

EU Regulatory Observatory:



The SME Relief Package: Reducing the regulatory burden on Europe's SMEs

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Summary

- The EU Regulatory Observatory, comprising a panel of more than 30 experts representing 25% of the EU member countries, is an initiative that aims to track the direction and intensity of EU regulation. By systematically evaluating proposed legislation, the Observatory ascertains whether the EU is moving towards greater regulation or liberalisation, thus providing insights into the evolving quality and impact of the legislative process.
- Small and medium-sized enterprises (SMEs) account for over 99% of European businesses and two-thirds of private-sector jobs; however, persistent regulatory fragmentation and administrative burdens hamper their growth, cross-border expansion, and cash flow management.
- The EU Regulatory Observatory expert panel characterised the European Commission's 2023 SME Relief Package (COM/2023/535) as moderately pro-liberal (average score of 6.57/10, where 0 = complete regulation and 10 = complete deregulation), highlighting real gains in tax simplification, reporting cuts, and liquidity; the panel, however, observed that many provisions are non-binding, risk adding bureaucratic processes, and stop short of tackling interventionism, the root cause of SMEs' administrative burdens.
- COM/2023/535 combines two binding legislative acts – A Head Office Tax System for cross-border SME groups and a 30-day payment mandate – with seventeen complementary tools and initiatives designed to facilitate tax simplification and provide sectoral reporting relief and digital support.
- An upgraded SME Test, ex-post evaluations, and an empowered EU SME Envoy promise the earlier involvement and formal representation of SMEs in the law-making process, while measures such as digital gateways and regulatory sandboxes seek to ease scaling obstacles.
- Instead of instituting new measures, excess regulation should be reversed by harmonising rules across all firm sizes, embedding sunset clauses, enforcing rigorous cost-benefit analyses, and strengthening subsidiarity to foster a leaner, principle-based governance framework.

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Introduction

Small and medium-sized enterprises (SMEs) form the backbone of the European economy, representing over 99% of all businesses and employing two-thirds of the private-sector workforce (European Commission 2025). Yet, many of these firms face regulatory and administrative hurdles that hamper their ability to innovate, expand across borders, and access financing in a timely manner. To remedy this, the European Commission's 2023 SME Relief Package (COM/2023/535) brings together nineteen measures designed to streamline the business environment for SMEs and, for the first time, extend relief to small mid-caps (SMCs) with up to 499 employees (European Commission 2023). Central to the package are two legislative proposals. The first introduces a Head Office Tax System for cross-border SME groups, allowing profits to be consolidated and taxed in the company's principal place of business. The second establishes a binding 30-day payment rule for both business-to-business transactions and public authorities. These measures aim to improve cash flow management and reduce the complexity of operating in multiple member states.

The package also offers new tools and institutional reforms. An upgraded SME Test will ensure that the impact on smaller firms is considered earlier in the legislative process. Furthermore, the legislation requires ex-post evaluations to examine the efficacy and impacts of regulations. The establishment of the EU SME Envoy, an advisory group with formal access to legislative debates, will ensure that SME concerns are heard at the highest level. Administrative burdens are to be reduced by 25%, particularly through reduced sustainability disclosure requirements and reduced GDPR-related reporting for small and mid-cap companies. Finally, digital gateways and regulatory sandboxes will support cross-border scaling and innovation. By broadening its focus to include SMCs, the Commission aims not only to preserve the competitiveness of Europe's most dynamic firms but also to build a more resilient and integrated single market.

The EU Regulatory Observatory's assessment of the SME Relief Package

The expert panel's assessment of the SME Relief Package reveals a broadly aligned view, with most experts perceiving the legislation to be moderately pro-liberal, with an average score of 6.57 out of 10 (where 0 = complete regulation and 10 = complete deregulation, Figure 1A). The weighted score¹ is 6.11 (Figure 1B). Just over half of the experts (52.4%) scored the package between 4 and 6, while the remainder (47.6%) gave it a score between 6 and 8. This distribution indicates that most experts perceived the regulation as a step towards deregulation. However, opinions diverged on whether the proposed measures constitute genuine structural change or a limited institutional adjustment.

Experts who saw the package as a meaningful liberalising initiative emphasised its practical components: tax simplification, reduced reporting burdens, the use of regulatory sandboxes, and enhanced access to cross-border trade and finance. These measures were seen as empowering SMEs by improving liquidity, reducing compliance costs, and enabling more agile market participation. From this perspective, the package is considered a credible effort to alleviate regulatory pressure and stimulate competition, provided it is implemented effectively by the EU and member states.

