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Fiscal incentives for the development of small businesses in the European Union countries

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Abstract. The purpose of this study was to assess the effectiveness of fiscal incentives supporting small businesses in the European Union using the example of Germany, France and Ireland. The methodology was based on the analysis of regulatory and statistical sources, comparative analysis of tax policy and assessment of innovation indicators of small and medium-sized enterprises in 2022-2025. The results showed that the most effective models combined tax incentives for innovation, digitalisation of tax administration and mechanisms for attracting private capital. German figures, where 41% of small and medium-sized enterprises implemented at least one innovation during 2022-2024 and innovation spending reached EUR 35.4 billion in 2024, demonstrated a relatively high level of innovation activity supported by fiscal and investment incentives, although the gap between large enterprises (73%) and microenterprises (37%) reflected unequal access to innovation resources. France's innovation efficiency level of 108.6% of the European Union average demonstrated the important role of tax credits and state financing in supporting Research and Development. Ireland's indicators, including small and medium-sized enterprises introducing product innovations at 120.5% of the European Union average and labour productivity at 256.2%, reflected the effectiveness of combining low corporate taxation with investment incentives. The study found that the effectiveness of fiscal incentives depended not only on tax benefits but also on administrative simplification and integration of tax and financial support mechanisms. The practical significance of the study lies in the possibility of using its results to improve fiscal support instruments and innovation-oriented tax policy for small businesses in the European Union countries

Keywords: tax policy; corporate taxation; value-added tax; economic growth; innovation support

INTRODUCTION

Small businesses play an important role in ensuring economic growth, creating jobs, developing innovations and forming a competitive market environment in the countries of the European Union (EU). In the context of modern

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economic challenges associated with global instability, digital transformation, inflationary pressure and the consequences of geopolitical crises, the issue of effective state support for entrepreneurship is of particular importance. Fiscal stimulation of small businesses in the EU is becoming increasingly important in the context of economic instability, digital transformation and sustainable economic development. A. Monaienko *et al.* (2024) analysed fiscal support measures for small and medium-sized enterprises (SMEs) in Germany, Poland and Ireland, as well as the role of the NextGenerationEU fund, under which up to EUR 806.9 billion is planned to be raised during 2021-2025, including EUR 250 billion through green bonds, with innovation, digitalisation and "green" technologies identified as priority areas of support. The impact of fiscal instruments on enterprise investment activity was investigated by M. Funke & R. Terasa (2026), who analysed accelerated depreciation and the gradual reduction of the corporate tax rate in Germany using a Dynamic Stochastic General Equilibrium (DSGE) model. The authors examined a EUR 45.8 billion tax reform package that introduced depreciation allowances of up to 30% for equipment investments during 2025-2027 and a phased reduction of the corporate tax rate from 15% to 10% during 2028-2032. The study showed that accelerated depreciation stimulated short-term investment activity, while lower corporate taxation supported long-term growth in investment and gross domestic product. The impact of the fiscal burden on investment activity and entrepreneurship development in the EU is becoming increasingly important under conditions of economic instability and inflationary pressure. P. Ciżkowicz *et al.* (2025) analysed the impact of the fiscal burden on gross fixed capital formation in EU countries during 2010-2023 using a panel model with fixed effects. The authors found that taxes on consumption and labour could stimulate investment under effective redistribution of budget resources, while taxes on corporate income, self-employment and energy resources mainly restrained investment activity.

