



Reducing red tape for small firms

Very small companies could be exempted from having to draw up annual accounts, after MEPs approved changes to EU accounting rules in Strasbourg on Wednesday. It would be up to each Member State to grant such exemptions, depending on the impact the directive would have in that country. Companies would in any case still have to keep records of their business transactions and financial situation.

In the legislative resolution, approved by 445 votes in favour, 196 against and 21 abstentions, the EP also calls for a general revision of the 4th and 7th Company Law Directives in 2010.

About 7.2 million EU companies are subject to reporting rules under EU accounting directives. Some 5.4 million (around 75%) of these are "micro-entities", for example flower shops or local bakers. They are primarily engaged in business at local or regional level, with little or no cross-border activity. This proposal would allow Member States to simplify the business environment for micro-companies by waiving the usual reporting requirements, thus boosting their competitiveness and growth potential.

"The reach of micro-entities' business is generally confined to the regional and local market. To that extent they have no cross-border impact on the single European market, and the logical conclusion, therefore, is that they need not be bound by EU-wide internal market regulations", said the rapporteur, Klaus-Heiner Lehne (EPP, DE).

The exemption from having to draw up annual accounts would apply to companies that meet two of the following criteria: balance sheet total under €500,000, net turnover under €1,000,000 and/or average of 10 employees during the financial year.

In its report, the European Parliament argues that Member States should have a free choice of whether or not to exempt micro-entities, "taking account in particular of the situation at national level regarding the number of businesses covered" under these threshold values.

To address concerns that an exemption from accounting duties could hamper internal organisation and reduce transparency and access to information, the EP made it clear that micro-entities must still be subject to the obligation to keep records that show the company's business transactions and financial situation, "as a minimum standard".

During the debate the rapporteur stressed that the proposal remained blocked in the Council. He called for the blocking minority to "rethink its position".

How much could be saved?

A study cited in the Commission's impact assessment concluded that the average cost per company of complying with the requirements of the accounting directives is €1,558. Of this amount, the administrative burden (i.e. collecting and processing information purely to satisfy legal obligations, without a real business need) is €1,169. If all Member States were to exempt micro companies and did not impose additional requirements, the proposal could save an estimated at €6.3 billion.

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