**Follow up to the European Parliament non-legislative resolution on to the SME State of the Union**

1. **Resolution tabled pursuant to rule 132 (2) and (4) of the European Parliament’s rules of procedure**
2. **Reference numbers:** 2023/2750 (RSP) / B9-0346/2023 / P9\_TA(2023)0294
3. **Date of adoption of the resolution:** 10 July 2023
4. **Competent Parliamentary Committee:** N/A
5. **Brief analysis/ assessment of the resolution and requests made in it:**

The resolution asks for a comprehensive push for policy initiatives that help small and medium-sized enterprises (SMEs) face economic difficulties, in particular those that have been exacerbated by the post-COVID situation and the Russian war of aggression against Ukraine. In the light of high inflation and energy prices, SMEs are exposed to an extent that has not been seen since the financial crisis of the late 2000s.

The resolution was adopted in the context of the ‘SME State of the Union’ debate, originally proposed in 2022 by Ms Dlajabova (RENEW / CZ) and held for the second time on 10 July 2023.

The SME Relief Package, as adopted on 12 September[[1]](#footnote-2) and its constituent parts dealing with late payments[[2]](#footnote-3) and taxation[[3]](#footnote-4) provides policy answers to all points made in the resolution and in parts goes even beyond.

1. **Response to the requests and overview of the action taken, or intended to be taken, by the Commission:**

**Better Regulation**

The Commission shares the view that excessive burden needs to be avoided and removed from existing legislation This is why burden reduction is a significant part of the better regulation system (**paragraphs 1 and 2**). The Commission legislative initiatives are based on evidence and rely on input from stakeholders. The Organization for Economic Cooperation and Development (OECD) considers the Commission’s better regulation system as the most comprehensive and first on stakeholders’ consultations and evaluations. The Commission has now even further reinforced the focus on burden relief than ever before. The regulatory fitness and performance programme (REFIT) makes sure that evaluations and revisions systematically look for burden reduction potential. In 2022, the Commission finalised 18 evaluations and fitness checks of existing legislation, while 24 are ongoing. Co-legislators adopted 39 initiatives including significant simplification and burden reduction measures based on the Commission proposals, while another 76 REFIT initiatives are pending adoption. These initiatives will bring significant burden reduction and simplification benefits to citizens, businesses and authorities. For all our significant proposals, impact assessments are carried out to ensure that benefits overweigh costs. The systematic application of the SME test in these assessments will result in more focus on impacts on SMEs (**paragraphs 46 to 49**).

Moreover, the implementation of the ‘one-in, one-out approach’ ensures that costs are minimised for citizens and businesses. Finally, the introduction of the new competitiveness check in all impact assessments (**paragraph 34**) will report in an integrated and visible manner competitiveness impacts on business. The Regulatory Scrutiny Board, the Commission’s oversight body, has been strengthened (**paragraph 30**) to increase its focus on competitiveness. In addition, as announced by President von der Leyen, the Commission is working on several legislative proposals aimed at reducing the reporting obligations, in particular for SMEs.

In its long-term competitiveness Communication, the Commission set out the goal of reducing burdens associated with reporting requirements by 25%, without undermining the policy objectives of the concerned initiatives. The SME relief package Communication presented in September flagged the significant pieces of legislation that streamline reporting obligations that have already been proposed by the Commission since March. It also outlined that this work will be systematised by the end of 2023, for the coming cycles, by:

1. establishing across the Commission services standardised means of mapping reporting requirements in existing legislation or administrative arrangements and in new proposals;
2. identifying priority areas in cooperation with a representative set of companies, sectoral associations and national authorities (which often serve as the interface for such reporting);
3. preparation of targeted rationalisation plans by each Commission service for 2024 and thereafter.

The Commission Work Programme adopted on 17 October puts forward additional rationalisation proposals to reduce administrative burden without lowering social, safety, consumer protection, environmental or economic standards. They will streamline reporting requirements that are of limited use, for example by consolidating overlapping obligations, reducing the number of businesses concerned and increasing digitalisation.

The Commission considers the task of limiting administrative burden as a joint responsibility of all levels of government and of all EU institutions. In this context, it calls on co-legislators, to provide impact assessments for significant amendments to Commission proposals in particular when they are introducing new reporting requirements or administrative burdens (**paragraph 36**).

To make complying with rules easier for companies, the Commission continues to implement the Single Digital Gateway (SDG) concept. The first SDG implementation report, presented as part of the SME Relief Package, shows that the SDG has helped SMEs access high-quality information about rules and procedures applicable across the Single Market, which is particularly beneficial to small businesses with limited administrative capacities.