The financial environment of small businesses and entrepreneurship support instruments were investigated by A. Botsari *et al.* (2024), who found that SMEs account for 99.8% of all non-financial enterprises in the EU, provide more than 65% of employment and generate over half of the added value in the EU economy. The effectiveness of state fiscal and tax incentives for supporting innovative enterprise activity is becoming increasingly important in the context of environmental challenges, digital transformation and the transition to a low-carbon economy. Y. Fan & L. Shi (2025) analysed the influence of government subsidies and tax incentives on green technology development and new energy enterprises based on data from Chinese companies for 2018-2023. The authors found that government subsidies and tax incentives positively affect enterprise innovation activity, promote green technologies, and increase investment activity and business competitiveness. The historical evolution of tax incentives and their role in shaping corporate strategies and organisational changes were investigated by S. Calado *et al.* (2025), who conducted a systematic review of scientific literature on corporate tax incentives for 2004-2024 and analysed their impact on innovation activity, investment attraction, green technology development, enterprise efficiency and corporate governance. The study showed that tax incentives function not only as fiscal policy instruments but also as factors of organisational transformation affecting management decisions and innovation strategies. The effectiveness of tax incentives for supporting small and medium-sized businesses is becoming increasingly important under conditions of economic instability and growing administrative burden. P. Sugiartini (2025), using a mixed quantitative and qualitative approach, found that Indonesian SMEs aware of available tax incentives demonstrated higher tax discipline and investment activity, particularly in the manufacturing sector. Similar conclusions were reached by C.D. Nyimbo & O.B. Salimu (2025), who analysed SME tax discipline in Moshi District (Tanzania) using a logistic regression model based on a sample of 100 SMEs. The authors found that taxpayer education (coefficient = 0.5965; $p = 0.000$), tax allowances (coefficient = 0.4576; $p = 0.008$) and communication on incentives (coefficient = 0.4034; $p = 0.022$) positively influenced tax compliance. At the same time, 76% of respondents identified lack of awareness of tax incentives as a major barrier, while 85% pointed to corruption and political favouritism in obtaining tax support.

At the same time, insufficient attention has been paid to the comparative effectiveness of fiscal instruments supporting small businesses in different EU countries and the identification of the most effective support mechanisms under modern economic conditions. The purpose of this study was to evaluate the effectiveness of fiscal policy instruments supporting small businesses in the EU through a comparative analysis of Germany, France and Ireland. To achieve the goal, the following tasks were identified: to analyse the main tax and financial incentives supporting small businesses in the EU countries; to conduct a comparative assessment of the impact and effectiveness of fiscal support instruments for small businesses in Germany, France and Ireland.

MATERIALS AND METHODS

The study was analytical in nature and focused on the analysis of tax policies supporting small businesses in Germany, France and Ireland during 2022-2025, a period characterised by active changes in fiscal incentives and the digitalisation of tax administration in the EU countries. The research methodology was based on the analysis of regulatory, analytical and statistical sources related to fiscal incentives, value added tax (VAT) regulation, corporate taxation and innovation support mechanisms. Comparative analysis was used to examine VAT regimes for SMEs, corporate taxation, administrative simplification instruments and mechanisms for reducing compliance costs in EU countries. The methods of systematisation and generalisation were applied to analyse tax incentives for Research and Development

(R&D), depreciation allowances and innovation support instruments in France and Ireland based on the materials of R&D tax allowance in Europe (n.d.). The theoretical and analytical basis of the study also included EU financial support instruments for SMEs, start-ups and innovative enterprises, including Horizon Europe (n.d.), Competitiveness of Enterprises and SMEs (n.d.) and EU cohesion policy… (n.d.). In addition, EU finance for innovators (n.d.), the EIC Accelerator (n.d.) and the European Association for Social Innovation (n.d.) were analysed as instruments supporting innovative enterprises and micro-businesses in the EU. Germany, France and Ireland were selected to conduct a comparative analysis of tax policies to support small businesses in the EU countries, as these countries use different models of fiscal incentives for entrepreneurship. Germany was chosen as an example of a country with a developed system of investment and innovation incentives, France as a country with extensive use of tax credits to support R&D and innovation, and Ireland as an example of a country with a low level of corporate taxation and a focus on attracting investment and supporting start-ups. The comparison between countries was conducted through the analysis of corporate taxation, VAT regimes, R&D tax incentives, investment support mechanisms and administrative simplification instruments. The effectiveness of fiscal incentives for small businesses was assessed through indicators reflecting innovation activity, digital transformation, investment support and commercialisation of innovations in SMEs, such as innovation expenditure, SMEs implementing innovations, government support for business R&D, cloud computing adoption, labour productivity and sales of new-to-market innovations.

