in fact be limited because of the small sums involved.

Examination of the various schemes specific to small businesses in the Member States has revealed that they vary widely owing to the freedom left to Member States by the wording of Article 24 of the Sixth Directive.

Because the Sixth Directive sets no Community ceiling for the exemption, the gap between the limits imposed by the Member States has widened.

It is important to harmonize the special scheme for small businesses in order to establish a competitive situation for such businesses; it is also the Commission's intention to put an end to the adjustment difficulties, created by the present disparities, in calculating VAT own resources; the Commission therefore recommends the introduction of uniform techniques for determining the tax base for small businesses which are taxable persons for the purpose of value added tax.

Furthermore, harmonization of the scheme for small businesses will be an indispensable basis of reference upon accession of the new Member States in which the small business sector predominates.

A N N E X E S

Description of the special schemes existing in Member States

Annex I - Exemption schemes applicable in Member States

Annex II - Flat-rate schemes applicable in Member States

A - Collective flat-rate amounts

B - Individual flat-rate amounts

Arrangements introduced in Member States in connection with the special schemes for small undertakings adopted pursuant to the Sixth Directive

The different schemes applicable in Member States are classified below according to three types of tax mechanism intended specifically for small undertakings:

1. The exemption, which is determined on the basis of:
  - either annual turnover;
  - or the amount of tax due annually;
  
2. The collective flat-rate amount, which is a simplified method:
  - either for computing deductible VAT;
  - or for determining turnover;
  
3. The individual flat-rate amount, based on individual changes to business profiles, which are used to compile turnover on the basis of goods purchased or hours worked.

ANNEX I

Exemption schemes applicable in Member States

The different schemes fall into two categories:

A. The exemption and/or graduated tax relief is subject to a ceiling fixed according to the turnover of small undertakings

This is the situation in Germany, Denmark, the United Kingdom, Ireland and Luxembourg.

GERMANY (Article 19(1) of the Turnover Tax Law)

The exemption applies to undertakings with a turnover in the preceding year of not more than DM 20.000 (8 400 ECU) and with an expected turnover in the current year of not more than DM 100.000 (42 300 ECU). A pro-rata temporis arrangement is applicable, where appropriate, to the tax-inclusive turnover in respect of transactions for which payment has been received.

An undertaking qualifying for exemption may not include VAT on its invoices; it does not, therefore, transfer the right to deduct to customers who are taxable persons. It may not deduct input tax charged on its purchases.

Where bookkeeping is concerned, small undertakings are required merely to keep a purchases day book and receipts book. For most of them, there is no obligation to draw up a balance sheet.

Small undertakings which have no VAT to pay in theory are also exempted from making VAT returns.

At the beginning of each calendar year, an exempt undertaking may decide to opt for the normal scheme, but for a period of not less than five years. It then qualifies for the graduated relief and the flat-rate scheme of "average rates" discussed below (cf. Annex II).

9.000 undertakings qualify for exemption which represents 2 million DM in VAT lost (not counting those undertakings whose turnover is less than 12.000 DM and, which are not known to the administration).

Graduated tax relief is available to small undertakings whose turnover in the current calendar year does not exceed DM 60.000 (25 400 ECU) exclusive of tax, and who do not request exemption because they have opted for the normal scheme. The current year can be taken because undertakings submit provisional monthly or quarterly returns during the year and a definitive summary return at the end of the year. The basis for the calculation is the turnover for which payment has been received.

An allowance is made against the amount of tax due less input tax and is equal to:

- i) 80 % for a turnover of between DM 20.500 (8 600 ECU) and DM 20.500 (8 600 ECU);
- ii) 80 % less 1 % for each tranche of DM 500 ( 200 ECU) for a turnover of more than DM 20.500 (8 600 ECU).

In the case of graduated tax relief, small undertakings invoice VAT and transfer the right to deduct to customers who are taxable persons.

The turnover to be taken into account includes turnover for operations realized abroad.

All activities qualify for the above arrangements.

Generally speaking, small taxpayers who paid net VAT of not more than DM 6.000 in respect of the preceding year make provisional quarterly (and not monthly) returns during the current year. Where the amount of VAT due in respect of the current year is not expected to exceed DM 600, they are not required to submit any provisional quarterly returns or to make any provisional payments on account. They simply submit annual returns and make a one-off payment. There are 359 000 undertakings which qualify, resulting in a VAT loss of 305 million DM i.e. 0.3 % of the total VAT receipts (1).

#### DENMARK

Denmark operates an exemption scheme only. There is no graduated tax relief scheme or flat-rate scheme.

The exemption applies to firms with a twelve-month turnover of not more than DKR 10 000 (1 250 ECU).

---

(1) Estimated figures for 1980. According to the turnover tax statistics, which are still incomplete in respect of 1980, the shortfall would be considerably lower.

Exempt undertakings are not allowed to invoice VAT or to deduct input tax.

All activities (sales and supplies of services) qualify for exemption (with the exception of agricultural activities).

There is no statutory right to opt for the normal scheme.

Exempt undertakings are not registered and are not therefore required to make any returns. They are not known to the administration, which is not aware of the number of undertakings involved or the total turnover and shortfall arising. As regards bookkeeping, small undertakings are required to keep their purchase and sales invoices for five years.

#### UNITED KINGDOM

The United Kingdom operates an exemption scheme only. There is no graduated tax relief scheme or flat-rate scheme.

The exemption scheme applies to all undertakings, regardless of their activity, which have a turnover of not more than £ 17,000 (30 700 ECU), the basis for the calculation being the turnover exclusive of tax forecast for the current year.

The exemption also applies to undertakings which, in the preceding quarter or 4 quarters, have achieved a taxable turnover not exceeding £ 6,000 (10 800 ECU) or £ 17,000 (30 700 ECU) respectively.

These undertakings are not registered and are not, therefore, known to the administration. It is known however that 34,000 undertakings, having a turnover of between £ 6,500 and £ 13,500 were exempted in 1980, involving a loss of potential VAT of £ 15 million, or 0.1 % of VAT receipts. They are not subject to any obligations in respect of bookkeeping or the making of returns. There are no statistics concerning the number of undertakings involved. A very rough estimate, based on a comparison of the number of registered undertakings in the United Kingdom (1,090,000) would seem to indicate that there are around 1 million non-registered undertakings in the United Kingdom.

