Abstract

In this paper are examined the extent and composition of fiscal incentive policies which have been adopted by some EU countries to cushion the effects of the lingering crisis that upended the whole economy since 2008. The research methodology is the comparative analysis between the Romanian, English, Italian and Greek SMEs’ tax policies in the period 2010 – 2012. The fiscal incentives are conditioned by a series of factors and they comprise: reductions in the statutory corporate income tax rate; accelerated depreciation allowances for capital expenditures; targeted investment tax credits etc. These stopgap fiscal policies are the limelight for reinvigorating or averting the consumption and investments’ retrenchment.

Keywords: Fiscal policy, SMEs, European Union, crisis;

1. Introduction

In order to combat the visible effects of the crisis in the last quarter of 2008 EU member states have taken a series of tax measures even if they were experiencing acute deficits. Although many incentives were intended to be TTT (temporary, timely and targeted), most of them are in force even today. During the economic crisis SMEs were facing liquidity concerns that were answered with reduced operating costs: wage freezes, work-time reductions, temporary plant shutdown; running down inventories and investment freeze or in the worst case with insolvency or bankruptcy.

The justification for the size of business-related tax policy - in our case the preferential regimes for SMEs - takes into account the impediments that SMEs encounter: financial constraints in the form of restricted access to bank loans; cost disadvantages arising from the lack of scale economies but also from the positive externalities they can generate: jobs’ creation and innovation development. Taking into consideration the domestic nature of SMEs, they cannot develop strategies to avoid taxation.

The anti-crisis measures followed three lines of action: stimulating demand, improving and facilitating bank credit to SMEs and stimulating employment (reduction of social security contributions or special programs for the unemployed). In this article we analyze the Romanian, English, Italian and Greek stimulating demand measures represented by tax provisions that lower the effective price of acquiring capital, i.e. accelerated and enhanced depreciation allowances (deducted against taxable income), investment tax credits or enhancements to the research

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and development credit (offsets against income tax), loss carry forward and carryback provisions, reductions in corporate income tax rates and indirect tax and personal tax measures (reduction of the tax rate for sole proprietorships and partnerships). Many affirm that tax relief measures for SMEs imply revenue loss, distort the choice of business organization, confer maneuver place for large companies to split their business in small entities to be labeled as SMEs and be entitled with the special regime applied to them, impede firms to grow in order not to overgrow above the specific thresholds etc.

2. Research Methodology

In order to make a comparative analysis between the Romanian, English, Italian and Greek SMEs’ tax policies in the period 2010 – 2012 we have gathered data from OECD and the European Commission. We have used the following variables: number of SMEs, employment, GVA and tax measures: accelerated depreciation, loss carryforward and carryback provisions, reductions in corporate income tax rates for SMEs, enhancements to the R&D tax credit, indirect tax changes. We have analyzed the number of enterprises, their output via their gross value added (GVA) and the number of people employed by SMEs in order to find out if the SMEs’ tax incentives that accounted for 67% of total employment and 58% of gross value added at the EU level actually achieve their objective in terms of equity and efficiency or distort or confer additional complexity to the tax system.

3. SMEs’ evolution in the crisis period in the four analyzed EU member states

According to the European Commission in the 2008-2011 period Romania was the most severe afflicted in terms of all analyzed indicators recording a fall in productivity of 55% and a drop of 50% for the real value added. Regarding the real value added, Romania, Italy, UK and Greece were below the average.

Concerning the number of enterprises, UK and Romania have a higher proportion of small and medium-sized enterprises and a lower one of micro-firms in comparison to the EU average. In 2012, compared to 2010-2011, these two countries registered an increase in the number of micro-firms and a decrease of small and medium sized firms. Romania and Italy registered increases in the number of SMEs whereas in the UK and Greece it diminished.

In terms of employment, we observe an increase in the number of employees in SMEs in EU by 0,5%. In 2012 Italy and Greece have a higher proportion of employees in micro-firms 46,6% respectively 57,1% compared to the EU average (29,6%). Greece, Romania and Italy are ranked above the EU average (66,9% in the 2010-2011 period and 67,4% in 2012) regarding the number of employees in SMEs in the 2010-2012 period, except for the year 2012 when Romania was below the EU average. All the analyzed countries recorded decreases of the number of employees mainly because of the lower consumption and the VAT hike.

Concerning the value added, it had decreased by 0,3 at the EU level in the analyzed period. In the period 2010-2012 Italy and Greece were ranked above the average value added in the EU-27 (due to micro and small firms). Romania exceeded the EU average only in the case of medium-sized firms’ value added. Only the United Kingdom registered an increase of the value added of the four analyzed countries.