The analysis of regulatory and analytical sources was used to study the features of tax policy to support small businesses in Germany, in particular the small business regulation regime in accordance with Section 5: Taxation. § 19 Taxation of small enterprises (2026) and the mechanisms of corporate and trade taxation of small businesses based on Kleinunternehmer: What taxes do I… (2025). The Growth booster to strengthen Germany… (2025) and The KMU-innovativ funding program (n.d.) were separately investigated to determine the features of supporting innovation activity and digital modernisation of SMEs. The Forschungszulage (n.d.) tax benefit was also analysed to study the mechanisms for supporting R&D of small businesses. To study the tax policy of France, an analysis of regulatory and analytical sources was used regarding the mechanisms of functioning of the Research Tax Credit (CIR) (2025), Innovation Tax Credit (CII) (2026) and the status of Young Innovative Company (JEI) status (n.d.). The features of corporate taxation, VAT and local tax Territorial Economic Contribution (CET) (n.d.) were also analysed. Special attention was paid to the study of mechanisms for simplifying VAT administration in 2023-2030 Exploring France's corporate tax rates… (n.d.). The analysis of regulatory and analytical sources was also used to examine Ireland's tax policy in support of small businesses, in particular the mechanisms of low corporate taxation, Pillar Two (n.d.) rules and the features of the application of the 12.5% corporate tax rate for most small businesses (Minister McGrath notes Ireland's…, 2025). The study analysed the mechanisms of the Section 486C tax relief under the Taxes Consolidation Act (1997), the Pay Related Social Insurance (PRSI) (n.d.) system, the cash method of VAT accounting, and measures designed to support small business liquidity. It also examined instruments for stimulating innovative activity of small businesses, in particular the Knowledge Development Box (KDB) (n.d.) and mechanisms for supporting start-ups and venture financing.

The comparative analysis method was used to compare tax policies supporting small businesses in Germany, France and Ireland according to the following criteria: standard corporate tax rate, preferential corporate tax rate, standard VAT rate, preferential VAT regimes, VAT exemption threshold, R&D tax incentives, innovation support programmes, investment incentives, administrative simplification and main focus of support. The analysis of statistical and analytical data was used to study the impact of fiscal incentives on innovation activity, digitalisation, investment attractiveness and competitiveness of small businesses in the studied countries. Based on data from KfW Research: German SMEs… (2026) and European innovation scoreboard 2025 (n.d.), the study analysed indicators of innovation expenditure, SME innovation activity, government support for business R&D, venture capital investment, cloud computing adoption, the Digital Intensity Index, labour productivity, and sales of new-to-market innovations. These indicators were selected because they reflect the practical results of fiscal support for small businesses, including the intensity of innovation activity, the level of digital transformation, the effectiveness of commercialisation of innovations, enterprise productivity and the availability of financial support for start-ups and SMEs.

RESULTS AND DISCUSSION

Fiscal incentives for small businesses in the EU countries

Fiscal incentives in the system of state support for small businesses are aimed at reducing the financial burden on enterprises in order to stimulate investment activity, innovation and business sustainability. In the EU, the main instruments of fiscal support include reduced income tax rates, VAT benefits, tax credits, depreciation allowances and simplified tax administration procedures. Such measures contribute to reducing compliance costs and improving conditions for entrepreneurial activity. Fiscal incentives in the EU are implemented both at the national level and within the framework of common regulatory mechanisms, in particular in accordance with the Value Added Tax (VAT) Directive (n.d.) and EU state aid rules (Bergner, 2017). A special VAT regime (SME scheme), introduced from 1 January 2025, allows small businesses with annual turnover up to EUR 100,000 within the EU or EUR 85,000 at national level to operate without charging VAT, which simplifies tax administration and facilitates cross-border activities of