They can neither invoice VAT nor deduct their input tax.

The extent of turnover taken into account, in ascertaining whether an undertaking comes within the exemption limit, includes exports.

## IRELAND

Ireland operates an exemption scheme (see Annex II) and a flat-rate scheme (but does not apply graduated tax relief).

There are two turnover ceilings, depending on the activity carried on:

- i) £Ir 30 000 (43 760 ECU) per year for traders at least 90 % of whose activity consists in selling taxable goods;
- ii) £Ir 15.000 (21 880 ECU) per year for other traders.

9 000 undertakings qualify for this scheme out of 87 000 taxable persons. However, the recent increase of the ceiling for exemption could have increased the numbers qualifying in 1982 by 500.

Both ceilings apply to turnover exclusive of tax.

Non-registered undertakings are not allowed to invoice VAT or to deduct input tax.

Undertakings can choose to be treated as taxable persons under either the exemption scheme or the normal scheme at the start of each 2 months tax period.

Exempt undertakings are required to keep all their sales invoices.

## LUXEMBOURG

Small undertakings in Luxembourg qualify for an exemption and a graduated tax relief scheme. For the moment, there is no flat-rate scheme in Luxembourg although the principle of such a scheme is contained in Luxembourg legislation.

The exemption is granted to undertakings with a turnover in the preceding year of not more than LFR 200 000 (4 800 ECU) exclusive of tax.

Such undertakings are not required to make periodic returns but must keep records which the authorities can check.

All activities (sales and supplies of services) qualify for the exemption (with the exception of agricultural activities).

A pro rata temporis arrangement applies where appropriate.

Exempt undertakings are not allowed to invoice VAT or to deduct input tax.

Undertakings may opt for the normal scheme, an option which applies for a minimum of 5 years, except in exceptional circumstances.

550 small undertakings qualify for exemption resulting in a shortfall of LFR 2.3 million in 1980.

Graduated tax relief applies to small undertakings with a turnover of between LFR 200 000 (4 000 ECU) and LFR 1 000 000 (20 000) exclusive of tax. It consists in a 1 % allowance on the difference between LFR 1 000 000 and actual turnover. The resulting remission of tax may not exceed LFR 8 000 (160 ECU).

1 700 small undertakings qualify for graduated tax relief resulting in a shortfall of LFR 4.7 million in 1980 or 0.07 % of VAT receipts in 1980. 11 % of taxable undertakings are involved with the graduated relief scheme. Small undertakings in this category are allowed to invoice VAT and to deduct input tax.

B. The ceilings on the exemption and on graduated tax relief are fixed according to the amount of net tax payable annually by small undertakings

This is the situation in France and the Netherlands.

#### FRANCE

The exemption scheme and the graduated tax relief scheme are reserved for small undertakings subject to the flat-rate scheme. In other words, their turnover inclusive of tax must not exceed FF 500 000 (76 300 ECU) for sales of goods and in the hotel trade or FF 150 000 (23 900 ECU) for supplies of services. Since import transactions, property transactions, the letting of goods or equipment and occasional transactions are excluded from the flat-rate scheme, they do not qualify for exemption or for graduated tax relief.

### Exemption

The exemption consists in a remission of tax payable by small undertakings, which thus rank as fully fledged taxable persons, i.e. they invoice in the normal way VAT charged on goods and services supplied by them, transfer a right to deduct to their customers provided they are taxable persons and deduct input tax.

Where the amount of annual net tax assessed by the administration for the purpose of the flat-rate scheme does not exceed FF 1 350 (200 ECU) before deduction of input tax charged on fixed assets, the taxable person is exempt from payment. By contrast, he will obtain a refund of input tax charged on his fixed assets only if the latter exceeds the amount of the exemption for which he qualifies.

This ceiling figure may be reduced pro rata temporis if the activity in question is carried on for only part of the calendar year.

98 000 small undertakings qualify for exemption (4 % of taxable persons) resulting in a shortfall of 81 million in 1979 (0.03 % of VAT receipts).

Small undertakings may opt for the normal (or simplified) scheme but may not subsequently revert to any other scheme:

Small undertakings qualifying for exemption are subject to the same book-keeping obligations as flat-rate undertakings (keeping of a purchases book and, in the case of services, a receipts book).

They are required to make annual returns giving on both a tax-inclusive and a tax-exclusive basis the amount of their purchases, their turnover and the amount of their stocks.

### Graduated tax relief

The French graduated tax relief scheme comprises two mechanisms:

#### 1) General rebate

The general rebate is available to small undertakings satisfying the conditions governing exemption (i.e. they must be subject to the flat-rate scheme, with the exception of certain activities).

Small undertakings qualify for partial relief in respect of annual net tax normally payable where it amounts to between FF 1 350 (200 ECU) and FF 5 400 (820 ECU) before deduction of input tax charged on fixed assets. The amount of tax actually paid is equal to:

$$\text{annual net tax} = \frac{5\,400 - \text{annual net tax}}{3}$$

A pro rata temporis arrangement applies to the FF 5 400 ceiling where the undertaking carried on its activity for only part of the calendar year.

(2) Special rebate for the artisanat

The special rebate is confined to persons working in the artisanat for whom remuneration of their labour accounts for at least 35 % of their turnover.

Small undertakings in the artisanat qualify for partial relief in respect of the amount of annual net tax payable before deduction of input tax charged on fixed assets where that amount is between FF 1 350 (220 ECU) and FF 20 000 (3 050 ECU). The amount of tax actually paid is equal to:

$$\text{annual net tax} = \frac{\text{annual net tax} - 1\,350}{20\,000 - 1\,350}$$

435,000 undertakings qualify for a rebate (18 % of taxable persons) resulting in a shortfall of FF 1 246 million in 1979 (0.5 % of VAT receipts).

Undertakings qualifying for either form of rebate are subject to the same bookkeeping obligations as flat-rate undertakings (see Annex II).

They are required to make annual returns showing their turnover and the amount of their purchases (on both a tax-inclusive and a tax-exclusive basis), their fixed assets and their overheads (giving for the latter the amount of deductible VAT invoiced by suppliers).

NETHERLANDS

The Netherlands operates an exemption scheme and a graduated tax relief scheme for small undertakings.

