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Financial reporting: Commission gets rid of accounting requirements for micro enterprises in major burden reduction for the EU's smallest companies

(see [MEMO/09/84](#))

The European Commission has put forward a new proposal which would allow Member States to completely abolish financial reporting obligations for the EU's smallest companies. In a deteriorating economic climate, the new rules are designed to alleviate the regulatory burden on micro entities. The aggregate administrative burden reduction potential is estimated at around € 6.3 billion. The proposal, which was flagged in the European Economic Recovery Plan in November 2008, now passes to the European Parliament and the Council of Ministers for consideration.

Internal Market and Services Commissioner Charlie McCreevy said: *"In a time of economic uncertainty, this micro entities proposal can relieve the burden on the smallest companies in the European Union on a large scale. The Commission has delivered this proposal in a short time period; it is now up to the Member States and the European Parliament to give full and rapid backing to it. This is a real opportunity to make life easier for the EU's smallest companies. We intend to do whatever we can to encourage maximum take up of this exemption by our Member States. Micro entities could save as much as 1200 EUR each year, if Member States follow our lead on this one. As I said last year, when I announced my intention to bring forward this proposal, in the current climate, that is no mean saving. We will follow this up with more simplification efforts in the field of financial reporting by the end of 2009. This represents the Commission's continued commitment to simplification and burden reduction."*

The purpose of the proposed amendment to the Fourth Council Directive (78/660/EEC on the annual accounts of certain types of companies) is to allow Member States to relieve the EU's smallest companies (commonly referred to as "micro-entities") from the requirements of this Directive. Rough estimates show that if Member States implement this exemption, the savings potential for micro entities could amount to as much as EUR 1200 per year on average.

Micro entities would be defined as those companies that on their balance sheet dates do not exceed the limits of two of the three following criteria: balance sheet total of EUR 500.000, net turnover of EUR 1.000.000 and an average number of employees during the financial year of 10.

Micro-entities are mostly engaged in business at local or regional level with no or limited cross-border activity. At the same time, micro entities are often subject to the same reporting rules as larger companies. This creates a disproportionate burden on these companies. They have a key role in creating new jobs and economic activities but they also have limited resources to comply with demanding regulatory requirements.

Now that this proposal has been adopted, the Commission will also launch a stakeholder consultation on what is left of the accounting rules in a drive to identify further areas which are ripe for simplification. Contributors will be asked to provide input for the review of the Fourth and Seventh Council Directives (83/349/EEC on consolidated accounts).

Background

The High Level Group of Independent Stakeholders on Administrative Burdens supported the idea of allowing the Member States to exempt micro-entities from EU-level financial reporting rules.

The European Economic Recovery Plan, issued by the Commission in November 2008 (see [IP/08/1771](#)), called on the EU and the Member States to "remove the requirement on micro-enterprises to prepare annual accounts".

In line with the European Commission's Better Regulation strategy this proposal, as all major policy initiatives and legislative proposals, is accompanied by an impact assessment. The proposal would be a significant contribution to efforts aimed at reducing overall administrative costs by 25% by 2012.

The Commission proposal can be found on:

http://ec.europa.eu/internal_market/accounting/news/index_en.htm