SMEs within the EU single market (VAT rules for small enterprises, n.d.). EU countries also use R&D tax credits, depreciation allowances and patent box regimes to support innovation activity and technological modernisation of enterprises. In particular, France applies a 30% tax credit for R&D expenditures, while Ireland uses a 25% R&D tax credit combined with additional corporate tax incentives. Such instruments support the implementation of digital technologies, automation and Enterprise Resource Planning (ERP) systems in SMEs (R&D tax allowance in Europe, n.d.). Combined with Horizon Europe (n.d.), Competitiveness of Enterprises and SMEs (n.d.) (COSME) and European Structural and Investment (ESI) Funds (EU cohesion policy…, 2023), fiscal incentives contribute to the development of start-ups, innovative projects and small business financing. These programmes are particularly important because SMEs account for around 99% of enterprises in Europe. COSME provides loan guarantees for SMEs, while InnovFin (EU finance for innovators, n.d.), the European Innovation Council (EIC) Accelerator (n.d.) and the European Association for Social Innovation (n.d.) (EaSI) support innovation projects, start-ups and micro-enterprises through financing and microloan instruments (European funding for small businesses…, 2021). The effectiveness of fiscal incentives for small businesses largely depends on the design of tax instruments, the level of administrative simplicity and the performance monitoring system. The most effective are incentives aimed at sectors with high growth potential, in particular the digital economy, innovation and green technologies. At the same time, simplified administrative procedures, online reporting and minimisation of compliance costs ensure a wider coverage of small businesses by support programmes. Regular monitoring of the effectiveness of fiscal incentives in EU countries allows tax policy to be adapted to changes in the economic environment, increasing its effectiveness in supporting small businesses (VAT rules for small enterprises, n.d.).

The tax policy of the EU countries is characterised by differentiation in corporate taxation, VAT rates and social contributions, which reflects the peculiarities of national economic models and fiscal priorities. In Germany, the standard VAT rate is 19%, while in France it reaches 20%. At the same time, the standard corporate tax rate in France is 25%, whereas in Germany the corporate tax rate of 15%, combined with the solidarity surcharge and municipal trade tax, increases the effective tax burden on corporate profits to around 30%. In both countries, fiscal incentives and simplified taxation mechanisms are used to support entrepreneurial activity, stimulate innovation and reduce the administrative burden on small businesses (Azizova, 2024). Thus, fiscal incentives in the EU are an important instrument for supporting small businesses, stimulating innovation activity, technological modernisation and entrepreneurial development. The effectiveness of fiscal support depends not only on the scale of tax incentives, but also on the level of administrative simplification and the integration of tax and financial support mechanisms. The analysis showed that EU countries apply different models of fiscal regulation depending on national economic priorities and the structure of tax systems. At the same time, the most effective support instruments are those aimed at innovation activity, digital transformation and improving SMEs' access to financing and investment resources.

Comparative analysis of tax policy for small businesses in the EU countries

The tax policy supporting small businesses in Germany combines simplified taxation mechanisms, investment incentives and support for innovation activity. One of the main support instruments is the Kleinunternehmerregelung regime provided for Section 5: Taxation. § 19 taxation of small enterprises (2026), which exempts small businesses from VAT obligations if turnover does not exceed established thresholds. Since 2025, the regime applies to enterprises with annual turnover up to EUR 25,000 in the previous year and up to EUR 100,000 in the current year, reducing administrative costs and simplifying accounting procedures (Standard taxation: How small…, 2026). However, enterprises using this regime are not entitled to deduct input VAT. Germany also applies tax allowances for sole proprietors and small enterprises, including a tax-free trade income threshold of around EUR 24,500 for activities classified as Gewerbebetrieb (Kleinunternehmer: What taxes do I…, 2025). The standard corporate tax rate for companies registered as Gesellschaft mit beschränkter Haftung (GmbH) is 15%, while the total effective tax burden may reach 30-33% after including the solidarity surcharge and municipal trade tax (Germany: Corporate taxes…, 2026). Investment incentives include accelerated depreciation mechanisms under the Growth-Booster/Investment-Booster programme, which allows depreciation of up to 30% annually for movable fixed assets and up to 75% of electric vehicle costs in the first year of use (Growth booster to strengthen…, 2025). An important component of German fiscal policy is support for R&D and technological modernisation. The Central Innovation Programme for SMEs (Zentrales Innovationsprogramm Mittelstand) (Central Innovation Program…, n.d.), the Forschungszulage (n.d.) tax incentive and the KMU-innovativ programme support innovation projects and high-tech research activities. From 2026, compensation for R&D expenditures for SMEs may reach 35% with a maximum eligible base of EUR 12 million per year (Global R&D tax incentives…, 2025). Germany also applies digital tax administration instruments, including the ELSTER (n.d.) system and the Einnahmen-Überschuss-Rechnung (EÜR) simplified accounting form used for enterprises with annual turnover below EUR 600 thousand or profit below EUR 60 thousand (Profit and loss statement in Germany…, n.d.). The German model of fiscal support is primarily investment- and technology-oriented. Its strengths include the combination of R&D incentives, accelerated depreciation and administrative simplification mechanisms. At the same time, the relatively high effective corporate tax burden and uneven access of

