The Spanish VAT Anomaly

Allyon

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The impact of the delay of Directive (EU) 2020/285 on SME competitiveness

Europe is moving decisively towards a tax model that prioritizes efficiency over bureaucracy. The central objective is to reduce administrative burdens, simplify tax obligations, and allow small businesses to operate more freely within the internal market. In this context, **Directive (EU) 2020/285** is not just a regulatory change, but a decisive step that introduces a VAT exemption system with harmonized thresholds and a single EU-wide point of contact.

The goal is to free SMEs from the disproportionate burden of **VAT compliance**, allowing them to compete on a level playing field across the European Union. While many Member States have already moved towards full implementation—with effects planned from 1 January 2025—Spain has yet to define a clear transposition plan.

In recent weeks, **the political debate has incorporated new elements**, such as the recent non-binding resolution aimed at excluding sole trader workers with incomes below €85,000 from VAT, and the government's statements expressing openness to studying this possibility. **However, these initiatives —which are not even legally binding— do not modify the existing legal framework nor do they constitute an effective transposition of the Directive.** Their scope is strictly political and they do not create rights, obligations, or an operational regime comparable to that established by the European regulation.

The result is a scenario in which, despite political signals, **Spain still has not enabled its SMEs to access the harmonized cross-border regime**, thus blocking a growth opportunity and placing Spanish small businesses at a disadvantage compared to their European counterparts. This lack of regulatory clarity further reinforces the need for a rigorous technical analysis—such as the one developed in this White Paper—that allows for anticipating scenarios, assessing impacts, and establishing a viable model aligned with the European framework.

When is VAT registration required in Europe?

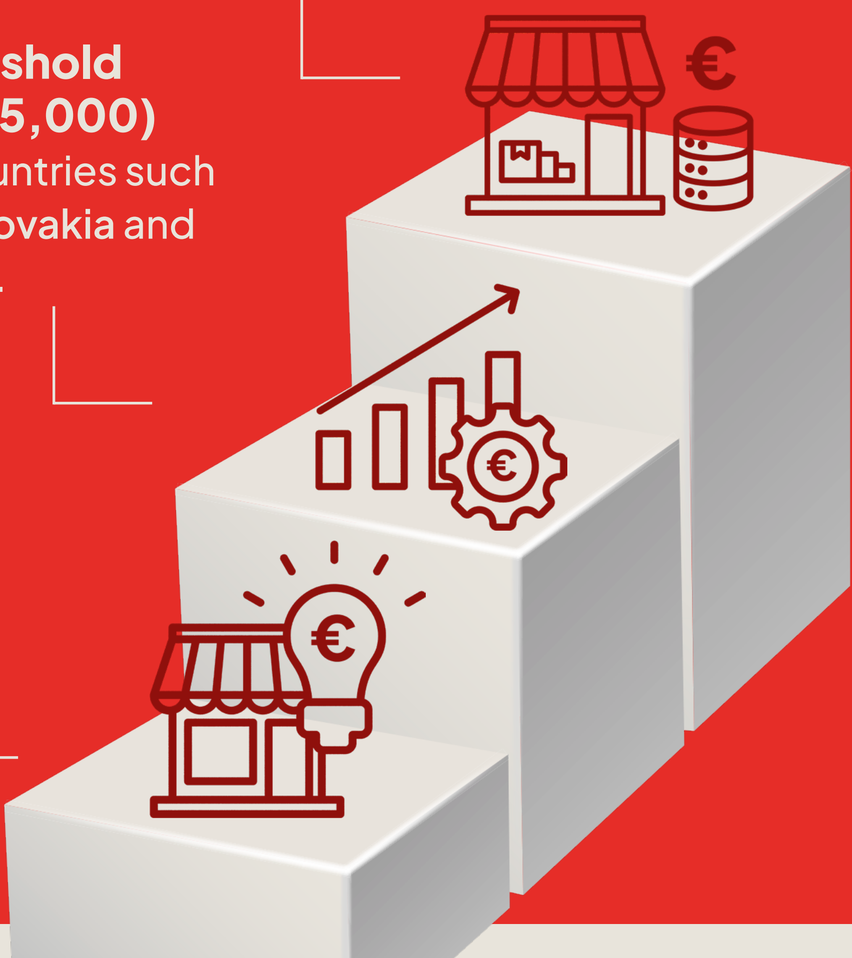
The European Union allows each member state to set its own revenue thresholds to exempt small businesses from VAT. While some countries allow high incomes to go unpaid, others require VAT compliance from the first euro of sales.

Countries with Exemption Thresholds

Maximum Threshold of €85,000
France, Italy and Ireland allow the highest income levels before requiring VAT registration.