The exemption takes the form of a remission of the amount of tax due each year where this is less than HFL 2 050 (790 ECU). Small undertakings rank as fully fledged taxable persons. They thus invoice VAT on their sales and services in the normal way, transfer a right to deduct to their customers provided these are taxable persons and deduct input tax charged on their own purchases, their overheads and their fixed assets. However, they obtain a refund of input tax only where it exceeds the amount of the exemption for which they qualify.

As a general rule, they are subject to the same obligations in respect of bookkeeping and the making of returns as taxable persons subject to the normal scheme. Exempt undertakings though may ask for authorization to retain purchase invoices only. In this case, however, they are no longer entitled to enter VAT on their sales or service invoices, or to be refunded any tax credit.

The graduated tax relief scheme consists in reducing the amount of VAT due annually by:

- i) HFL 2 050 (790 ECU) where the tax payable amounts to between HFL 2 050 (790 ECU) and HFL 2 500 (960 ECU);
- ii) the difference between the amount of tax payable and a figure of HFL 4 150 (1 600 ECU) where the tax itself exceeds HFL 2 500.

Small undertakings are subject to the same obligations in respect of bookkeeping and the making of returns as taxable persons covered by the normal scheme.

28 000 small undertakings qualify for exemption (7 %) and 75 000 for the graduated tax relief (18 % of taxable persons).

This scheme is restricted to activities carried out by individuals.

ANNEX II

Flat-rate schemes applicable in Member States

The different schemes fall into two categories:

- (i) collective flat-rate amounts, the purpose of which is either to compute the amount of deductible input tax or to calculate a taxable person's turnover on the basis of his purchases, to which are applied the average profit-margin coefficients worked out for the entire sector of activity under consideration;
- (ii) individual flat-rate amounts, the purpose of which is to compute turnover from the input components and from the margins by means of a calculation for each small undertaking based on standard business profiles.

A detailed examination of the schemes in force in each country will enable us to identify their similarities and dissimilarities.

A. COLLECTIVE FLAT-RATE AMOUNTS

Three Member States (Germany, Italy and Belgium) apply collective flat-rate schemes, the purpose of which is:

- (i) either to calculate at a flat rate the amount of deductible input tax
- (ii) or to determine at a flat rate a taxable person's turnover and the gross VAT collected by him.

I. Flat-rate amounts for determining deductible input tax

GERMANY

1. Mechanism (Article 23 of the Turnover Tax Law, Articles 69 and 70 of the rules of application).

Collective flat-rate amounts enable specific categories of taxable persons (small undertakings doing business in the same field) to calculate the amount of deductible input tax by applying a given percentage to their turnover (Article 65 of the implementing Decree).

These "average rates of deduction" are exclusive of any other deduction in respect of artisanat activities, retailing, cleaning activities or passenger transport and certain of the liberal professions.

Only input tax charged on certain items of expenditure can be determined: overheads, fixed assets other than property assets in the case of the professions (architects, patent agents, lawyers, consultants and accountants) and certain other activities (home-based ribbon makers, chimney-sweeps). These taxable persons deduct input tax charged on their purchases for resale and on their property assets (including rents).

## 2. Scope

This scheme is applied optionally for a period of one calendar year. If waived, the right of option for the flat-rate scheme may not be exercised again for a period of five years.

This flat-rate scheme for calculating input tax does not apply to:

- (i) undertakings with a turnover in the preceding year of more than DM 100 000 (Article 69(3) of the implementing Decree);
- (ii) to certain activities (banking, insurance, property transactions);
- (iii) the calculation of deductible input tax charged on purchases at the time of importation (Article 69(2) of the implementing Decree).

## 3. Basis for calculating the flat-rate amount

The turnover taken as the basis for the flat-rate calculation of input tax consists of receipts exclusive of tax.

## 4. Obligations incumbent upon taxable persons

### (i) Bookkeeping

Flat-rate undertakings benefitting from the scheme for the flat-rate calculation of input tax are not obliged to show in their records the amount of their purchases and input tax charged.

### (ii) VAT returns

Flat-rate undertakings have to make the same returns as taxable persons subject to the normal scheme.

(iii) Payment of tax

The arrangements are exactly the same as those under the normal scheme.

(iv) Invoicing

VAT is invoiced in the normal way and mentioned on invoices.

This "average-rate" deduction scheme is the only flat-rate scheme operative in Germany for small undertakings.

ITALY

In essence, the flat-rate scheme for small undertakings falls into this category of schemes for determining input tax on a flat-rate basis. In addition, there is a simplified flat-rate scheme for apportioning turnover receipts that enables small retailers to determine output tax where their sales are subject to a variety of rates. A similar simplified scheme is applicable to other taxable persons whose transactions are chargeable at several rates, with different procedures in each case. The specific apportionment scheme for small undertakings is discussed, together with the flat-rate amounts for determining output tax in Section II. This is, in any case, a simplified accounting technique and not a proper flat-rate scheme for small undertakings.

1. Mechanism

The amount of deductible input tax is calculated on a flat-rate basis by applying the following percentages to turnover exclusive of tax:

- (a) the artisanat in general; transport and related activities, hotel trade, provision of food and drink in public places and in company canteens, sea fishing ..... 50 %
- (b) retail trade, including travelling salesmen ..... 70 %

- (c) commercial intermediaries and representatives ... 25%
- (d) artists and the professions ..... 20%

No other deduction is possible.

2. Scope (Article 31 of Decree No 633 of 26 October 1972 and subsequent amendments)

The following qualify automatically for this flat-rate scheme: artisanat undertakings, undertakings authorized to engage in retailing, to provide hotel services and to sell food and drink in public places and in company canteens, commercial intermediaries and representatives excluding commission agents, person engaged in sea fishing, artists and persons exercising a profession whose turnover does not exceed LIT 6 000 000 (4 520 ECU).

Undertakings which so wish may opt for the normal VAT scheme, instead of this flat-rate scheme for calculating input tax.

3. Simplified obligations incumbent upon flat-rate undertakings

(a) As regards bookkeeping, flat-rate undertakings:

- (i) are required to keep a register of the goods and services they supply;
- (ii) may not issue invoices on which VAT is mentioned;
- (iii) are not required to keep a book.

In addition to these simplified arrangements for small undertakings with a turnover of not more than LIT 6 000 000 (4 520 ECU), undertakings with a turnover of less than LIT 480 000 000 may, instead of issuing and recording invoices, keep a counterfoil and leaf book.

