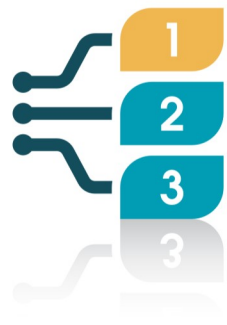
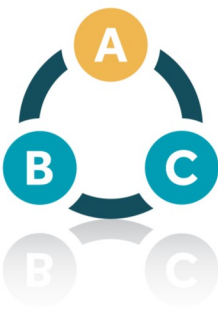




European  
Commission

# User guide to the SME Definition



Internal Market,  
Industry,  
Entrepreneurship  
and SMEs

## DISCLAIMER

This SME User Guide serves as general guidelines for entrepreneurs and other stakeholders when applying the SME Definition. It does not have any legal force and does not bind the Commission in any way. Commission Recommendation 2003/361/EC, as published in the Official Journal of the European Union L 124, p. 36 of 20 May 2003, is the sole authentic basis for determining the conditions regarding qualification as an SME.

### This guide contains:

- details and explanations of the SME Definition which took effect on 1 January 2005;
- a model declaration form that individual companies may complete when applying to SME support schemes in order to establish their SME status.

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Luxembourg: Publications Office of the European Union, 2015

Print ISBN 978-92-79-45322-9 doi:10.2873/782201 ET-01-15-040-EN-C  
PDF ISBN 978-92-79-45301-4 doi:10.2873/620234 ET-01-15-040-EN-N

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'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.'

*Extract of Article 2 of the annex to Recommendation 2003/361/EC*

## INTRODUCTION

*'Nine out of every 10 enterprises is an SME, and SMEs generate two out of every three jobs.'*

*A new boost for jobs, growth and investment is the first priority of the President of the European Commission*

**'Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations, particularly when it comes to small and medium-sized enterprises (SMEs). SMEs are the backbone of our economy, creating more than 85 % of new jobs in Europe and we have to free them from burdensome regulation.'**

*Jean-Claude Juncker,  
President of the European Commission*

## SMEs: the engine of the European economy

SMEs are the engine of the European economy. They drive job creation and economic growth and ensure social stability. In 2013, over 21 million SMEs provided 88.8 million jobs throughout the EU. Nine out of every 10 enterprises is an SME, and SMEs generate two out of every three jobs. SMEs also stimulate an entrepreneurial spirit and innovation throughout the EU and are thus crucial for fostering competitiveness and employment.

Given their importance to Europe's economy, SMEs are a major focus of EU policy. The European Commission aims to promote entrepreneurship and improve the business environment for SMEs, thereby allowing them to realise their full potential in today's global economy.

## Identifying genuine SMEs

SMEs come in many different shapes and sizes; however, in today's complex business environment they may have close financial, operational or governance relationships with other enterprises. These relationships often make it difficult to precisely draw the line between an SME and a larger enterprise. The SME Definition is a practical tool designed to help SMEs identify themselves so that they can receive the full support of the EU and its Member States.

# WHY A EUROPEAN SME DEFINITION?

One of the main objectives of the SME Recommendation is to ensure that support measures are granted only to those enterprises that genuinely need them. The SME Definition, therefore, applies to all policies, programmes and measures that the European Commission develops and operates for SMEs. It also applies to the kind of State Aid where there are no ad hoc guidelines

applicable <sup>(1)</sup>. Deciding whether or not a company is an SME is not as simple as one might think, though.

<sup>(1)</sup> Not all State Aid rules adhere to the strict interpretation of the SME Definition. Some are directly based on it, others only apply the SME Definition in part, and there are specific guidelines that apply in certain cases. It is therefore always necessary to carefully check the respective legal basis in case an enterprise receives state support.

## What EU support exists for SMEs?

For an overview of the main funding opportunities available to European SMEs, please visit:

<http://europa.eu/!RT38Ny>

## Size isn't everything



In determining whether or not an enterprise is an SME, the enterprise's size (employees, turnover and balance sheet total) is not the only factor that should be taken into account. In fact, an enterprise can be very small in these terms, but

if it has access to significant additional resources (e.g. because it is owned by, linked to or partnered with a larger enterprise) it might not be eligible for SME status. For enterprises with a more complex structure, a case-by-case analysis may therefore be required to ensure that only those enterprises that fall within the 'spirit' of the SME Recommendation are considered SMEs.