Medium Threshold (€50,000–€65,000)
Applied range in countries such as Luxembourg, Slovakia and Slovenia.

Low Threshold (€20,000–€25,000)
Germany, Belgium and Netherlands restrict the exemption exclusively to micro-businesses.



Countries without VAT exemption threshold

Obligation from €0
In Spain, companies must declare VAT from the **very first euro** of sales.

No tax exemptions
Businesses are required to issue invoices with VAT regardless of their sales volume.

Maximum

France
Italy
Irland

€85,000

Medium

Luxembourg
Slovakia

€50,000–€65,000

Zero

Spain

€0

01.
Directive (EU) 2020/285: Structure and Objectives

The Directive redefines the rules of the game through a **dual threshold** (domestic and cross-border), designed to harmonize special schemes and drastically reduce compliance costs. By amending Articles 280 to 292 of Directive 2006/112, the Union seeks to facilitate cross-border activity by allowing SMEs to operate in several countries with a single identification number.

The European solution: the harmonised dual-threshold system

VAT exemption without VAT charge

Cross-border threshold:
Up to €100,000 (EU exemption)

Domestic Threshold:
Up to €85,000 (national exemption)

The directive amends Articles 280 to 292 to redesign the special scheme, **allowing the exemption to be applied in multiple countries under a single EU EX number**, significantly reducing costs.

Key benefit

Both thresholds allow the exemption to be applied without passing the tax on to the end customer.

Overview of VAT exemption thresholds for SMEs in the EU (March 2026)

Exemption thresholds by country (March 2026)

Country	Exemption threshold
Italy	€85.000
France	€85.000
Polonia	€85.000
Czech Republic	~€80.000
Ireland (Goods)	€85.000
Ireland (Services)	€42.500
Germany	€25.000
Belgium	€25.000
Netherlands	€20.000
Greece	~€10.000
Denmark	~€6.700
Spain	€0

European Regulatory Framework (March 2026)

€ 100,000 cross-border threshold

This is the total permitted sales volume across the EU to qualify for the exemption in cross-border transactions between Member States

One-Stop Shop

A single registration in the country of origin that allows businesses to manage EU sales under a simplified VAT exemption regime (VAT EX).

Maximum national limit: €85,000

Member States may set their own internal exemption thresholds up to this maximum limit.

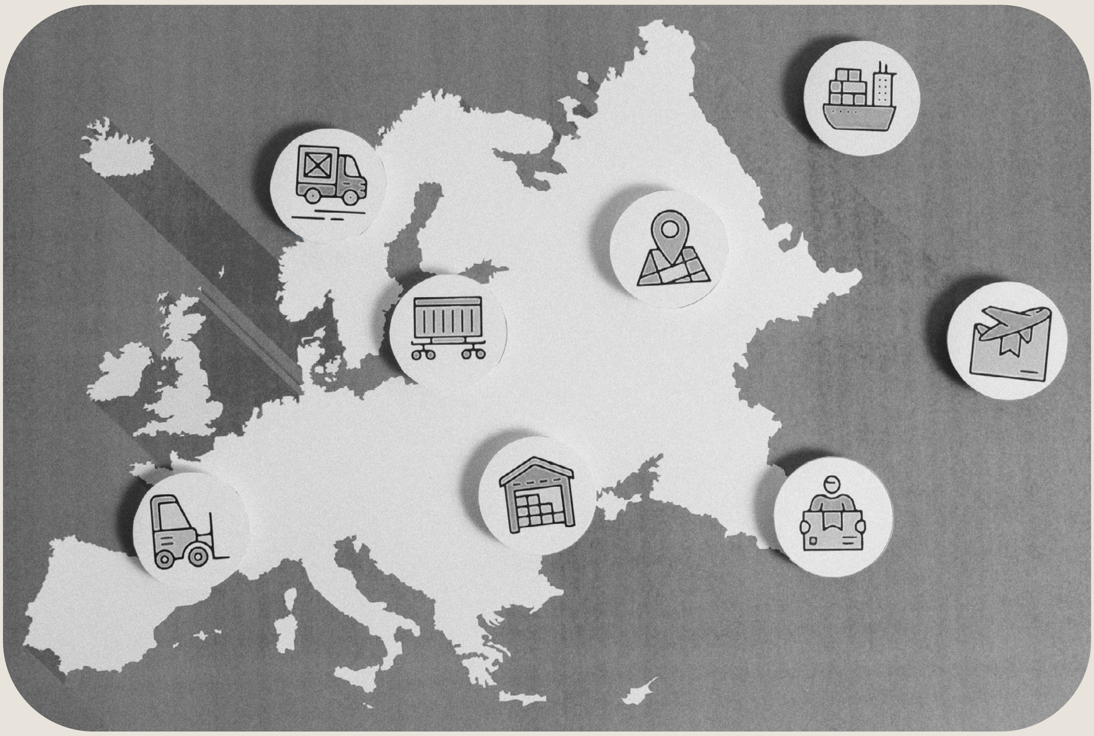
Countries with higher exemption thresholds (€85,000) Italy, France and Poland apply the maximum permitted limit, enhancing the competitiveness of their micro-enterprises.

