



C/2024/1980

18.3.2024

Opinion of the European Committee of the Regions — on the SME Relief Package & BEFIT

(C/2024/1980)

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Reference documents:	Communication on the SME Relief Package COM(2023) 535 final Proposal for a Regulation on combating late payment in commercial transactions COM(2023) 533 final Proposal for a Directive establishing a Head Office Tax system for micro, small and medium sized enterprises, and amending Directive 2011/16/EU COM(2023) 528 final Proposal for a Directive on Business in Europe: Framework for Income Taxation (BEFIT) COM(2023) 532 final Proposal for a Directive on Transfer Pricing COM(2023) 529 final

POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS (CoR)

General remarks

1. is concerned over the scale of geopolitical and competitiveness challenges that European businesses are facing and their impact on Europe's economic resilience; agrees that SMEs, representing 99 % of businesses in the EU and providing for two thirds of jobs in the EU, face unprecedented uncertainties related to volatility in the current global economic context, with its supply chain constraints, labour — and particularly skills — shortages, unfair competition practices and rising regulatory pressure that make doing business by SMEs more challenging;
2. further notes that many challenges faced by SMEs are well established and pre-date the current geo-political and post COVID crises. As such, welcomes the European Commission's ambition to put SMEs at the centre of its focus but notes that this support should be ongoing and proactive rather than reactive;
3. agrees that addressing these challenges must be part of the EU's Industrial Strategy, building on the momentum of the Energy Efficiency Directive, the Renewable Energy Directive III, the Energy Taxation Directive and the Chips Act towards creating open strategic autonomy for the European Union;
4. recalls that the European Commission has produced a communication on economic security in Europe; notes that broad EU industrial policy framework should be embedded in the Member States' national reform programmes and the regions' smart specialisation programmes;
5. welcomes in this context the SME Relief Package communication and supporting legislative proposals as a long-awaited package of legislation to support the competitiveness and resilience of SMEs, the backbone of the European economy;

6. regrets that the SME Relief Package has been published so late in the political mandate and that it is therefore only belatedly addressing the combined effects of the Covid-19 pandemic, Russia's war of aggression against Ukraine as well as their consequences — e.g. energy crisis, global supply chain issues and soaring inflation. This is resulting in a slow recovery and weaker performance of European SMEs;
7. views current trends as a sign that society is under increasing threat of multiple crises. The economy must therefore be adapted in such a way that it becomes sustainable, robust and resilient. We must prepare for a new reality with uncertain geopolitical situations, pandemics and extreme weather. Likewise, additional efforts will be needed to turn the clock on climate change, as according to the Intergovernmental Panel on Climate Change (IPCC) report from 2023, global greenhouse gas emissions continued to increase. These challenges will fundamentally change the conditions for the economy;
8. agrees that a wide range of policy measures and funding instruments set out in the SME Relief Package have to be implemented in close partnership with local and regional authorities, in order to support local entrepreneurship and innovation and leverage each region's strengths and resources;
9. calls for full acknowledgement of the 'think small first' principle as a genuine paradigm valid throughout the entire EU legislative cycle and expresses a strong hope that the European Commission as well as the co-legislators will fully embrace and implement this principle in their work; reiterates that the 'think small first principle' should not undermine consideration of sustainability, which it considers embedded in all EU policies;
10. supports the appointment of the EU SME Envoy who will report directly to the European Commission President, thus reinforcing the role of SME Envoys network and SME filter; at the same time calls on the European Commission to ensure the added value of the role to avoid duplication of the work of DG GROW; proposes that stronger synergies are forged between the SME Envoys network and relevant territorial actors;
11. calls on the European Commission to consider a new framework distinguishing start-ups and scale-ups from other SMEs, recognising the crucial role of this group of companies in achieving economic growth, contributing to the objectives of net-zero growth as well as their added value to raise the EU's industrial autonomy.