### SME versus non-SME: the main criteria

*'If an enterprise has access to significant additional resources it might not be eligible for SME status.'*

#### Size

- Employees
- Turnover
- Balance sheet total

#### and

#### Resources

- Ownership
- Partnerships
- Linkages

## Helping to avoid competitive distortion



In a single market with no internal frontiers and in an increasingly globalised business environment, it is essential that measures in support of SMEs are based on a common definition. Lack of a common definition could lead to the uneven application of policies and thus distort competition across Member States. An enterprise in one Member State, for example, might be eligible for aid, while an enterprise in another Member State of exactly the same size and structure might not be eligible. A common definition helps to improve the consistency and effectiveness of SME policy across the EU. Moreover, it is all the more necessary given the extensive interactions between national and EU measures designed to help SMEs in areas such as regional development and research funding.

## A unique set of issues

It is also important to identify which enterprises truly are SMEs because SMEs require assistance that other enterprises do not. Compared with other enterprises, SMEs are confronted with a unique set of issues.

- **Market failures:** real SMEs often face market failures that make the environment in which they operate and compete with other players more challenging. Market failures may occur in areas such as finance (especially venture capital), research, innovation or environmental regulations; SMEs may be unable to access finance or invest in research and innovation or they may lack the resources to comply with environmental regulations.
- **Structural barriers:** SMEs often must also overcome structural barriers such as a lack of management and technical skills, rigidities in labour markets and a limited knowledge of opportunities for international expansion.

*'SMEs require assistance that other enterprises do not.'*

Given the relative scarcity of funds, it is important to reserve the advantages of SME support programmes for genuine SMEs. With this in mind, the Definition includes several anti-circumvention measures. The simplified approach of the present guide should not be used to justify the creation of artificial corporate structures that aim to bypass the Definition.

For Member States, use of the Definition is voluntary, but the Commission invites them, together with the European Investment Bank (EIB) and the European Investment Fund (EIF), to apply it as widely as possible.

# THE OBJECTIVES OF THIS GUIDE

The information contained in this guide is primarily designed for two audiences:

- **entrepreneurs:** entrepreneurs running micro, small or medium-sized enterprises, who are interested in applying for grants or loans aimed at SMEs — these entrepreneurs may also want to know if they satisfy the criteria to benefit from specific legislative provisions or reduced fees for SMEs;
- **government officials:** European, national, regional and local officials who draw up and run the various schemes, process the applications and ensure that companies satisfy the eligibility criteria for support.

The guide explains, **step-by-step, how to determine if an enterprise can qualify as an SME**. It also contains a glossary of terms used in the Definition or its practical implementation, as well as a **model self-assessment form**. The form gives an overview of the data that an enterprise has to provide when applying for SME support and can be used by administrative departments to establish a company's SME status. Since the use of this form is voluntary, Member State administrations are free to adapt its content to suit customary national usage.

## Registering as an SME: multiple entry points

There is no single point of entry to register an enterprise as an SME. Depending on the funding programme and the managing authority (European, national, regional) to which one applies, there will be separate registration procedures. Efforts are being made to enable as many online registrations as possible.

The 'Your Europe' website provides information on funding programmes and will point you to the relevant registration desks when applicable and available:

[http://europa.eu/youreurope/business/funding-grants/eu-programmes/index\\_en.htm](http://europa.eu/youreurope/business/funding-grants/eu-programmes/index_en.htm)

One example is the Beneficiary Register on the Horizon 2020 Participant Portal

<http://ec.europa.eu/research/participants/portal/desktop/en/organisations/register.html>

## Need more help?

A Frequently Asked Questions section is available on the SME Definition website and is regularly updated.

All available language versions of this guide can be downloaded from the same website.

SMEs may also send questions they have on this topic to:

[GROW-SME-DEFINITION@ec.europa.eu](mailto:GROW-SME-DEFINITION@ec.europa.eu)



# APPLYING THE SME DEFINITION

The average European enterprise employs no more than six people and, without delving further into the details of the enterprise's situation, would be considered an SME. The Definition applied here, however, takes into account possible relationships with other enterprises. In certain cases, those relationships, particularly if they create significant ownership links or give access to additional financial or other resources, imply that an enterprise is not an SME.