Greece's situation (~€10,000) Greece is positioned in a lower-middle tier, moving away from the category of countries with no threshold following the regulatory adjustments.

02.

Operation of the Domestic System

The SME scheme allows goods and services to be exempt from VAT where the company's annual turnover does not exceed the applicable national threshold. For sole traders and micro-enterprises, this represents a significant transformation in their day-to-day operations.



1. No VAT pass-through

2. Goodbye to declarations

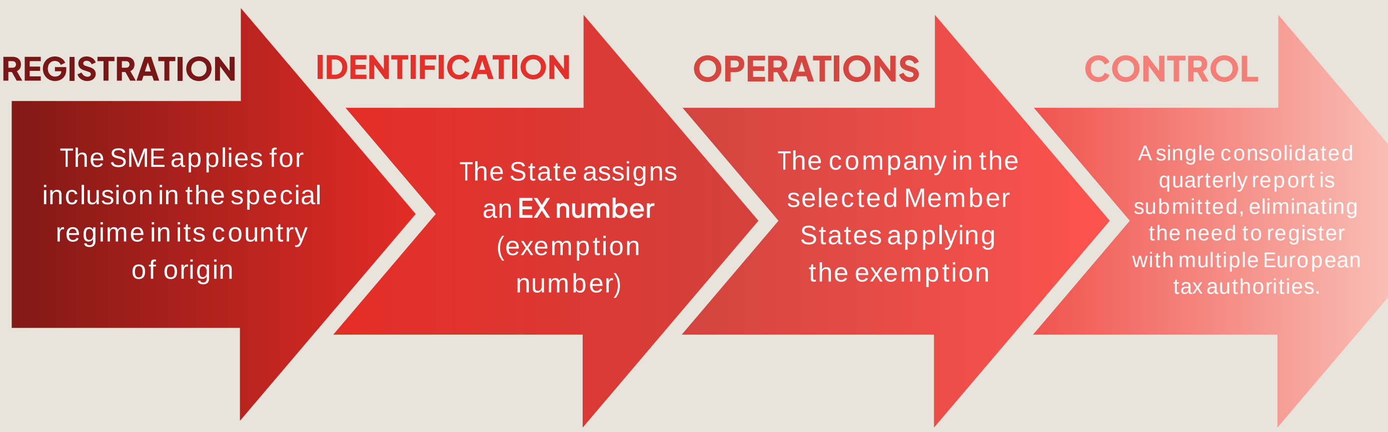
3. Document simplification

4. Direct savings

03.

The Cross-Border Regime and the "EX Number"

The Directive's main innovation lies in extending the SME exemption scheme to cross-border transactions. Once a Member State applies the scheme, eligible SMEs may carry out supplies in other EU Member States without charging VAT, provided the EU turnover threshold is not exceeded.



04. Impact on Input VAT and Anti-Abuse Rules

It is crucial to understand that this special regime impacts deductibility. By not charging VAT, the company loses, either partially or completely, the right to deduct VAT on its purchases, which requires **careful tax planning.**

- There is no proportional deduction rule in cases of mixed use of goods and services.
- The right to deduct will depend on where those goods and services are used, and not where the VAT is incurred.
- Applying the exemption regime in one Member State and the standard regime in another may lead to complex and difficult-to-manage outcomes.
- An SME may incur VAT without the right to deduct it, even when carrying out taxable activities in other Member States.
- Simplification? It depends. In some cases, probably not.

To guarantee the integrity of the system, there are a**nti-abuse rules** that cause the immediate loss of the regime in cases of exceeding the threshold, artificial fragmentation of the activity to evade limits or irregular use of the system to avoid tax controls.

05.

Spain's Position: A Structural Blockade

Spain is in a critical situation. While the State has the legitimate option not to implement a domestic SME scheme, **it cannot legally deprive Spanish businesses of access to the cross-border SME scheme. Access to this European right depends strictly on the Member State of establishment implementing the necessary technical mechanisms.**

Currently, Spanish SMEs are in a critical position. They cannot apply for the scheme, cannot obtain an EX identification number and, consequently, cannot benefit from the VAT exemption scheme in other EU Member States.

Tasks that Spain must activate

Application platform:
Without it, the SME cannot express its willingness to join the scheme.

EX number issuance:
Essential for recognition by other tax administrations.