(b) Undertakings with a turnover of not more than LIT 480 000 000 may make quarterly payments and, where the tax payable does not exceed LIT 50 000, payment may be combined with that for the following quarter.

(c) Invoicing of VAT

As stated above, small undertakings qualifying under this scheme for a deduction equal to a particular percentage of their turnover may not issue invoices mentioning VAT even where they sell to taxable persons.

II. Collective flat-rate amounts for determining the amount of VAT payable

Another type of collective flat-rate scheme consists in compiling, on the basis of purchases that have to be recorded, the amount of net tax payable. This type of scheme exists in Belgium in the form of an equalization tax and in the form of general and special flat-rate amounts.

a) The equalization tax

(Article 56(2) of the VAT Code and Royal Decree No 19 of 20 July 1970)

1. Mechanism

VAT payable by small retailers is levied at a flat rate by their suppliers, who invoice, over and above the VAT normally invoiced on their supplies, an equalization tax intended to represent the net VAT that small retailers would be required to pay to the Treasury, thereby relieving them of most of the obligations incumbent upon taxable persons. Collection of VAT payable by small retailers is thus shifted to the stage preceding final consumption and is calculated at a flat rate. The equalization tax is levied as a percentage of the amount of VAT plus, where appropriate, the special tax on luxuries, which is normally invoiced by the supplier. The percentages are as follows:

- 15% for goods chargeable to VAT at 6%, for margarine and for beverages (1) with the exception of spirits (chargeable at 17% or 25%, depending on the product);
- 33% for other goods.

The equalization tax is applied to all purchases and imports effected by small retailers and to all supplies ranking as overheads, excluding services and purchases of capital goods.

In exchange for this "calculation at source" of net VAT, small retailers do not enjoy any right to deduct other than in respect of input tax on their investments, which, at their request, is on a quarterly basis by the tax administration.

## 2. Scope

The equalization tax is applicable to natural persons and to partnerships (including private limited companies) engaged in selling goods in the unaltered state at the retail stage. Certain customary operations in the retail trade (cutting up, etc.) and occasional sales to traders (restaurants, canteens, etc.) do not, however, result in loss of entitlement to this scheme.

Retailers are deemed to be traders whose annual purchases exclusive of tax during the preceding year and intended for resale do not exceed BFR 4 500 000 ( 91 600 ECU) in the general food sector and BFR 2 500 000 ( 50 900 ECU) in other sectors.

Lastly, this scheme applies only to certain specific retail sectors, namely:

- general foodstuffs;
- footwear;
- fabrics, table and household linen, haberdashery, headgear, wedding outfits, ready-to-wear clothing and for furnishing fabrics;
- hardware and cleaning products, and paint;
- books and newspapers.

---

(1) including fruit and vegetable juices and bottled mineral water. ./.

Small retailers are, however, allowed to carry on an ancillary activity provided purchases made in that connection do not exceed 30% of total purchases.

3. Obligations in respect of bookkeeping and the making of returns

Since the equalization tax is deemed to be equal to the amount of tax small retailers would have had to pay on their value added, they are not required to keep accounts, to submit VAT returns or to pay the tax.

They are required simply to enter an identification code on their invoices (the letter "E", which signifies that they are taxable persons for VAT purposes where they purchase goods from other taxable persons, who are then required to invoice the equalization tax). They must submit a refund application if they wish to recover VAT charged on their investments.

Small retailers may, however, invoice VAT in the normal way to their customers who are taxable persons. In so doing, they do not give rise to any residual tax.

Small retailers may opt for the collective flat-rate scheme where it is applicable to their sector of activity or for the normal scheme. The decision to exercise this option cannot be reversed.

Some 14 000 small undertakings (2.6% of taxable persons) are liable to the equalization tax, although their number has been falling steadily each year.

Alongside this specific equalization-tax scheme, Belgium operates general flat-rate amounts for certain sectors of activity and special flat-rate amounts for certain individual activities.

b) General flat-rate amounts for certain sectors of activity

Article 56(1) of the VAT Code and Royal Decree No 2 of 7 November 1969)

These mechanisms for determining taxable amounts for small undertakings are automatically applicable in certain sectors of activity where this is possible by virtue of the uniform nature of the margins applied.

1. Mechanism of collective flat-rate amounts for determining taxable amounts

In Belgium, a distinction is drawn between "general" and "special" collective flat-rate amounts. The particular nature of the activity in question determines which arrangement is applicable.

The administration, in agreement with the trade organizations concerned, fixes each year the taxable amounts for each activity. These amounts are used for the purposes of both VAT and personal income tax. They are not definitive and may be adjusted to reflect any significant change (an increase of more than 2% in the flat-rate turnover applied initially) that takes place during the relevant year.

These business profiles are drawn up by computing turnover from purchases and gross profit margins exclusive of tax. For example, the following margins were applied in 1979 to purchases in the following areas:

(i) Foodstuffs:	1.212 %
(ii) textiles, fabrics, haberdashery:	1.52 %
(iii) hardware and cleaning products, and paint:	1.52 %
(iv) books, periodicals :	1.41 %

By estimating average quantities sold or the number of hours worked by suppliers of services, it is possible to determine flat-rate turnover on the basis of purchases made and margins applied.

Gross VAT is then calculated from this flat-rate turnover. Input tax is imputed in order to work out the net amount of VAT payable.

2. Scope of the collective flat-rate scheme

This scheme applies to undertakings in certain specific sectors of activity (retailing and services) which have a turnover of not more than BFR 15 000 000 exclusive of tax (305 400 ECU) and which sell primarily to private individuals (at least 75% of their turnover) and are not, therefore, required to issue invoices.

This scheme applies to own account undertakings as well as partnerships (including limited liability partnerships but excluding limited companies).

When one of the above conditions is no longer met, the trader automatically becomes subject to the normal scheme.

A flat-rate undertaking may opt for the normal scheme, but for a minimum period of two years.

Only the taxable amount is calculated at a flat-rate. The flat-rate undertaking, however, ranks as a taxable person subject to the normal scheme where the invoicing of VAT to its customers who are taxable persons is concerned (as mentioned above, the latter must not account for more than 25% of its turnover).

It sets off deductible input tax against gross VAT calculated on the basis of its flat-rate turnover.