Regulatory relief & digitalisation

12. acknowledges that regulatory and administrative burdens are some of the main obstacles systematically reported by SMEs and by industry bodies ⁽¹⁾ and welcomes the fact that the SME Relief Package is largely responding to this priority, highlights the CoR's commitment to removing burdens and obstacles in a cross-border dimension via the work of its EGTC (European Grouping of Territorial Cooperation) Platform;
13. admits that meeting the objectives of the EU Green Deal in an increasingly complex global context requires a simplified regulatory framework that is flexible, agile, proportionate and meets the intended objectives, which is of crucial importance especially for the most vulnerable economic actors, such as small micro-enterprises and family firms;
14. notes the Commission's commitment to ensuring that SME tests, SME filters and competitiveness checks become the norm in EU policy making; stresses that in relation to SME Tests, the European Commission should make sure its directorates are sufficiently resourced and have the organisational capacity to perform high quality SME Tests. The application of the SME Test should be applied in preparation of all draft legislation, and not be limited to economic files. It should also take into consideration the cumulative impact and trickle-down effect of legislation. The test should be updated throughout the whole legislative process. Similar mechanisms are needed at Member States level, which recognise the role of local and regional authorities in transposing EU law, without adding further requirements to legislation;

⁽¹⁾ <https://www.smeunited.eu/news/smes-require-rules-that-reach-objectives-not-add-red-tape>.
<https://www.eurochambres.eu/wp-content/uploads/2022/11/EES-2023-Euochambres-Economic-Survey-Report.pdf>.
<https://www.businesseurope.eu/policies/smes-and-entrepreneurship/reducing-regulatory-burdens-smes>.

15. in relation to the SME Test, calls for the EC to ensure that impact assessments differentiate between different size-classes of SMEs (micro, small, and medium) to allow for a more granular and targeted assessment of each initiative's impact, with a more inclusive involvement of SME stakeholders;

16. calls for strengthening of the CoR's role in the Fit for the Future Platform based on the work of its RegHub network, and for strengthening of synergies between SME tests and territorial impact assessments, given that the overwhelming majority of SMEs operate on local markets;

17. asks to associate the CoR's RegHub network in the EU burden reduction exercise and appeals to public authorities at all levels to undertake a similar rationalisation effort, within the scope of their competences;

18. welcomes the Commission's commitment to reduce reporting burdens stemming from EU legislation by 25 %; suggests that this objective can be best achieved while implementing the concept of active subsidiarity and within a close partnership with business organisations and chambers of commerce;

19. is convinced of the significant potential of digitalisation in removing barriers and reporting burdens on SMEs; provides its full support for the deployment of European Digital Innovation Hubs across the EU and believes that the Single Digital Gateway and the new Once-only technical system, if developed and implemented properly, could offer further opportunities in this area; however, stresses the importance of making SMEs aware of these new tools, and the functionalities they offer, and suggests this can be best done at local and regional level;

20. notes that many local and regional authorities have examples of best practice of regulatory relief and reporting reduction measures for SMEs that have already been implemented. This is based on feedback from SMEs and local stakeholders. The CoR, as the representative of regional and local authorities in the EU, has the expertise to collect these examples and promote their wider implementation;

21. welcomes the Commission's proposal to conduct, together with the European Parliament and the Council, 'on the spot' assessments of the impact on SMEs and competitiveness of proposed substantial amendments to Commission's legislative proposals; suggests that relevant rapporteurs of the CoR could be involved, as they can bring valuable input to the process due to their proximity to SMEs at local level;

22. stresses that European SMEs would benefit from stronger links between the digitalisation and the better regulation agenda in the public sector, by using the recent work of the RegHub network on public procurement and on EU governments interoperability strategies, and by engaging local and regional actors in finding innovative regulatory solutions;