microenterprises to innovation resources may reduce the accessibility of support instruments for smaller businesses.

France's tax policy to support small businesses combines tax incentives for innovation activity, simplified taxation regimes and support for start-ups. One of the main support instruments is the system of tax credits CIR (2025) and CII (2026). The CIR tax credit provides compensation of 30% of R&D costs up to EUR 100 million and 5% above this threshold. The eligible costs include research personnel expenses, equipment depreciation, subcontracted research, patent costs and technological monitoring. The CII tax credit is aimed at supporting prototype development and technological modernisation of products in SMEs. The CII rate amounts to 30% of eligible innovation expenditures with a maximum eligible amount of EUR 400,000 per year. Companies with up to 250 employees, annual turnover up to EUR 50 million or a balance sheet up to EUR 43 million are eligible for the CII (Everything about the French Innovation…, n.d.). A separate support mechanism is the status of Young Innovative Company (JEI) (n.d.), which provides tax and social contribution benefits for innovative start-ups in the early stages of development. The standard corporate tax rate (Impôt sur les Sociétés (2016), IS) is 25%; however, enterprises with annual turnover up to EUR 10 million and at least 75% individual ownership may apply a reduced 15% rate to the first EUR 42.5 thousand of taxable profit. Simplified accounting and VAT administration regimes are also applied to micro-enterprises. The standard VAT rate in France is 20%, while reduced rates of 10%, 5.5% and 2.1% apply to selected categories of goods and services (Rauniyar, 2025). France also applies VAT exemption thresholds for micro-enterprises to reduce the administrative burden on small businesses. In addition, enterprises are subject to the Territorial Economic Contribution (CET) (n.d.), which includes the Business Property Contribution (n.d.) and the Business Value Added Contribution (CVAE) (What is the contribution on the added…, 2026). The French government is gradually phasing out the CVAE between 2023 and 2030 to simplify the corporate tax system and reduce the tax burden on enterprises (Exploring France's corporate tax rates…, 2025). Ireland's tax policy supporting small businesses is based on low corporate taxation, tax incentives for innovation and investment support mechanisms. The standard corporate tax rate on trading income is 12.5%, while under Pillar Two (n.d.) a minimum effective rate of 15% applies from 2023 to companies with global annual turnover exceeding EUR 750 million. At the same time, the 12.5% rate remains applicable to more than 99% of businesses not covered by these rules (Minister McGrath notes Ireland's application of…, 2025).