Under the flat-rate scheme, a taxable person is deemed to have supplied by the end of the tax year all the goods purchased by him. As a result, stocks are not taken into account in determining the flat-rate amount. The taxable person may, however, draw up an inventory of stocks received and of stocks issued and may request that purchases consumed be taken into account in calculating the flat-rate turnover.

### 3. Obligations incumbent upon flat-rate undertakings

- Bookkeeping: Flat-rate undertakings must keep a standardized record of their purchases and, also a record of their sales if they supply to taxable persons. They must supply a breakdown of any additional profits arising out of sales on terms other than those used in determining the flat-rate margin.
  
- Returns: Flat-rate undertakings must submit quarterly together with a calculation slip on which turnover is calculated on the basis of their purchases to which the coefficients for their particular activity have been applied.

- Payment: Flat-rate undertakings make monthly payments on account equal to one third of the VAT paid the preceding quarter and regularize their position when they send in their quarterly returns by settling the difference.
- Invoicing: Flat-rate undertakings are required to issue to their customers who are taxable persons invoices mentioning the amount of VAT charged. In such cases, they must also produce each year a statement of sales to taxable persons and of the amounts of VAT invoiced and must keep a sales journal.

There are 69 000 flat-rate undertakings in Belgium (i.e. 12.7 % taxable person).

#### B. INDIVIDUAL FLAT-RATE AMOUNTS

Four Member States apply individual flat-rate schemes under which:

- either the turnover realized by each small undertaking in particular is calculated at a flat rate (Belgium and France),
- or a simplified, flat-rate apportionment of turnover can be carried out for each tax rate where several rates are chargeable (Italy and Ireland).

#### I. Individual flat-rate amounts for computing the turnover of small undertakings

##### BELGIUM

Certain small undertakings whose activity would in the normal course of events, render them liable to the collective flat-rate scheme but is carried on under conditions that prevent application of collective flat-rate taxable amounts are, at the request of the taxable person, taxed under an individual flat-rate scheme. However, such undertakings may always opt for application of the normal scheme.

Flat-rate taxable amounts are determined by the administration on the basis of returns made by taxable persons under arrangements similar to those in force in France and giving details of purchases and sales.

The conditions governing eligibility for this scheme are the same as those for the collective flat-rate scheme (turnover of not more than BFR 15 000 000 exclusive of tax, and sales effected primarily to private individuals).

#### FRANCE

The individual flat-rate scheme applies automatically to small undertakings with an annual turnover inclusive of tax of not more than:

- FF 500 000 (76 300 ECU) in the case of sales activities and the supply of accommodation;
- FF 150 000 (22 900 ECU) for other services
- FF 175 000 (26 700 ECU) for the professions.

Property transactions, the letting of goods or equipment and any activity engaged in by a company liable to corporation tax or by members of the professions who are subject to the system of controlled returns for direct taxation purposes do not qualify for this scheme and are subject to the normal scheme.

#### 1. Mechanism for fixing the flat-rate amount

Under the individual flat-rate scheme, the net amount of VAT payable is fixed for two years possibly for different amounts on the basis of the returns made by the taxable person (amount of purchases, amount of sales) after discussion of the flat-rate amount with the administration. The amount of input tax normally deductible is taken into account in determining the amount of VAT payable.

If, once the flat-rate amount has been calculated, the net annual amount of VAT payable does not exceed the exemption (FF 1 350, i.e. 220 ECU), the taxpayer is exempt from payment of the tax. Graduated tax relief applies where the amount of tax payable is between FF 1 350 and FF 5 400 (or FF 20 000 in the case of an artisan) (1). Over and above FF 5 400, VAT calculated under the flat-rate scheme is payable in the normal way by the flat-rate taxable person.

At the beginning of the year, flat-rate undertakings may opt for the simplified scheme or for the normal scheme, with any such decision being final.

---

(1) For further details, see Annex I (Exemption schemes)

They invoice VAT to their customers who are taxable persons in the normal way without giving rise to any residual tax.

## 2. Obligations

a) Bookkeeping: Flat-rate undertakings are required:

- to keep their invoices;
- to keep a record of purchases where their business involves them in selling goods;
- to keep a receipts day book in respect of services supplied;
- to keep a stock book.

b) Returns: Flat-rate undertakings are required to make annual returns giving their turnover and the corresponding amount of VAT, their purchases and input tax, and their overheads and corresponding input tax. The return is made on the same form as that used for declaring taxable amounts for the purposes of personal income tax.

c) Payment: Each month, flat-rate undertakings pay one twelfth of the tax calculated at a flat-rate (or one quarter every three months where the amount payable monthly is less than FF 800).

3. There are some 931 000 flat-rate undertakings in France out of a total of 2 350 000 taxable persons (i.e. 40 %). They generate 4 % of total VAT receipts, the annual turnover for over half of them being less than 10 000 ECU.

## II. Flat-rate methods for apportioning the receipts of small undertakings liable to several rates of tax

Each Member State operates arrangements under which receipts can be apportioned empirically among different tax rates. As a rule, these arrangements are not linked to the size of the undertaking and were introduced to cater for retail sales to private individuals, for which invoices are not needed.

However, we shall take a look at some of these arrangements, since two Member States have introduced them specifically for small undertakings even though they also operate flat-rate schemes for larger retail undertakings.

The special arrangements in Italy and in Ireland are discussed below in order to round off the survey of measures peculiar to the VAT scheme for small undertakings, although they rank more as implementing provisions of an accounting nature than as fundamental measures distinguishing the scheme for small undertakings from the normal scheme applicable to taxable persons generally.

#### ITALY

Small undertakings which are authorized to engage in retailing and which are subject to different rates in respect of their sales may calculate the amount of VAT payable by applying to their total receipts a weighted average rate of VAT calculated on the basis of the VAT charged on their purchases.

This average rate is, in fact, equal to the value of the purchases divided by the amount of input tax charged on them.

Gross VAT can be worked out using this rate, with net VAT being calculated by imputing the flat-rate deduction equal to 70% of gross VAT applied by retailers (for further details, see the Italian flat-rate scheme described in Section A.I.).

#### IRELAND

Simplified arrangements are applied in Ireland for apportioning the receipts accruing to small retailers liable to several rates of tax that vary depending on the amount of turnover.