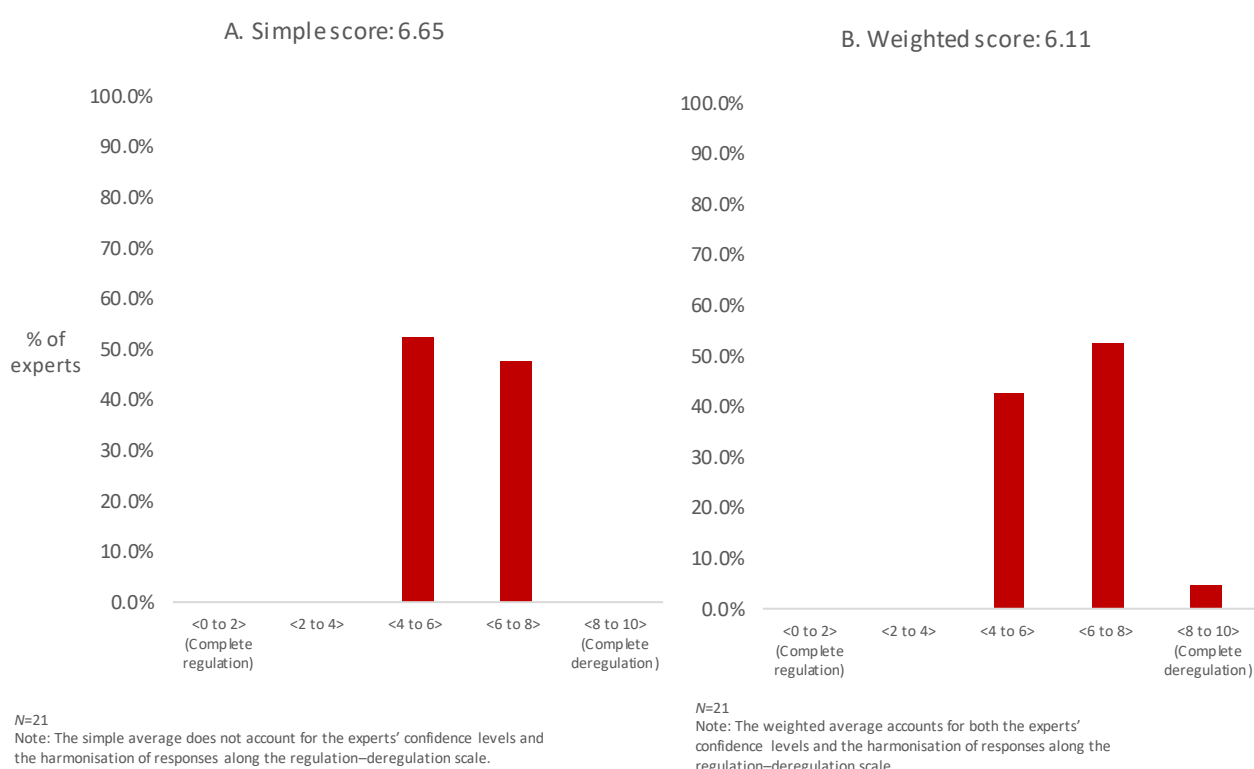
Conversely, cautious or sceptical observers, while conceding that the package includes meaningful reforms to ease SMEs' burdens, argued that its modest deregulatory elements operate within a fundamentally regulatory framework and fail to address the root causes that led to these burdens. These experts also noted the non-binding nature of many provisions and the tendency to substitute

¹ The weighted average accounts for both the experts' confidence levels and the harmonisation of responses along the regulation–deregulation scale. For more details, see the methodological note at the end of this brief.

old rules with new requirements, often in the form of soft law. In their view, the package serves more as a political or procedural adjustment, aimed at easing discontent without rethinking the EU's overarching interventionist logic. It may provide relief at the margins but falls short of delivering meaningful liberalisation.

In summary, while the SME Relief Package is widely recognised as deregulatory to an extent, the depth of its impact remains contested. The experts on both sides agreed that the package introduces helpful measures, but they disagreed on whether these represent a shift in regulatory policy or simply a more flexible application of it.

Figure 1. Frequency distribution of scores and average scores in the EU Regulatory Observatory's assessment of the SME Relief Package



Source: Authors' calculation.

Reducing the regulatory burden on Europe's SMEs

Positive aspects of the SME relief package from a freedom-oriented policy perspective

The Commission's acknowledgement of regulatory overload is welcome. By recognising the costs of legal uncertainty, fragmented rules, and compliance fatigue, it renounces at least some aspects of technocratic overreach. Making the SME Envoy a mediator in formal legislative debates can improve SMEs' institutional representation, by establishing a dedicated champion for economic freedom within the EU framework. The commitment to simplify reporting – by reducing administrative burden by 25%, particularly under the Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive, and Carbon Border Adjustment Mechanism – promises to free up precious entrepreneurial capacity. Lastly, the proposed late payment regulation, if effectively enforced, could materially bolster SMEs' liquidity by mandating invoice settlement within 30 days, a crucial factor for their day-to-day survival and competitiveness.