**EU SME Envoy and SME Envoy Network**

The Commission will nominate a person for this full-time job; the EU SME Envoy (**paragraph 29**) will report to the President as well as to the Commissioner for the Internal Market and be supported by the secretariat of the SME Envoy Network in the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW).

The SME Envoy Network will also continue to make sure that best practices are shared and that the voice of small businesses is heard; it will pro-actively accompany the implementation of the SME Relief Package.

The Network will equally contribute to the identification and removal of barriers to the Single Market (**paragraphs 28 and 29**).

**Combating late payment**

The Commission agrees with the Parliament as regards the need to be firm on late payment. It has therefore adopted the proposal for a regulation to replace the Late Payment Directive[[4]](#footnote-5) (**paragraph 3**), which left too many loopholes for enterprises. The Commission welcomes the Parliament’s call for a Late Payment Observatory, which is already up and running[[5]](#footnote-6) (**paragraph 5**). The observatory will produce results over time; the Commission will report on this regularly.

**State aid**

SME interests have been at the centre of the Commission’s temporary framework for state aid (**paragraph 6**), allowing Member States to provide necessary support to businesses in need while ensuring equal treatment and limiting undue distortions to competition that would undermine the Single Market. In addition, the General Block Exemption Regulation for State aid includes many possibilities for SMEs to receive investment and operating aid. It also includes provisions to facilitate SMEs’ access to finance.

**SME definition**

The Commission would like to recall the results of the most recent review of the SME definition, which concluded that the definition was still relevant[[6]](#footnote-7) (**paragraph 7**). This revision was carried out based on data from 2018 and would then not reflect the impacts of Russia’s war of aggression, energy crisis and other factors driving inflation.

Further, while the vast majority of companies remain covered by the SME definition, some companies outgrow the definition and become mid-cap companies. The Commission will analyse the impact of high inflation and longer-run increases in productivity, to raise, when justified, the financial thresholds of the current SME definition, and will develop a harmonised definition for small mid-cap companies.

**SME finances, taxation and access to markets**

The tax initiatives presented on 12 September proposes comprehensive and tailored solutions for standalone SMEs and for (SMEs) groups that operate in the internal market.

The proposal on tax simplification for SMEs with a permanent establishment in other Member States has been presented as part of the SME Relief Package (see the proposal for a Council Directive establishing a Head Office Tax system for micro, small and medium sized enterprises[[7]](#footnote-8)). With this proposal, the Commission put forward a major simplification in the area of direct taxation for SMEs that have created a taxable presence in another Member State through a permanent establishment. Thanks to this simplification, SMEs, which envisage to grow and expand across the border through a permanent establishment, can continue to apply the tax rules that they are familiar with to calculate the taxable result of their permanent establishment in other Member States. A one-stop-shop will allow in-scope SMEs to interact with only one tax administration, i.e. that of the Member State of their head office, for tax filing and collection purposes. SMEs will thus file one single tax return with the tax administration of their head office for all their permanent establishments and the head office. This tax administration will also collect the tax due to the Member States of the permanent establishment and then transfer the amounts to the Member State(s) of the permanent establishment. The system proposed is optional for SMEs in-scope. This simplification for taxpayers constitutes the highest degree of simplification possible and it is expected to encourage and drive growth and investment in the internal market while levelling the playing field in which businesses operate.

On a complementary note, the proposal on Business in Europe: Framework for Income Taxation (BEFIT) introduces common rules for computing the taxable results of group members which operate in the internal market (**paragraph 8**). The overall aim is to simplify tax rules and to ensure a level playing field for businesses in Europe. The framework builds on international developments in the field of corporate taxation, such as the OECD Two-Pillar Approach, and reflects realities of modern economy. More specifically, it allows SME groups which prepare consolidated financial statements to opt into the BEFIT rules, and consequently compute their tax results in a harmonized manner, aggregate these results and allocate the aggregated tax base in accordance with one single rulebook (**paragraphs 10 and 11**).

To give SMEs better access to market-based sources of funding and equity capital, a swift adoption of the legislative proposals under the 2020 Capital Markets Union (CMU) Action Plan and further discussions on the future development of the CMU, notably in the Eurogroup, will be important (**paragraphs 12 and 13**). The Commission shares the view of eth Parliament that Member States need to implement the Preventive Restructuring Directive, and will report on the implementation by 2026 (**paragraph 16 and 43**).

In order to support the implementation of financial products for SMEs and help address the high market demand, the Commission encourages Member States’ contributions to the InvestEU Member State compartment by streamlining state aid and ‘do not significant harm’ aspects.

Regarding export credits (**paragraph 15**), the Commission is working with the European Investment Fund (EIF) towards setting up a pilot facility to allow Export Credit Agencies to support European SMEs in trading with Ukraine under the SME window of InvestEU.

