COMPARISON ON THE CORPORATE TAX RATES OF SMALL AND MEDIUM-SIZED ENTERPRISES IN SEVERAL EUROPEAN COUNTRIES

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Abstract: *The paper analyzes the minimum rates of the corporate income tax in EU countries. It shows a comparison between SME and micro-enterprise definitions in some EU countries and the special conditions in which reduced rates of the corporate income tax are applied, as well as the impact of these measures on the taxation of microenterprises.*

Key words: *SME, reduced corporate income tax*

JEL Classification: E62, H25

INTRODUCTION

In countries affected by the economic downturn and rising unemployment, governments have considered that introducing reduced income tax rates of SMEs will facilitate the economic recovery or even the economic growth, given the large number of micro-enterprises within the market. What is different between EU countries is how micro-enterprises are defined and what organizational requirements they must meet. In this paper, we want to make a comparative analysis of the implementation of these measures in the EU and Romania, as well as the impact of these measures on the taxation of micro-enterprises.

MATERIALS AND METHODS

New policy developments, taken under the umbrella of the Small Business Act (SBA) for Europe, have been instrumental in the last years in mitigating the effects of the crisis and in creating a pro-SME policy momentum across the European Union.

The official EU definition of SME`s, which define SME`s on the basis of a combination of the number of persons employed and their turnover and/or the total size of the balance sheet, is given in the following table:

Table 1.
Definition of SME s

Company category	Employees	Turnover / or (€ million)	Balance sheet total (€ million)
Micro	< 10	< 2	< 2
Small	< 50	< 10	< 10
Medium-sized	< 250	< 50	< 43

Source: European Commission

The implementation of the SBA has brought the issue of the role and importance of SME`s in the context of social and economic development to the forefront of the policy makers' agenda. In the shadow of the global economic crisis, the strategies for economic

recovery of the Member States have been changing, creating significant transformations to many SME-relevant policies and to the environment in which SME`s operate.
There are several reasons for such a type of tax expenditure policy. First of all, the vast majority of firms that operate in Europe are SME`s. Consequently, SME`s competitiveness significantly affects the competitive position of a country's economy as a whole. Secondly, the concentration of their activities on the domestic market leads to a bounded business vision: combined with the asymmetric information about profit opportunities abroad, this fact limits the diversification of SME`s' investments in an international context. Thirdly, SME`s are generally more responsive to domestic tax incentives than large companies, while taxes play a more important role in the cost structure of SME`s, as they do not have the financial and human capacity to develop sophisticated tax avoidance strategies[1].
Many European countries favour small and medium sized enterprises (SME`s) by granting them reduced corporate income tax rates.

Table 2.
Reduced Corporate Income Tax Rate for SME`s in the EU (2012)

Country	Standard rate	Reduced rate for SME`s	Eligibility criteria for reduced rates / thresholds for lower rates
Belgium	33%		Companies that fulfill a number of conditions related to the activities of the company, the shareholding of the company, the rate of return of distributed profits and the remuneration of their managers benefit from reduced rates
		24,5%	Profits of up to €25,000
		31%	Profits between €25,000 and €90,000
		32,5%	Profits between €90,000 and €322,500
	+ 3% austerity surcharge on income tax rate		
Spain	30%	25%	Companies with a turnover below €10 million. Only on a taxable base up to €300,000*(As of 2011, companies in Spain that grow above the limits applicable for small companies can benefit from the lower rate for three years after losing their small-business status)*
		20%	In 2009–2012: micro-enterprises with a turnover less than €5 million, employing fewer than 25 employees and maintaining or increasing employment. Only on a taxable base of up to €300,000
France	33,33%	15%	Largely independent businesses with an annual turnover no greater than €7.63 million. Only on the first €38.120 of profit
Luxembourg	21%	20%	Taxable base up to €15,000
	+ 5% solidarity tax		
Netherlands	25%	20%	On the first €200,000 of profits
Latvia	15%	9%	Micro-enterprises with a turnover less than LVL 70,000 (= approx. €100,000), employing up to 5 employees (if turnover above, excess taxed at 20%)
Lithuania	15%	5%	Companies with a taxable profit less than LTL 1 million (= approx. €290,000), employing up to 10 employees
Hungary	19%	10%	On the first HUF 500 million (= approx. €1.64

[1] CHANG WOON NAM, Comparison of reduced corporate tax rate in the EU,CESifo Forum 1/2013 (March)

			million) of profits per annum
Romania	16%	3%	Privately-owned companies with a turnover less than €65,000- microenterprises
Britain	24%	20%	Companies with profit under GBP 300,000 (approx.€348,000). Marginal relief is available on profits between GBP 300,000 (approx. €348,000) and GBP 1.5 million (approx. €1.74 million)

Source: European Commission (2013).