Single report:
Infrastructure to receive and process quarterly reports.

Cooperation:
Communication channels with the rest of the EU Tax Authorities treasuries.

Without the state-level implementation of these four technological and administrative pillars, access to the European regime is not feasible.

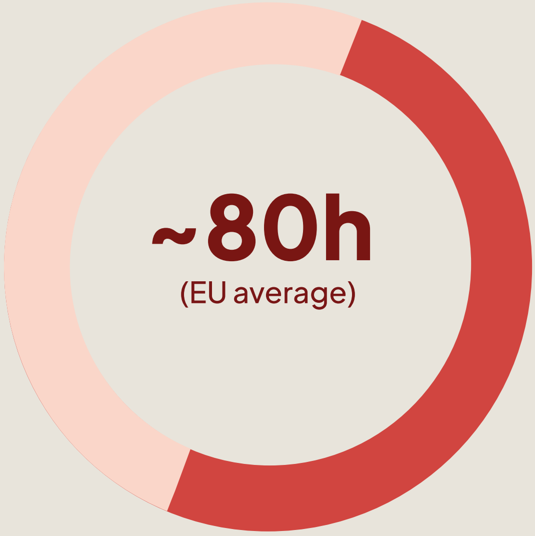
06.

Analysis of Competitiveness and Legal Risks

The consequence of this delay is a distortion of the internal market. A Spanish SME spends an average of **130 hours per year** on VAT procedures, compared to the European average of **80 hours** . This translates into significantly higher advisory costs: between **€1,500 and €2,200** annually in Spain, compared to **€900–€1,200** in the EU.

This situation places Spain at risk of potential **non-compliance with EU law**, by violating principles such as the free movement of services and the freedom of establishment. The risk of infringement proceedings is real and growing.

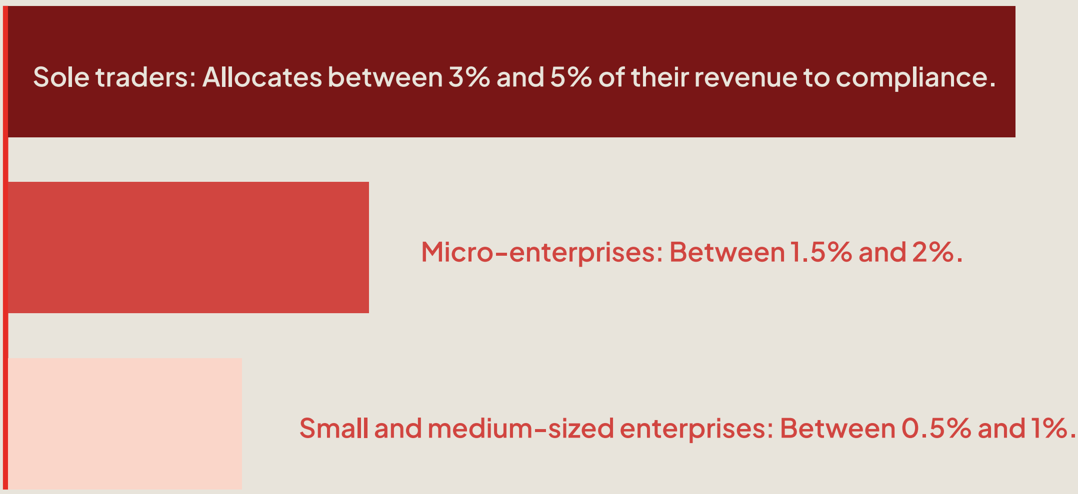
The invisible burden: time spent on VAT compliance



Spain requires 62% more time than the EU average solely on VAT-related bureaucracy.

The regressive nature of the model: the lower the turnover, the greater the burden

VAT compliance costs disproportionately erode the margins of self-employed workers.



07.

Conclusion: The Fundamental Debate

Spain is currently the only EU Member State that has not implemented a domestic SME VAT exemption scheme. As a result, Spanish sole traders and micro-enterprises continue to face a significantly heavier compliance burden than their European counterparts, with between **7 and 9** VAT filings per year compared to the EU average of **4 to 5.**

~1.2 million
Number of Spanish SMEs with revenues <€85,000 that could benefit

€800M – €1.200M
Estimated total annual savings at national leve

€600–900
Average direct annual savings per SME

Maintaining this unique position negatively affects the liquidity and growth capacity of more than **1.2 million Spanish** SMEs with annual turnover below €85,000. The implementation of a domestic SME VAT exemption scheme could generate estimated savings of up to **€1.2 billion per year** for the Spanish business sector. Alignment with the rest of the EU is therefore no longer merely a technical matter, but a key requirement to ensure the competitiveness of Spanish small businesses within the internal market.

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