23. stresses that European regions and cities are open to new ideas and could offer a territorial space to host regulatory sandboxes to test more innovation friendly rules and regulations in a restricted environment and then to report on best practices; the CoR is already mapping such projects that help 'future-proof' our SMEs, for example in the area of Artificial Intelligence. Depending on the application, AI solutions enable companies to speed up processes or make workflows more efficient and therefore more cost-effective, but could be used to make it easier and cheaper for businesses to contact authorities and to comply with legal and administrative rules. Ideas like this should be rolled out on a larger scale across the EU's cities and regions;

24. notes that digital transformation within and in support of the SME sector requires IT systems which are up to date, provide confidence to the sector and that have the highest levels of cybersecurity;

25. believes that efforts to streamline and reduce the number of rules and to promote digitalisation should make use of the EU's Single Digital Gateway.

Investment & access to finance

26. observes that most European SMEs are investing in their sustainable transition, though they generally struggle with accessing finance for this and with related reporting requirements;

27. suggests that, considering the significant role of bank financing, as well as the limitations of existing subsidies and the low relevance of capital markets for SMEs, the capacity of banks to fulfil sustainable and other financing necessary for SMEs' success should be substantially increased through incentives and simplified regulation, keeping in mind the long term objective of achieving companies' financial self-sustainability;

28. believes in strong regional ecosystems being firmly connected on a European level by international knowledge exchange between SMEs and between regional governments, in particular by means of interregional investment in innovation;

29. supports the new tools developed as part of the New EU Innovation Agenda, e.g. the creation of Regional Innovation Valleys, inviting in particular the European Entrepreneurial Regions (EER) to take advantage of the funding and collaboration opportunities linked to it;

30. calls for closer synergies between the European Regional Development Fund (ERDF), InvestEU, the Digital Europe programme and Horizon programmes, especially to strengthen cooperation between SMEs, universities, technology centres, European Digital Innovation Hubs (EDIHs) and other research and innovation organisations;

31. points out that support to SMEs in the Cohesion Policy remains essential, especially in the current context of supply constraints, high energy prices and inflation. Over EUR 23 billion of cohesion policy funds are to be spent on helping SMEs to grow and improve their competitiveness, it is therefore of utmost importance to roll-out the operational programmes in EU regions as soon as possible and avoid unnecessary funding transfers to other EU programmes;

32. while welcoming the Commission's efforts to enhance European competitiveness, including through the Strategic Technologies for Europe Platform (STEP) which seeks to streamline investments into strategic technologies vital for Europe's competitiveness and strategic autonomy, the Committee reiterates its negative position, expressed in the recent CoR opinion on revision of MFF 2021-2027, towards the shifting of cohesion funding to large companies in 'in transition' regions, as well as to the more developed regions of Member States with a GDP per capita below the EU average, as is envisaged in the STEP proposal;

33. underlines the promising role of venture capital funds and crowdfunding in enhancing SMEs' access to finance; calls on their greater recognition and support as effective tools to boost economic growth and competitiveness in Europe;

34. believes that different types of EU support can be successfully combined to strengthen the key areas of STEP. That said, increasing co-financing to 100 % for STEP priorities should be rejected. Unless contributions to co-financing are requested, there is a risk to projects' long term viability;

35. takes note of a long-awaited legislative proposal for combatting late payments, which is in line with the CoR 2020 opinion on the SME Strategy; acknowledges the rationale for imposing strict and uniform rules of payments for all businesses across the EU, however considers the proposed provisions do not distinguish between late payments and long payment terms;

36. considers this will hamper SMEs freedom of contracts, in particular, by providing a single maximum payment period of 30 days in relations between businesses, would undermine their freedom, as private economic enterprises, to agree to different payment terms, also considering the different degrees of exposure to credit and the financial sector as between large and small/medium-sized enterprises;

37. further notes the concerns across some sectors and some types of SMEs who consider this could negatively impact in particular the retail sector which is dominant in more rural areas; suggests this should be rolled out initially on a phased basis;

38. suggests that collecting quantitative data and monitoring of the payment behaviour by the EU Payment Observatory will be useful for informing future policies;

39. calls upon the public authorities of all levels in the EU Member States to lead by example in promoting a culture of timely payments in public contracts, adjusting payment practices at different levels of the public administrations accordingly. This includes ensuring, as far as possible, that payment terms for more complex projects performed by public contractors and their subcontractors, such as construction works, transport, IT services etc., are executed in a timely manner, while acknowledging that on occasion this will be out of the control of the contracting authority.