The Commission agrees with the Parliament that SMEs play an important role in helping Europe achieve its climate neutrality goals (**paragraph 18**), and other environmental goals and therefore the Commission will continue to make it easier for SMEs to access sustainable finance. For instance, under InvestEU, the EIF is implementing on behalf of the Commission a Sustainability Guarantee product (underpinned by a publicly open IT tool) which supports lending to SMEs for their green transition.

The Commission also recalls the activities of the European Innovation Council (EIC) regarding blended finance (**paragraph 23**).

The Commission will promote the use of standardised procurement provisions and conditions suitable for SMEs to improve the participation of SMEs in public procurement.

The Commission is also closely monitoring the use and implementation of the Recovery and Resilience Facility (RRF).

**Twin transition and energy crisis**

The Commission supports SMEs in their green and digital transition. A good example is Article 19 of the Ecodesign for Sustainable Products Regulation (ESPR) proposal, which provides for Commission and Member States actions to specifically guide and support SMEs in the implementation of ESPR requirements, for instance to implement the Digital Product Passport.

The SME Relief Package contains a whole range of actions related to skills needed for the fair green and digital transitions, specific financing support as well as measures that aim at making life for companies, including SMEs, easier by making it more digital (**paragraphs 19 and 20**). The Single Digital Gateway[[8]](#footnote-9) is one example. Furthermore, the recent company law proposal[[9]](#footnote-10) will help SMEs do business in the EU through further digitalisation, EU Company Certificate and once-only principle when setting up subsidiaries and branches in other Member States, therefore resulting in significant administrative burden reduction for companies. Support measures will build on the Council Recommendation on ensuring a fair transition towards climate neutrality[[10]](#footnote-11) (**paragraph 25**).

To support companies with their digitalisation needs, the Commission has set up a network of European Digital Innovation Hubs. These one-stop-shops support SMEs, mid-caps and public sector with funding advice, networking and skills as well as “test before invest” services where they can access and test the latest technologies like Artificial Intelligence (AI), cloud, blockchain etc (**paragraph 20**). The hubs are present in every Member State as well as in Norway, Iceland and Liechtenstein. They know the local ecosystem and can provide access to advanced technologies and tools according to the actual needs of a company.

As part of the reaction to the energy crisis and the move towards more energy efficiency, the Commission has adopted a Communication on energy prices that contains a toolbox[[11]](#footnote-12) to combat the issues related to high prices (**paragraph 33**).

**Social partners, access to skilled labour and opening entrepreneurship to all parts of the population**

The Commission agrees with the Parliament on the need to consult with and involve social partners, in accordance with their role attributed by the Treaty on the Functioning of the European Union; it is committed to the social dialogue (**paragraph 40**). It also agrees with the need for action regarding skills. The SME Relief Package included measures to alleviate the lack of skilled labour (**paragraph 38**), including easier recognition of qualifications of third country nationals, digitalising the process related to posting of workers and working with groups whose untapped entrepreneurial potential remains high, such as women, young people and persons with disabilities, through awareness, mentoring and coaching campaigns.

Existing measures enabling access to skilled staff are mentioned in the package. For instance, within the EU Pact for Skills[[12]](#footnote-13), 18 Large-scale Skills Partnerships (LSPs) covering all industrial ecosystems work towards the identification of skills needs and the roll-out of training in enterprises and their supply chains, with the view to up- and reskill 10 million workers by 2030. SMEs are actively involved in all LSPs along with a range of other stakeholders including industry, social partners, education and training providers, Member States’ regional and local authorities.

As part of the modernisation of vocational education and training (VET) systems[[13]](#footnote-14), the EU is also supporting centres of vocational excellence, to develop local ‘skills ecosystems’ from advanced manufacturing to artificial intelligence, to water technology and urban greening. They work closely with businesses including SMEs, and contribute to regional development, entrepreneurship, innovation, and smart specialisation strategies. The European Alliance for Apprenticeships supports the promotion of more and better apprenticeships across the EU, as effective learning pathways to get the skilled workers companies, in particular SMEs, need.

Proper implementation of the 2022 Council Recommendation on individual learning account should benefit in particular SMEs. The Recommendation invites the Member States to set up schemes providing every individual with an amount of money for training purposes. This is especially useful for workers in companies that cannot afford to have a fully-fledged human resource department or training service.

The Enterprise Europe Network[[14]](#footnote-15) also plays an important role in providing training to SMEs to help them comply with new requirements, to seize current opportunities within the EU framework and deal with the implications of European legislation. To empower women to become entrepreneurs, the Commission has been pursuing awareness-raising activities coupled with training, mentoring, and coaching and improving women entrepreneurs’ access to finance and business networks. For example, Erasmus for Young Entrepreneurs[[15]](#footnote-16) and Women TechEU[[16]](#footnote-17).