As shown in Table 2, ten EU countries currently make use of reduced corporate tax rates to support SME`s . However, in these countries, the concept of SME`s is different, generally giving reduced tax rates to the micro-enterprise category (see Table 1).
Some EU countries, including Britain, have traditionally had lower tax rates for SME`s , whereas such a corporate tax reduction does not exist at all in countries like Austria, Germany and Finland.
In all the 10 countries that apply reduced tax regimes for SME`s, the basic requirement is the upper limit of the annual turnover up to which the reduced rate applies. In most of these countries, it is € 100.000 to 300.000, along with other limiting conditions specific to each country. Below, we have the individual cases of some countries that apply the lowest income tax rate.
In France, a micro-enterprise/auto-entrepreneur is not a legal business structure – it is a specific tax status that benefits from simple tax and accounting rules. It is only available to someone who is self-employed as an Entreprise individuelle (EI). That is to say, someone running the business as a sole trader, not through a limited company. The micro-enterprise/auto-entrepreneur tax status is only available if the business does not exceed certain turnover (sales) limits. These turnover limits depend on the type of business activity one may pursue.

There are two types of micro-enterprise tax regimes:

1. *Régime de Base* - Under this general regime, the liability to tax and social security contributions is calculated on one's annual turnover, after deduction of a fixed rate cost allowance.

Table 3.
Types of Micro-enterprise business activity in France

Business Activity	Sales	Services	Professional' activity
Max turnover	€ 82,200	€ 32,900	€ 32,900
Cost allowance	71 %	50 %	34%

Source: European Commission (2014)

2. *Micro-Social/Micro Fiscal* – In this case, no fixed allowance for costs is granted. Instead, a lower fixed percentage of the total turnover in social security and tax payments is to be paid.

Table 4.
Income tax rate under micro fiscal/micro social regimes in France

Business activity	Social contribution rate	Income tax rate	Total percentage charge
Sales	14,2%	1%	15,2%
Service	24,8%/24,9%	1,7%	26,5% / 26,6%
Professional' activity	24,8%/23,5%	2,2%	27% /25,7%

Lithuania
As concerning corporate income taxes, the company's income limit, when the company would be taxed on preferential 5% corporate income tax rate, in Lithuania, was increased from 145.000 EUR to 290.000 EUR starting from January 1st 2012. The company is allowed to apply this 5 % rate only if it satisfies the following conditions: the company's average number of employees does not exceed 10 and the same share holder of the company does not have more than 50 % of shares in another company. To compare, a general corporate income tax in Lithuania is 15 %, so this tax exemption should be very useful for small business companies. The government expects that these changes shall encourage inhabitants to found their companies more actively.

Latvia
The following can become micro-enterprises:
- individual merchants;
- individual enterprises, farms and fish farms;
- natural persons, which are registered in the State Revenue Service (SRS) as performers of economic activities;
- limited liability companies.

The rights to choose to pay micro-enterprise taxes exist, if there is compliance to the following criteria:
- income of economic activity – turnover – per calendar year does not exceed 100,000 EUR (7,000 EUR from 2014);
- members of limited liability companies are only natural persons;
- board members for limited liability companies are only micro company employees;
- number of micro companies at any time does not exceed five (in number of employees are not included employees which are absent or dismissed);
- income of micro company employees does not exceed 720 EUR per month. Micro company tax object and applicable rate

Micro company tax (microenterprise tax -MET) is single tax payment, which includes the following taxes:
- mandatory state social insurance contributions, personal income tax, business risk fee for micro company employees;
- corporate income tax, if the micro company complies with features of corporate income tax payer;
- personal income tax of micro company owner for income part of economic activity of micro company.