3.1. Greece

The proportion of SMEs in Greece is almost equal to the EU average, whereas in terms of number of enterprises and value-added is lower than the EU average, but high above the EU average in terms of number of employees (for 2010-2011). In the Greek SMEs sector’s structure micro-enterprises hold the lion’s share for all indicators, incorporating more than half of employment. The Greek SME sector employs 2,9 persons on average, less than the EU average of 4,2 persons. Although since the onset of the crisis Greece has lost more than 200.000 jobs, the percentage of employees employed in Greek SMEs is 85,2%, above the EU average of 67,4 % in 2012. In terms of value added figures Greek SMEs surpass the EU average (35,3% vs. 21,8%). Although the value added indicator is above the EU average, the productivity of Greek micro-enterprises is, by EU standards, quite low. The Greek SME sector was hit hard by the crisis with mainly negative effects on the number and value added of SMEs.
3.2. Romania

In the period 2008-2012 Romania presented above the EU average percentages for all the three indicators: number of companies, number of employees and value added. For the last years Romania scores below or on par with the EU average but the labor productivity of SMEs in Romania is lower. Romania has a higher share of small and medium-sized enterprises and a lower one of micro-companies compared to the EU average, and the medium-sized companies contribute with 21,1% to employment compared to 17,2% in the EU and with 20,6% to value added compared to 18,3% in the EU. The overall level of employment remained nearly at the pre-crisis level. The Romanian SME sector is still struggling with the impact of the crisis.

3.3. Italy

Italy's SME sector is the largest in the EU by number of firms and relies more on micro-enterprises than other European countries, those being the most affected by the crisis. However in 2010 they had an employment rate of 50% above the EU workforce rate of 33%. Italian SMEs ranked above the EU average in terms of value added due to the micro and small firms. A specific feature of Italy's SME sector is the high concentration of SMEs in industrial districts highly specialized in various production sectors, especially in manufacturing. The existence and proliferation of these clusters or SME networks was supported and stimulated by providing a tax advantage in July 2010 as a delay in payment of profit tax for a period of three years if the profit is reinvested in the network's activities and tax not exceed € 1 million. Recovery from the crisis has been weaker than in other states.

3.4. United Kingdom

In the 2008-2012 period the UK’s percentages for number of firms, employees and value added scaled down the EU mean. Compared to the EU average, UK is inclined to a major share of large companies to the detriment of SMEs. However, the number of SMEs companies has increased compared to the pre-crisis level. UK has a higher proportion of small and medium-sized enterprises and a lower one of micro-firms in comparison to the EU average. In 2012 UK registers an increase of the proportion of micro-enterprises and a decrease of small and medium-sized firms’ percentage in the SMEs’ total. The SMEs UK sector employs 5,9 persons, above the EU average.

4. General tax provisions particularly important to SMEs

The studies have shown that changes in direct taxes or increasing subsidies have a positive effect on investments only for the non-crisis periods because in times of crisis companies reduce their production capacity due to the decreasing demand generated by the growth of unemployment.

A reduction in the corporate tax rate diminishes both the value of the depreciation allowances that could be deducted and the value of interest deductions. As a consequence, it is not clear if it can offset the losses from such deductions without calculating the effective tax rate for these two alternatives because a reduction in the statutory corporate tax rate is applied to all investments unlike some tax incentives (e.g. tax credits are independent of the income tax rate) that are applied only to new investments. In the case of accelerated depreciation, the present value of the depreciation allowances is the greatest because is closer to the time of achieving expenditure.

The empirical studies confirm that taxes on real estate, followed by the consumption taxes, seem to be the least detrimental to growth that is why it was decided the increase of VAT rate in all the analyzed countries. The income tax, the social insurance contributions and the corporate tax are found to be the most harmful for economic growth so the UK and Greece decided to reduce the latter.

5. SMEs’ tax policy in the four analyzed EU member states

5.1. Greece
In general, tax losses may be carried forward for five years. No tax loss carry-backs are allowed. Gradual reduction of rate from 25% (in 2008 and 2009) by one percentage point in 2010 to 24% and from 2011 the corporate income tax rate is 20%. R&D expenses are fully deductible from taxable income, within the year they are incurred or, if they relate to fixed equipment, in equal installments over three years. An additional tax deduction of amounts equal to 50 percent of R&D expenses incurred up to December 31, 2014 is granted under conditions. Greece does not currently offer an R&D credit as an incentive. In the 15.03-30.06.2010 period the VAT rate was 21% from 19%, then from 1 July 2010 it increased to 23%, and the reduced VAT rate increased to 11%. Since the 1st of January 2011 reduced VAT rate increased to 13% (from 11%) and the superreduced rate increased to 6,5% (from 5,5%) and some goods subjected to these rates became subject to standard rates.