1. Where turnover is less than £Ir 100 000, receipts are apportioned according to the breakdown of purchases by the different rates, and no account is taken of the possible differences in margins on the different products (Mechanism 1).

This arrangement is identical to that operated in Italy for small retailers.

Small undertakings in this category may also opt for one of the mechanisms described below.

2. Where turnover is between £Ir 100 000 and £Ir 300 000, apportionment of receipts from purchases charged at the normal rate and at the reduced rate is based on the purchases charged at these rates plus the average margin applied. The difference between these receipts and total receipts gives the receipts from zero-rated purchases (Mechanism 3).

These are simplified arrangements in that, as distinct from the arrangement for apportioning the receipts of undertakings with a turnover of more than £Ir 300 000 (Mechanism 4), no account is taken of changes in stocks. However, even for undertakings falling into that category, a method can be applied that does not take account of such changes.

Consequently, these accounting mechanisms for the retail trade are not mechanisms intended specifically for small undertakings.

TABLE I

## EXEMPTIONS AND GRADUATED TAX RELIEF

\*Country not operating a flat-rate scheme

A. CEILINGS IN TERMS OF TURNOVER											
Exemption	Graduated tax relief	Activities concerned	Right to deduct input tax	Transfer of right to deduct to customers who are taxable persons	Option for the normal scheme	Invoicing of VAT	Bookkeeping obligations	Returns	Number of small undertakings	Number of undertakings subject to normal scheme	
FEDERAL REPUBLIC OF GERMANY	DM 20 000 (8 400 ECU) inclusive of tax in preceding year (7 500 ECU exclusive of tax) and DM 100 000 (42 300 ECU) inclusive of tax (expected turnover in current year	Turnover in current year up to DM 60 000 (25 400 ECU)	All activities: sales and supplies including agricultural activities on option	Exemptions: no Graduated tax relief: yes	Exemptions: no Graduated tax relief: yes	Yes, for at least 5 years	Exemptions: no Graduated tax relief: yes	Exemption: note of takings, graduated tax relief: normal obligations	Monthly, quarterly or annually, depending on the amount of tax payable	Exemptions: 9 000 excluding undertakings whose turnover < 12 000 DM graduated tax relief: 359 000	1 690 000 (excluding flat-rate farmers)
DENMARK*	DKR 10 000 (1 220 ECU) exclusive of tax per 12-month period	-	All activities: sales and supplies	No	No	No	No	Purchase and sales invoices to be kept for 5 years	None	Exemptions: not known	215 000
UNITED KINGDOM*	Expected turnover in current year of £ 17 000 (30 700 ECU) exclusive of tax	-	Taxable supplies of goods and services	No	No	Yes	No	None	None	Exemption: not known	1 093 000
IRELAND	Depending on activity, turnover in current period of: (i) £1r 30 000 (43 760 ECU) exclusive of tax; (ii) £1r 15 000 (21 880 ECU) exclusive of tax.	-	(i) Sales of goods at zero or reduced rate (ii) Supplies of services	No	No	Yes	No	Purchase invoices to be kept	None	Exemption: 9 000 (11%), of which 3 400 < 10 000 ECUS	87 000
LUXEMBOURG*	Turnover in preceding year of LFR 200 000 (4 000 ECU) exclusive of tax	Turnover of between LFR 200 000 and LFR 1 000 000 (4 000 ECU and 20 000 ECU), with maximum tax remission of LFR 5 000	All activities: sales and supplies including agricultural activities	Exemptions: no Graduated tax relief: yes	Exemptions: no Graduated tax relief: yes	Yes 5 years	Exemptions: no Graduated tax relief: yes	Normal	Exemption: none Graduated tax relief: yes annual	Exemption: 550 3.5 % Graduated tax Relief: 1 735 11 %	13 770
D. CEILINGS IN TERMS OF TAX DUE											
FRANCE	FF 1 300 per year (200 ECU) before imputation of VAT charged on fixed assets	(i) General rebate: amount of tax payable of between FF 1 350 and FF 5 400 (200 ECU and 820 ECU) (ii) Special rebate: amount of tax payable of between FF 1 350 and FF 20 000 (200 ECU and 3 050 ECU) before imputation of VAT on fixed assets	Activities subject to flat-rate scheme, excluding property transactions, the letting of equipment or goods, imports and occasional transactions and activities carried out by companies liable to company tax.	Yes	Yes	Yes	Yes	Same as for flat-rate scheme	Same as for flat-rate scheme	Exemptions: 98 000 Relief: 436 000	1 900 000
NETHERLANDS	HFL 2 050 per year (790 ECU)	Between HFL 2 050 and HFL 4 150 (790 ECU and 1 600 ECU)	All activities: sales and supplies carried out by individuals	Yes	Yes	Yes	Yes, except for dispensation resulting in loss of right to invoice VAT	Normal obligations, except for dispensation resulting in loss of right to invoice VAT	Same as for normal scheme except for dispensation resulting in loss of right to invoice VAT	Exemptions: 28 000 (6%) Graduated tax relief: 75 000 (18 %)	416 000