Skills for green and digital transitions

40. refers to a recent Eurobarometer survey^(?), in which SMEs identified the lack of skilled employees and the consequences thereof as being by far their biggest problem. They often do not have the same resources as large companies to compete for and invest in the training of their employees. For this reason, particularly in the framework of the 2023 Year of Skills, the greatest attention must be paid to skilling and re-skilling employees in SMEs, attracting talent and recognising qualifications;

41. recognises that in this European Year of Skills, SMEs rely on a diverse range of skills and talent to foster an entrepreneurial spirit to drive innovation, competitiveness and growth. Local and regional authorities are well placed to support regions, particularly remote and rural regions, to create the right economic and social conditions to entice young people to remain in their local area;

42. highlights that key skills for the green and digital transition of European industry are best brought to SMEs by regional partnerships, networks, clusters; notes the important contribution of the partnerships under the Pact for Skills, showcasing many successful territorial skills development actions;

43. underlines the need to include local and regional authorities in creation of envisaged Net-Zero Valleys and industrial alliances;

44. welcomes, in this regard, the establishment of an EU Talent Pool and urges the Commission and Member States to build an inter-institutional partnership with LRAs and the CoR to ensure that people with the right skills can be matched to the right jobs;

45. calls on a faster, more efficient recognition of professional qualifications of third country nationals, including through partnerships between Member States and the European Commission with third countries, to improve recruitment and job matching;

46. asks for a quick and targeted support in partnership with LRAs (local and regional authorities) for SMEs in sectors facing most pressing labour shortages such as hospitality and retail for comprehensive training of migrant workers and refugees, that includes language and cultural awareness programmes;

47. notes the importance of supporting vocational training initiatives which support new skills and recognise the role that LRAs have in building partnerships at local level through relationships with business organisations and note that many regions operate successful initiatives in this regard;

48. urges Member States and the European Commission to recognise the overarching importance of mentoring as a crucial part of the puzzle in closing the gap between formation and employment, enhancing people's skills, self-confidence and motivation, also, if not particularly in the context of SMEs;

Taxation

49. considers that BEFIT is a complex and detailed proposal with significant implications for governments and businesses. Emphasises that the current priority in the EU is the implementation of the Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union (the Pillar Two Directive). Acknowledges that Governments and other stakeholders will need time to assess the impact of the Pillar Two Directive, and that the potential interactions between the Pillar Two Directive and the BEFIT proposal warrant careful consideration and analysis;

(?) Eurobarometer Survey: SMEs and skills shortages, November 2023: <https://europa.eu/eurobarometer/surveys/detail/2961>.

50. emphasises that if the Transfer Pricing Directive is to achieve its goal of reducing transfer pricing disputes and businesses' compliance costs it will need to ensure that it operates in a way that is in line with the arm's length principle and does not create the risk of divergence and increased disputes with third countries;

51. considers that the success factor of the HOT (head office tax) initiative will be its ability to attract business to opt into the scheme; for that to happen, the scheme needs to provide a genuine simplification and a reduction of tax compliance costs;

52. believes that, in particular smaller SMEs operating on their domestic markets may have a lot to gain in the new taxation rules set out in the proposal for the HOT Directive, which could encourage them to grow and expand within the EU Single Market without being hindered with unnecessary tax compliance burdens. Emphasises that the potential benefits for SMEs need to be proportionate to the administrative burden and implementation costs for EU tax administrations.

Brussels, 31 January 2024.

The President
of the European Committee of the Regions
Vasco ALVES CORDEIRO