As announced in the European Pillar of Social Rights Action Plan (**paragraphs 39 and 40**), the European Social Security Pass (ESSPASS) pilot project explores a digital solution for the cross-border verification of social security entitlements. This includes the digitalisation of procedures related to the portable document A1.

Any further step, or decision on an eventual future legislative proposal on ESSPASS, would need to be based on the assessment of the results of the piloting activities which should be finalised mid-2025. The confirmation of the political and financial commitment of Member states would also be essential in this regard.

In connection with the work on ESSPASS, the Commission has recently presented a Communication on digitalisation in social security coordination (**paragraph 39**). The Communication takes stock of the existing initiatives and proposes concrete steps to further digitalise the coordination of social security systems.

As regards enforcement of labour law and working conditions, the EU social partners in the construction sector recently launched, with financial support of the Commission, a project to explore, among others, a potential interoperability of data from ‘labour cards’ and ‘social identity cards’ used by the construction sector in certain Member States.

**Second chance and business transfers**

To make sure that as many SMEs as possible are kept in business, the Commission’s insolvency policy supports entrepreneurs who have faced bankruptcy to ensure that they can quickly get a second chance. The Directive on restructuring and insolvency[[17]](#footnote-18) aims to prevent bankruptcy and help insolvent businesses to get back on their feet. By mid-2026, the Commission will report on the application and impact of the directive’s provisions.

In 2022, the Commission proposed a Directive on harmonising certain aspects of insolvency law[[18]](#footnote-19). Its most innovative feature concerns the introduction of a simplified, swift, and cost-effective winding-up procedure for microenterprises.

The Commission will also assess the conditions for business transfers together with the SME Envoy Network.

1. [SME Relief Package (europa.eu)](https://single-market-economy.ec.europa.eu/publications/sme-relief-package_en) [↑](#footnote-ref-2)
2. [Proposal for a regulation on combating late payment in commercial transactions (europa.eu)](https://single-market-economy.ec.europa.eu/publications/proposal-regulation-combating-late-payment-commercial-transactions_en) [↑](#footnote-ref-3)
3. [Head Office Tax system proposal](https://taxation-customs.ec.europa.eu/system/files/2023-09/COM_2023_528_1_EN_ACT_part1_v4.pdf) for SMEs [↑](#footnote-ref-4)
4. [Proposal for a regulation of the European Parliament and of the Council on combating late payment in commercial transactions](https://single-market-economy.ec.europa.eu/publications/proposal-regulation-combating-late-payment-commercial-transactions_en) [↑](#footnote-ref-5)
5. [EU Payment Observatory (europa.eu)](https://single-market-economy.ec.europa.eu/smes/sme-strategy/late-payment-directive/eu-payment-observatory_en) [↑](#footnote-ref-6)
6. . [Staff Working Document Evaluation of Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2021)279&lang=en) [↑](#footnote-ref-7)
7. [Council Directive establishing a Head Office Tax system for small and medium sized enterprises](https://taxation-customs.ec.europa.eu/system/files/2023-09/COM_2023_528_1_EN_ACT_part1_v4.pdf) [↑](#footnote-ref-8)
8. [↑](#footnote-ref-9)
9. [COM/2023/177 final](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0177). [↑](#footnote-ref-10)
10. [Council Recommendation on ensuring a fair transition towards climate neutrality (2022/C 243/04)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022H0627(04)) [↑](#footnote-ref-11)
11. [EU Energy Prices toolbox](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5204) [↑](#footnote-ref-12)
12. [Pact for Skills - Employment, Social Affairs & Inclusion - European Commission (europa.eu)](https://ec.europa.eu/social/main.jsp?catId=1517&langId=en) [↑](#footnote-ref-13)
13. [Council Recommendation 2020/C 417/01](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020H1202%2801%29) [↑](#footnote-ref-14)
14. [Enterprise Europe Network | Enterprise Europe Network (europa.eu)](https://een.ec.europa.eu/) [↑](#footnote-ref-15)
15. [European business exchange programme - Erasmus for Young Entrepreneurs (erasmus-entrepreneurs.eu)](https://www.erasmus-entrepreneurs.eu/) [↑](#footnote-ref-16)
16. [Women TechEU (europa.eu)](https://eismea.ec.europa.eu/programmes/european-innovation-ecosystems/women-techeu_en) [↑](#footnote-ref-17)
17. [Directive on restructuring and insolvency](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019L1023) [↑](#footnote-ref-18)
18. [Directive on harmonising certain aspects of insolvency law](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0702) [↑](#footnote-ref-19)