## SMEs: three categories

The SME Definition distinguishes between three different categories of enterprises. Each category corresponds to a type of relationship that an enterprise could have with another. This distinction is necessary in order to establish a clear picture of an enterprise's economic situation and to exclude those that are not genuine SMEs.

The categories are:

- **autonomous:** if the enterprise is either completely independent or has one or more minority partnerships (each less than 25 %) with other enterprises (see page 16: 'Am I an autonomous enterprise?');
- **partner:** if holdings with other enterprises rise to at least 25 % but no more than 50 %, the relationship is deemed to be between partner enterprises (see page 18: 'Am I a partner enterprise?');
- **linked enterprise:** if holdings with other enterprises exceed the 50 % threshold, these are considered linked enterprises (see page 21: 'Am I a linked enterprise?').

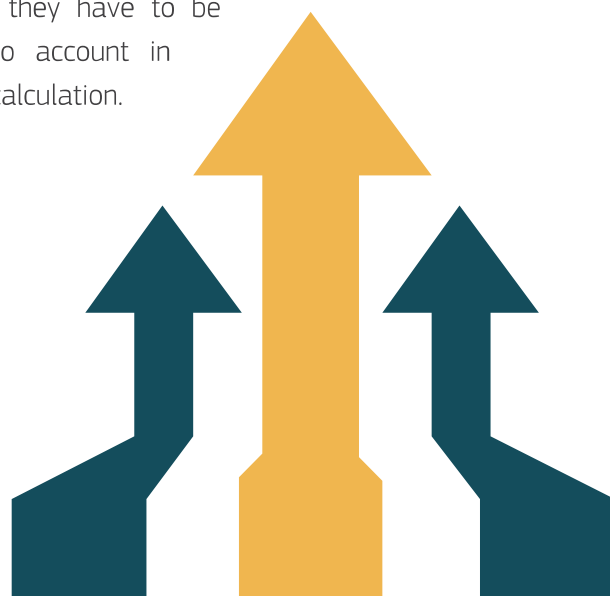
## Control

An important notion in the SME Definition is the concept of control — both legal and de facto. Control determines whether or not an enterprise is considered a partner or a linked enterprise. It is not only the capital or shareholdings, but also the control that one enterprise has over another that needs to be assessed.

## Making an SME calculation

Depending upon the category in which an enterprise fits, it may have to include data from one or more other enterprises when making the SME calculation. The result of the calculation will allow the enterprise to check whether it complies with the staff headcount and at least one of the financial thresholds set by the Definition (see page 10: 'Which criteria need to be checked and what are the thresholds?' and page 15: 'How do I calculate these data?'). Enterprises that exceed these thresholds are not considered SMEs.

Starting from page 25, some useful examples clarify the possible relationships between enterprises and the extent to which they have to be taken into account in the SME calculation.



# AN OVERVIEW OF THE SME IDENTIFICATION PROCESS

The process of determining whether or not an enterprise is an SME consists of four steps.

## Step 1. Am I an enterprise?

The first step to qualify as an SME is to be considered an enterprise.

## Step 2. Which criteria need to be checked and what are the thresholds?

The second step is to identify the qualifying criteria and thresholds to apply.

## Step 3. What do these criteria cover?

The third step is to interpret the meaning of the various criteria and correctly apply them.

## Step 4. How do I calculate these data?

The fourth step is to identify which data need to be considered and assessed against the thresholds and in which quantities or proportions. For this purpose, an enterprise must first establish whether it is an **autonomous** enterprise, a **partner** enterprise or a **linked** enterprise.





## Am I an enterprise? (Article 1)

# Step 1

The first step to qualify as an SME is to be considered an enterprise.

According to the Definition, an enterprise is 'any entity engaged in an economic activity, irrespective of its legal form'. This wording reflects the terminology used by the European Court of Justice in its judgments.

It is the economic activity that is the determining factor, not the legal form.

In practice, this means that the self-employed, family firms, partnerships and associations or any other entity that is regularly engaged in an economic activity may be considered as enterprises.

An economic activity is usually seen as 'the sale of products or services at a given price, on a given/direct market'.



# Which criteria need to be checked and what are the thresholds? (Article 2)

## Step 2

The SME Definition takes into account the following three criteria:

- staff headcount
- annual turnover
- annual balance sheet total.

The category of micro, small and medium-sized enterprises consists of enterprises which:

- employ fewer than 250 persons; and
- have either an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million.