TABLE II

CHANGES IN THE LIMITS SET UNDER THE SPECIAL SCHEMES FOR SMALL UNDERTAKINGS SINCE ENTRY IN FORCE OF A VAT SCHEME

	Date	Exemption limit	Limit for graduated tax relief	Flat-rate limit
GERMANY	1.1.68 1.1.80 (date of entry into force of the Sixth Directive)	DM 12,000 (cascade tax scheme) DM 20,000 (turnover of previous year inclusive of VAT)	DM 60,000 (cumulative system rate of tax 4 %) DM 60,000 (turnover of current year)	DM 100,000 (turnover of previous year) for certain undertakings and types of activity.
BELGIUM	1.4.73 1.4.78  1.1.76 1.4.78	not relevant	not relevant	Equalization tax : BFr 2,000,000 or 3,000,000) depending BFr 2,500,000 or ) on BFr 4,500,000 ) activity Flat-rate amount : BFr 10,000,000 BFr 15,000,000
FRANCE	prior to 1.1.78 1.1.78 no change	FF 1,350 in terms of amount of tax	FF 1,350 to FF 3,500 or 13,500 (in terms of tax) FF 1,350 to FF 5,400 or FF 20,000 in terms of tax depending on activity	FF 150,000, FF 175,000 or FF 500,000 depending on activity.
IRELAND	3.9.73  1.3.79 (Sixth Directive) 1.1.82	£ 12,000 - 6,000 or £ 1,800, depending on activity £ 18,000 - 9,000 or £ 3,000, depending on activity £ 30,000 - 15,000 - "	not relevant	not relevant
UNITED KINGDOM	prior to Sixth Directive 1.4.78 (Sixth Directive) 12.4.78 23.3.80 11.3.81 10.3.82	£ 7,500 £ 7,500 £ 10,000 £ 13,500 £ 15,000 £ 17,000	not relevant	not relevant
LUXEMBOURG	1.1.72 1.1.80 (Sixth Directive)	LFr 100,000 LFr 200,000	100,000 - 1,000,000 200,000 - 1,000,000	not relevant
NETHERLANDS	1.1.77 1.1.79 (Sixth Directive)	HfL 2,050 in terms of tax unchanged	HfL 2,050 - HfL 4,150 unchanged	not relevant
DENMARK	1.7.73 1.10.78 (Sixth Directive)	DKr 5,000 DKr 10,000	not relevant	not relevant
ITALY	1.1.78 1.1.79 (Sixth Directive)	not relevant	not relevant	Lit 6,000,000 unchanged

TABLE III

APPLICATION IN MEMBER STATES OF THE PROVISION UNDER WHICH A TURNOVER OF LESS THAN 10,000 ECU IS NOT TAKEN INTO ACCOUNT IN DETERMINING VAT OWN RESOURCES

MEMBER STATES APPLYING NO EXEMPTION

BELGIUM  
ITALY

ALL SMALL UNDERTAKINGS ARE SUBJECT TO TAX (FLAT-RATE SCHEME OR EQUALIZATION TAX)  
EXCLUSION ON THE BASIS OF RECEIPTS OF UNDERTAKINGS < 10,000 ECU SELLING TO FINAL CONSUMERS.

MEMBER STATE APPLYING EXEMPTION < 10,000 ECU DETERMINED BY REFERENCE TO TURNOVER

DENMARK

THE IMPACT OF RESIDUAL TAX CREATED BY THE EXEMPTION < 10,000 ECU HAS BEEN DISREGARDED.  
FOR THE PORTION BETWEEN THE EXEMPTION AND 10,000 ECU : DEDUCTION OF VALUE ADDED CORRESPONDING TO SALES TO NON TAXABLE PERSONS.

MEMBER STATES APPLYING EXEMPTION DETERMINED BY REFERENCE TO AMOUNT OF TAX

FRANCE

THE EXEMPTION IS DEEMED TO BE EQUAL TO 10,000 ECU. THERE IS NO RESIDUAL TAX → NO ADJUSTMENT TO BE MADE

NETHERLANDS

EXEMPTION WITH DEDUCTION AND INVOICING OF VAT :  
NO RESIDUAL TAX. SMALL UNDERTAKINGS < 10,000 ECU HAVE BEEN IDENTIFIED → DEDUCTION OF VALUE ADDED CORRESPONDING TO SALES TO NON-TAXABLE PERSONS;  
EXEMPTION WITHOUT DEDUCTION AND WITHOUT INVOICING OF VAT = IMPACT OF RESIDUAL TAX HAS BEEN DISREGARDED

MEMBER STATES APPLYING EXEMPTION > 10,000 ECU

UNITED KINGDOM

COMPENSATION FOR EXEMPTION > 10,000 ECU → REINCORPORATION IN THE BASIS OF VALUE ADDED CORRESPONDING TO SALES TO NON-TAXABLE PERSONS - LESS THE RESIDUAL TAX CREATED BY SALES TO TAXABLE PERSONS. THE IMPACT OF RESIDUAL TAX CREATED BY THE EXEMPTION < 10,000 ECU HAS BEEN DISREGARDED.

IRELAND

GERMANY  
LUXEMBOURG

FOR THE PORTION OF TURNOVER BETWEEN THE EXEMPTION AND 10,000 ECU : COMPENSATION NOT REQUESTED.  
THE IMPACT OF RESIDUAL TAX CREATED BY THE EXEMPTION < 10,000 ECU HAS BEEN DISREGARDED.

N.B. : Situation as in 1979 own resources returns, except in the case of Germany, Luxembourg, and Ireland, where returns for 1980 taken.

Administratives rules

Retailers subject to the flat-rate scheme are required to keep :

- i) a purchases journal modelled on the specimen annexed to the "Special provisions".

The purchase price of goods must be broken down into its separate components and entered in the columns corresponding to the different categories of goods specified in the "Special provisions". The column totals are carried over, for each return period, into Column 3 of the calculation sheet ;

- ii) where appropriate, a detailed record of any additional profits arising out of special buying terms ;

- iii) where appropriate, a sales journal in respect of supplies for which invoices are issued. Any rebates mentioned on such invoices are to be shown in a separate column for each category of goods chargeable at the same rate ;

- iv) where appropriate, customer accounts or any other documents necessary for drawing up the annual return of goods supplied to other taxable persons (Article 50 (1)(5) of the Code) ;

- v) where necessary, a receipts journal for goods and services supplied to private individuals and not subject to the flat-rate scheme.

A calculation sheet provided by the administration (cf. Annex II) shall be attached to the regular return. It shall be completed in accordance with the instructions given in the "General provisions/73" and in the "Special provisions" relating to the sector to which the taxable person belongs.

Detailed record of additional profits arising out of special  
buying terms

Date	No of entry in purchases journal	Nature of special buying terms	Purchase price	Additional profits chargeable at :		
				6 %	17 %	25 % 8 % (1)

(1) Special luxury tax.

BELGIUM

(Identification label to be affixed here)

Name .....  
 Address .....  
 VAT No .....

CALCULATION SHEET  
 FLAT-RATE SCHEME

Annex to the return for the ... quarter 19..