Core concerns and limitations

The package illustrates the EU's double role as both rule maker and relief provider: it offers solutions for burdens the Commission itself created, without addressing the core issue – centralised intervention. Many of the measures rely on soft instruments – such as voluntary guidelines, procedural advice, and broad strategic aims – that lack binding force and are susceptible to reversal or inconsistent interpretation. Ironically, the introduction of new bodies (such as the SME Envoy and a proposed Relief Tracker) risks adding bureaucratic processes rather than reducing them. Moreover, fundamental cost pressures remain unaddressed: the package does not offer fiscal relief in the form of lower taxes, reduced social contributions, or labour market reforms. Likewise, the package fails to ease market entry, cross-border operations, and access to private capital, thus perpetuating an 'interventionist trap' – solving government-created problems with further government action (Mises 1949).

A framework-based assessment and selective SME privileges

When evaluated in terms of market compatibility, the package falls short in several respects. Legal equality is only partially realised: SMEs receive special treatment but not genuine equality before the law. Subsidiarity is ignored, with no decentralisation of rule-making to member states. The package promises to reduce SME's reporting burden by 25%, but the realisation of this target remains uncertain. Regulatory neutrality is compromised by introducing measures that apply only to SMEs, which distort the level playing field. Responsibility and freedom are acknowledged in principle, but they are limited by a paternalistic framework. Although the new institutions are meant to promote the rule of law and ensure predictability, they may create more complexity than clarity. Finally, market access is largely neglected: barriers to founding, scaling, and financing an SME continue unhindered. Table 1 presents a summary of this framework-based assessment.

Table 1. Framework-based assessment

Principle	Whether reflected in the package	Remarks
Legal equality	Incomplete	SMEs receive attention but not equality before the law
Subsidiarity	Ignored	No decentralisation of rule-making
Administrative simplicity	Promised	The aim to reduce SME's reporting burden by 25% is welcome, but achieving it is not certain
Neutrality of regulation	At risk	SMEs receive preferential measures, which eliminates neutrality
Responsibility and freedom	Acknowledged	But still within a paternalistic framework
Rule of law and predictability	Partial	More institutions but not necessarily more clarity
Market access	Neglected	Barriers to founding or scaling businesses not removed

Source: Authors' calculation.

Selectively granting SMEs privileges risks undercutting the neutrality of regulations, replacing universal rules with a subsidy logic that penalises those not eligible for relief. Relief mechanisms administered through additional institutions reinforce the bureaucratic apparatus instead of weakening it. The simplification of sustainability reporting is welcome; however, exemptions only for SMEs and not large firms threaten transparency. And while digital gateways and regulatory sandboxes offer practical support, their impact is blunted without stronger data protection and intellectual property frameworks to guarantee true ownership and control.

Conclusion and policy recommendations

The SME Relief Package acknowledges past mistakes but stops short of fully addressing them. It alleviates some pressures on SMEs while perpetuating centralised control. What Europe truly needs is fewer, not better, laws; broad principles, not detailed micromanagement; and, above all, faith in the ability of free individuals to innovate and drive growth. SMEs should be freed from having to depend on support mechanisms and given the space to breathe, so that they can lead the single market towards genuine competitiveness.

A genuinely freedom-oriented reform would begin with regulatory withdrawal rather than more rules. This means systematically repealing sector-specific regulations that generate complexity, harmonising rules across all firm sizes, and reducing the overall scope of regulation. Market-based solutions should replace government mandates – universal tax simplification, voluntary approaches to late payments, and the removal of distortive funding programmes should be considered. Sunset clauses must be included for every regulation; rigorous cost-benefit analyses must be required for new rules; and a 'delete-first' culture must be cultivated to eliminate ineffective measures. Strengthening subsidiarity by enhancing regulatory competition among member states, imposing constitutional spending limits, and adopting the principle of 'doing no harm to businesses' – in other words, demanding quantified proof that the new rules will not impose undue burdens – would further cement a market-compatible, principle-based governance framework.

Methodological note

The results of the EU Regulatory Observatory's assessment are presented both as a simple and as a weighted average in order to (a) calibrate the different perceptions and biases of the experts on the regulation–deregulation scale, (b) take into account the experts' confidence in their area of expertise, and (c) take into account the extent to which the rating is informed by the expert's knowledge of the sector.