5.2. Romania

There is an accelerated depreciation for patents and for some technological equipment. The loss carryforward period was increased from five to seven years applicable as of 2009. In 2011 the 3% tax rate on gross income obtained by micro-firms (with 1-9 employees and a turnover of less than € 100,000) is reintroduced as an alternative to the general corporate income tax rate (16%). The firms that recorded loss or zero profit were obliged to pay a lump-sum tax since May 2009 till October 2010. For the firms conducting R&D the state provides some additional deductions at the CIT calculation in proportion of 20% of the eligible expenses were available since January 2009. Romania does not offer an R&D credit as an incentive. The standard VAT rate increased with 5 percentage points to 24% in 2010. In 2009 the VAT rate reduced from 19% to 5% for the construction of social dwellings.

5.3. Italy

Italy has ring-fencing rules that deny the deduction of unincorporated business losses against non-business income. There is no special scheme for SME’s. The corporate tax rate in Italy is 27,5%, plus IRAP of 3,9% (or 4,9%). In the period 2009-2011 was granted a deduction of 10% of the regional tax from CIT and PIT. An increased rate of 38% applies to entities that are considered "dormant" or declared tax losses for three consecutive years. The Italian R&D tax credit was introduced in 2007 and offers a volume-based deduction rate of 10% for R&D expenses, which can increase up to 40% if R&D is carried out with universities or public research organizations. Eligible expenses are all current R&D costs as well as expenses for R&D machinery and equipment. The Italian scheme does not allow refunds or carry-over for unused credit. In 2011 the standard VAT rate increased to 23% from 20%. Natural persons starting a business activity may opt for an exemption from VAT under specific conditions.

5.4. United Kingdom

Concerning the accelerated depreciation, the first-year allowance rate for SMEs investments is 50%. Capital losses by individuals on shares in small and medium-sized unquoted trading companies can be deducted against ordinary income. The special tax rate for SMEs decreased from 21% in 2008 to 20% in 2011. In 2008 the standard corporate rate was 30% and it was reduced by 2% annually to 24% in 2012 and from April 2013 it will be reduced to 23 percent. In 2008 the R&D tax credit for SMEs scheme allows SMEs to deduct up to 150% of qualifying expenditure on R&D when calculating its taxable profit, up to a relief of € 7,5 million per project. Loss-making SMEs are allowed to surrender this deduction for a cash payment up to 24% of their qualifying R&D expenditure. In 2011 the exemption SMEs for VAT registration is applied for a turnover threshold below 70.000 € and in 2012 the turnover threshold is 77.000 €. A Flat Rate Scheme for small businesses is applied to businesses with a VAT exclusive turnover of up to £ 150.000. In 2011 the standard rate of VAT is 20% and increased with 5% since 2008.

6. Conclusions
The investigation of the tax measures assumed for the 2008-2012 period revealed the trend of raising indirect taxes (VAT rate) but also R&D tax credits (UK) and lowering the corporate income tax rate (UK, Greece).

In Romania the number of SMEs’ employees dropped below the EU average due to the VAT increase with 5% determining a slump of the consumption and sales, so employers were forced to cut social costs. The increase of the base for income tax and SSC by taxing meal tickets and capital gains also had an important impact on the reduction of the number of employees.

In 2011 the lump-sum tax for micro-firms that was compulsory in the period May 2009 – October 2010, was repealed. As a result, the proportion of micro-enterprises has improved in 2012 compared to the 2010-2011 period. Moreover, the number of Romanian SMEs in absolute value increased in the analyzed period of time. Furthermore, in 2012, the Romanian SMEs’ value added increased by 7% compared to the 2010-2011 partially due to the additional deductions at the CIT calculation in proportion of 20% of the eligible charges for the firms conducting R&D and to the accelerated depreciation for patents and for some technological equipment.

Romania’s value added diminished in the analyzed period, sharply in the case of large firms and smoothly in the case of SMEs; it may be caused by the diminishing number of employees and by the fact that Romania does not offer an R&D credit as an incentive. This explanation of a decreasing value added could be also given in the case of Greece. In 2012 the proportion of the number of employees in Greek SMEs diminished compared to the period 2010-2011 because of the VAT hike that determined a sales’ restriction and the personal income tax and social security contributions’ increases in 2010 and 2011.

Considering the fact that in Italy, in the 2009-2011 period, was granted a deduction of 10% of the regional tax from company income tax and personal income tax, the number of enterprises increased. Although the number of firms augmented, the number of employees diminished due to the VAT hike in 2011 that determined a drop in firms’ sales.

Only UK displayed a positive growth in real value added as a consequence of an enhancement of the R&D tax credits from 50% in 2008 to 125% in 2012. UK and Romania have introduced accelerated depreciation for investments already undertaken. Carryback losses are allowed only in the United Kingdom. A special tax rate for SMEs that operates up to a specific taxable income threshold is implemented in UK and Romania. SMEs that are not lucrative and declare tax losses are penalized with high corporate income tax rates in Italy but also in Romania in the period 2009-2010 when a lump sum tax system was in force. In UK, Romania and Italy SMEs also benefit from simplified measures for tax reporting as a result of tax compliance and administration costs.

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