1	2	Purchase price 3	Coefficients 4	Flat-rate turnover (3 x 4) 5	Total 6	Special buying terms 7	Transactions with no flat-rate basis 8	To be deducted: Rebates 9	Total (6+7+8-9) 10	Taxable amounts 11	Rate 12	VAT payable (11x12) 13						
6 % rate	11				}	to be shown in box 01 of the return						A						
	12																	
	13																	x 6%
	14																	
16% rate	31				}	to be shown in box 03 of the return						B						
	32																	
	33																	x 17%
	34																	
	35																	
	41				}	to be shown in box 04 of the return						C						
	42																	
	43																	x 25%
	44																	
	49																	D
D x 8 %																		
										Total A + B + C								
										to be shown in box 12 of the return								
										to be shown in box 11 of the return								

Read the instructions overleaf before completing the calculation sheet.

COLLECTIVE

FLAT - RATE AMOUNTS

TABLE V

	NATURE	ACTIVITIES	CEILING	OPTION	BOOKKEEPING	RETURNS	PAYMENT OF TAX	RIGHT TO DEDUCT	INVOICING OF VAT	LEGAL STATUS OF BENEFICIARY	ACCOUNT TAKEN OF STOCK	MECHANISM	BASIS FOR CALCULATION
BELGIUM	1. Equalization tax: value added calculated at a flat rate on the basis of inputs.	Certain small retailers selling goods in same state to consumers without any processing taking place.	Annual purchases of BFR 4 500 000 or BFR 2 500 000 exclusive of tax (preceding year).	Automatic scheme. Definitive option for flat-rate or normal scheme.	Special identification code. Application for refund of VAT charged on investments. Purchases journal and sales journal.	One annual return for purchases. One annual return for sales to taxable persons.	By the supplier	Restricted to VAT charged on investments. For the rest: value added included.	No, but invoicing of equalization tax by customers who are taxable persons as requested by the supplier	Natural persons or partnerships, including private limited companies	Presumed constant	Percentage increase in purchases (including imports, excluding capital goods and services) invoiced by suppliers to small retailers.	15% of VAT invoiced at 6% 33% of VAT invoiced at 17%
	2. General flat-rate amounts for each main sector of activity. Special flat-rate amounts for specific activities.	Limited activities: food, clothing, newspapers, café proprietors, hairdressers, shoemakers, doctors, dispensing chemists.	Turnover exclusive of tax of BFR 15 000 000	Option for normal scheme for not less than 2 years. Possible option for return to flat-rate scheme.	Standardized purchases journal and sales journal. Table of investments broken down by tax rate. Statement of additional profits. Receipts book for activities falling outside flat-rate scheme. Sheet for calculating flat-rate turnover.	One annual return for flat-rate taxable amounts. Annual list of customers who are taxable persons.	Quarterly payments on account.	Yes, in the normal course of events	Yes, where sales to taxable persons	Idem	Presumed constant, except where inventory drawn up.	Purchases or hours worked multiplied by margin coefficient. Breakdown by group necessary according to rates and margins. Adjustments to be made in the light of refunds or additional profits (direct purchases).	Coefficients laid down, in agreement with trade organizations, in annual profiles applied to purchases in order to obtain flat-rate turnover.
GERMANY	Flat-rate deduction; "average rates" that vary according to activity.	Certain activities: retailing, artisanat, professions	Turnover in preceding year of less than DM 100 000	Optional scheme	No rate of sales nor of input tax.	Same as normal scheme.	As under normal scheme (monthly) possibly quarterly if less than 5000 DM in previous year	Yes: flat-rate deduction; real deduction for certain expenses and certain taxable persons	Yes	Natural persons or partnerships (no limit)		Input equal to standard percentage of turnover that varies according to activity.	Turnover recorded in proper manner by small undertakings.
ITALY	Flat-rate deductions that vary according to activity.	Certain activities: intermediate retailing, artisanat, professions.	LIT 6 000 000	Automatic scheme; option for normal scheme.	Sales register.	Annual (as under normal scheme).	Quarterly.	Yes: flat-rate deduction	No	All undertakings regardless of their legal status (except craftsmen)	Presumed constant	Input equal to standard percentage of turnover that varies according to activity.	Turnover recorded in proper manner by small undertakings

INDIVIDUAL

FLAT - RATE AMOUNTS

BELGIUM	Individual flat-rate amount used to determine VAT due in the case of particular activities	Activities not standardized	Turnover exclusive of tax of BFR 15 000 000	Scheme requested by the taxable person. Option for normal scheme.			Monthly payments on account; annual adjustment	Yes	Yes	Natural persons or partnerships	Possible, where inventory taken		
FRANCE	Individual flat-rate amount for determining VAT due (together with exemption and relief scheme below a certain amount of net tax)	All activities, with the exception of imports, occasional transactions, properly transacted, letting of goods or equipment.	FF 500 000 for sales and for hotel trade FF 150 000 for the supply of services	Automatic scheme; definitive option for normal scheme.	Invoices to be kept. Register of purchases. Register of receipts in the case of services.	Annual return giving turnover, purchases, overheads and investments.	Quarterly or monthly; one quarter or one twelfth of tax in preceding year.	Yes	Yes	Natural persons or partnerships	Possible, where inventory taken	Determination on an individual basis by the administration for 2 years of net VAT payable on the basis of taxpayer's returns and profiles.	(i) Calculation of turnover and gross VAT. (ii) Deduction of estimated VAT charged on purchases and overheads. (iii) Possible application of exemption or relief. (iv) Assessment of VAT charged on investments.
ITALY	Calculation of weighted average rate of VAT chargeable on purchases in the case of several tax rates; this average rate applied to receipts in order to determine gross VAT	Retailers only	LIT 6 000 000	Automatic scheme; option for normal scheme.	Register of purchases and receipts.	Quarterly or half-yearly	Quarterly or half-yearly	Yes	No	Natural persons and companies.	Presumed constant	Individual calculation of average rate in order to obtain gross VAT, then imputation of flat-rate deduction of input tax. Apportionment of turnover calculated on the basis of purchases broken down by tax rate takes no account of changes in margins depending on rates.	Average rate = <u>Input tax charged on purchases</u> purchases This rate is applied to receipts exclusive of tax in order to determine output tax.
IRELAND	Calculation of weighted average rate of VAT chargeable on purchases; this average rate applied to receipts in the case of several tax rates in order to determine gross VAT	Small retailers	Several schemes exist depending on turnover: - £ 100 000 - £ 300 000	Optional scheme				Yes	Yes		Yes, under certain schemes.	Apportionment of turnover by different tax rates based on breakdown of purchases inclusive of tax - either disregarding changes in margin depending on rates; or taking account of such changes.	