This process involved three key steps:

1. Harmonising perceptions and reducing biases: The experts were asked to rate 40 hypothetical scenarios (vignettes) in each policy area (King et al. 2004; Pemstein et al. 2020) to evaluate whether the policy is moving towards more regulation (anti-liberal) or more deregulation (pro-liberal). To ensure comparability across respondents, we used a standardised scale of 0–10 where:
 - 0 = complete regulation (anti-liberal stance)
 - 5 = no change/status quo
 - 10 = complete deregulation (pro-liberal stance)

To improve interpretive accuracy, vignettes were designed separately for eight distinct policy areas in which liberalisation may take different forms:

1. Digital platforms
2. Environment and emissions
3. Trade policy
4. Common fisheries policy
5. Common commercial policy
6. Agricultural policy
7. Energy markets
8. Consumer protection

Each vignette set consisted of five imaginary policy scenarios ranging from strongly regulatory to strongly liberalising². These served as scale anchors, allowing for the standardisation of experts' ratings across and within areas.

2. Experts' rating: The experts evaluated the EU regulations using the same scale.
3. Experts' confidence level: For each regulation, the experts reported their confidence regarding their topic-specific expertise and the extent to which their rating was informed by their expertise (both on the 0–10 scale).

² While the assignment of ideal scores is necessarily subjective to some extent, we aim to operate within the boundaries of mainstream policy consensus to ensure broad acceptability and analytical clarity. Ratings that deviate substantially from common interpretations are reviewed and revised accordingly, based on expert feedback.

The final weighted average score is computed as follows.

Rescaling procedure

Let X_i denote the raw rating given by expert i to the vignette set, and let Y denote the pre-specified 'true' rating of the vignettes. For each expert, we estimated a simple linear regression model:

$$Y = a_i + b_i \cdot X_i$$

The resulting coefficients a_i (intercept) and b_i (slope) capture the expert's idiosyncratic use of the response scale.

Subsequently, all real directive ratings provided by expert i were adjusted as follows:

$$Y_{ij} = a_i + b_i \cdot X_{ij}$$

where Y_{ij} is the standardized liberalisation score assigned by expert i to directive j , and X_{ij} is the original raw score for that directive.

Confidence and expertise weighting

To incorporate experts' self-assessments of their confidence, we applied a calibrated confidence-weighted adjustment to each expert's rating, ensuring that the evaluations are not excessively distorted. Traditional linear weighting methods tend to disproportionately suppress scores with moderate confidence, pulling down the mean rating significantly. We followed this weighting method to preserve the core evaluative signal of the base rating – especially for moderately confident assessments – while still rewarding higher confidence and down-weighting uncertain responses in a controlled and proportional manner.

Let the base score provided by expert i be defined as

$$S_i = \text{Intercept}_i + \text{Slope}_i \cdot \text{Expertise}_i$$

where Intercept and Slope are derived from the vignette results of each participant to harmonise the regulation–deregulation scale, while Expertise is the self-rated domain knowledge on a scale of 0–10. The adjusted (final) score is then computed as

$$\hat{S}_i = S_i \cdot 1 + \alpha \cdot \frac{C_i - \bar{C}}{C_{\max}}$$

where $C_i = C_i^{\text{policy}} + C_i^{\text{content}}$ is the sum of the expert's two confidence ratings (each on a 0–10 scale). $\bar{C} = 10$ is the neutral midpoint of the total confidence score (used as the baseline), $C_{\max} = 20$ is the maximum possible combined confidence, and α is a gain parameter controlling the sensitivity of the adjustment to confidence (e.g., $\alpha = 0.25$).

This adjustment ensures that if $C_i = 10$, then $\hat{S}_i = S_i$ (no change); if $C_i > 10$, then $\hat{S}_i > S_i$ (slight upward adjustment), and if $C_i < 10$, then $\hat{S}_i < S_i$ (mild discounting).

The choice of α determines the extent to which confidence modifies the score. In our case, we set $\alpha = 0.25$, such that a fully confident response ($C_i = 20$) is scaled up by 12.5%, while a minimally confident one ($C_i = 0$) is scaled down by 12.5%. This creates a bounded influence window, avoiding extremes while maintaining relative differences.

This method draws on soft-threshold weighting methods described in the expert assessment literature (e.g., Belton and Stewart 2002; Cooke 1991) and achieves the goal of respecting expertise without allowing a few confident respondents to disproportionately skew the aggregate outcomes.

Our panel of experts

The EU Regulatory Observatory panel comprises 34 experts, representing more than 25% of the current EU member countries. Most of them (62%) hold a PhD in their area of expertise. The majority (66.7%) work as researchers or policy advisors in think tanks, government bodies, or non-governmental organisations, while one out of five (20.8%) hold tenure track or tenured academic positions, as lecturers, associate professors, or professors; the rest of the experts (12.5%) are researchers in academic institutions (including PhD candidates and postdoctoral fellows). Two-thirds of the panel (66%) have more than eight years of professional experience.

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