Micro company tax payer calculates and pays micro company tax, and does not calculate and pay personal income tax, corporate income tax, risk fee in budget separately, as well as does not make mandatory contributions.
Micro company tax rate is 9 %. The mentioned rate is applicable to the turnover, which does not exceed 100 000 EUR per year. If the turnover of the micro company exceeds 100 000 EUR per year, then, for the sum that exceeds the mentioned turnover, the 20% rate is applied.
From 2014, the Micro company tax rate of 9% will still continue to apply to the turnover up to EUR 7,000. As from 1 January 2015, if the turnover of a micro-enterprise in a calendar year exceeds EUR 7,000, the following additional micro company tax rates will apply to the excess:
- in 2015 – 11%;
- in 2016 – 13%;
- starting 1 January 2017 – 15%.

Romania

In Romania, we have the lowest tax rate on micro-enterprises around the EU, although, in this particular case, it is about a "clean / pure" income tax, compared to the other countries shown, where the reduced tax rates of micro-enterprises included, many times, also the rates of social contributions. In Romania, the social contribution rates are not reduced, if micro-enterprises are taken into account.

The definition of micro-enterprises in Romania has undergone strong changes in the last three years, since it was reintroduced in the tax register. Although SBA aims to stimulate SME`s, in Romania, broadening the definition of micro-enterprises could disadvantage many small entrepreneurs.

Requirements to be met for micro-enterprises in 2013:

a) they derive income, other than from: banking activities; the insurance and the reinsurance business, the capital market, except for legal entities conducting brokerage activities in these fields; in the field of gambling, consultancy and management.

b) their share capital is held by persons, other than the state and the local authorities.

Table 5.

Size requirements for micro-enterprises in Romania

Year	Turnover (€)	Employee`s number	Tax rate
2012	100,000	1-9	3%
01.02.2013	65,000	-	3%
2014	65,000	-	3%

Unlike the other countries, where tax measures for SME`s also include individual entrepreneurs, not only companies, in Romania, freelancers, who engage in economic activities, are subject to the standard tax rate of 16%, without the benefit of incentives. In France, the low tax regime actually refers *only to individual entrepreneurs*, in Latvia, the benefits also refer to authorized individuals and to companies.

Starting with 2014, the following changes in the definition of micro-enterprises have been introduced: *it supports the achievement of incomes from consulting and management in a proportion of 20% of total incomes*, and the company should not be in liquidation, registered in the trade register or to the courts, according to the law.

The new tax provisions do not allow the selection of the status of micro-enterprises by the entrepreneurs or the companies paying the income tax anymore, but requires that all newly established companies that meet the legal requirements to become micro-enterprises up to exceeding their turnover or up to the non-fulfillment of other requirements.

The successive changes in the definition of micro-enterprises in Romania aim, actually, at the widening of the tax base and the increase of the income tax collection to the state budget, given that the global economic crisis has reduced or canceled the profits from companies that are tax payers. Thus, the state has the guarantee of collecting fixed incomes, without regard to the economic activity of companies or the possibility of recovering the losses.

Despite the policies promoted by the SBA, the European Commission argues that using the tax expenditure system to rectify the aforementioned distorsions and SME`s - specific disadvantages does not represent the first-best solution. Also, it can be concluded that tax policies on micro-enterprises in Romania are not subjected to the aim of the SBA, which intends to achieve economic recovery by supporting SME´s.

CONCLUSIONS

Those EU countries, which currently make use of the reduced corporate tax rates to support SME`s, claim that the SME`s create a large number of jobs and enhance the level of entrepreneurship, which implies flexibility, speed, risk-taking and innovation.

One can note that few countries have adopted really reduced tax rates for micro-enterprises. Countries with small economies, such as Latvia and Lithuania, have really applied reduced rates on taxation of micro-enterprises, but it seems that the expected results were not satisfactory which led Latvia to change the framing limit within the micro-enterprise category drastically, from € 100,000 to € 7,000 annually, causing real social movements due to the number of employees in micro-enterprises, who feel threatened by the bankruptcy of the firms they are working with.

In France, these measures are not actually applied to companies, but to individual entrepreneurs.

In Romania, the reduced tax rate is actually, in many cases, an increase in the taxation of microenterprises, because the tax, although low in value (3%), is actually applied on the income and not on the profit. Fiscal measures in Romania refer to the widening of the tax base and the increase of the income tax collection to the state budget, given that the global economic crisis has reduced or canceled the profits from companies that are tax payers, without regard to the economic activity of companies, or the possibility of recovering the losses.

In conclusion, the measures to reduce taxation for SMEs in the EU were reduced in number, without spectacular results, demonstrating that the allegations in the Small Business Act have no real representation in economies in times of crisis or after.

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