For newly established enterprises, Ireland applies Section 486C tax relief (Taxes Consolidation Act, 1997…, 1997), which provides corporation tax reductions during the first five years of operation. Full exemption is possible if annual tax liabilities do not exceed EUR 40 thousand, while partial exemption applies to liabilities between EUR 40 thousand and EUR 60 thousand. The amount of relief also depends on Pay Related Social Insurance (PRSI) (n.d.) contributions paid by employers, with the maximum benefit limited to EUR 5,000 PRSI per employee or director and a total limit of EUR 40,000 of qualified PRSI contributions (Tax relief for new start-up companies, n.d.). The French support model is characterised by strong state participation through tax credits and innovation-oriented subsidies. Its main advantage lies in the large-scale support for R&D and start-up activity. However, the complexity of the tax system and comparatively lower commercialisation performance of innovations indicate that generous fiscal incentives do not always ensure high market efficiency of innovative activity. Ireland's tax policy is also aimed at supporting the innovative activities of small businesses and start-ups. For enterprises that make R&D expenditures, a tax credit for R&D is applied, the rate of which has been increased from 25% to 30% to stimulate investment in the future productivity of enterprises. The tax credit allows to compensate for part of the costs of innovation activities and supports the development of high-tech sectors of the economy. In addition, Ireland operates the Knowledge Development Box (KDB) regime (n.d.), which provides for preferential taxation of profits received from the use of intellectual property and R&D results. Such instruments stimulate the development of high-tech enterprises, digital services and innovative start-ups. To support investment activity in Ireland, tax incentives are used for private investors, in particular the Employment and Investment Incentive (EII) programme, which provides tax benefits for individuals investing in small and medium-sized enterprises (Relief for investment in corporate…, n.d.). In addition, preferential capital gains tax regimes and tax incentives for entrepreneurs and business angels are applied, which promotes the attraction of venture capital and financing of start-ups. Citizens Information (n.d.) also expanded the Employment Investment Incentive, Start-up Capital Incentive and Start-Up Relief for Entrepreneurs mechanisms, and introduced a lower capital gains tax rate for angel investors. In addition, Ireland applies preferential capital gains tax regimes for entrepreneurs, in particular a rate of 10% for certain categories of entrepreneur relief, which is used to stimulate the development and scaling of enterprises. At the same time, a high level of taxation of income and dividends can discourage the reinvestment of profits and long-term preservation of business ownership by the founders of enterprises (Empowering Ireland's SME…, 2026). The Irish model is based primarily on maintaining a favourable tax environment and attracting private investment. Its strengths include relatively low corporate taxation and close integration between fiscal incentives and venture financing mechanisms. Compared to Germany and France, Ireland demonstrates a stronger orientation toward commercialisation and scaling of innovative SMEs, although this model may increase dependence on external investment and multinational business activity. To summarise the features of tax support for small businesses in the EU, a comparative analysis of the main fiscal stimulus instruments used in Germany, France and Ireland was carried out (Table 1).

Table 1. Comparative characteristics of fiscal stimulation mechanisms for small businesses in Germany, France, and Ireland

Indicator	Germany	France	Ireland
Standard corporate tax rate	15% + solidarity surcharge; total burden including Gewerbesteuer may reach around 30%	25%	12.5% for most businesses
Preferential corporate tax rate	Tax allowances for small businesses and R&D incentives	15% on the first EUR 42.5 thousand of taxable profit for SMEs	Section 486C tax relief for new companies during the first 5 years of operation
Standard VAT rate	19%	20%	23%
Preferential VAT regimes	Kleinunternehmerregelung for enterprises with low turnover	VAT exemption thresholds for micro-enterprises	Simplified administration regimes and cash-basis VAT accounting
VAT exemption threshold	Up to EUR 25 thousand in the previous year and up to EUR 100 thousand in the current year	Depends on the category of enterprise activity	EUR 42.5 thousand for services and EUR 85 thousand for goods
R&D tax incentives	Forschungszulage and ZIM programme	CIR – 30% of R&D expenditures; CII – 30% of innovation expenditures	30% R&D tax credit
Innovation support programmes	KMU-innovativ, ZIM	CIR, CII, JEI	KDB, EII, Start-up Relief
Investment incentives	Accelerated depreciation and investment allowances	Gradual abolition of CVAE and support for innovative enterprises	Tax incentives for business angels and venture investors
Administrative simplification	ELSTER, EÜR form, simplified digital tax administration	Simplified accounting and TVA administration regimes	Simplified reporting and deferred tax payments
Main focus of support	Technological modernisation and industrial innovation	Research, innovation activity and startup support	Investment attraction and scaling of innovative SMEs

Source: compiled by the authors based on Kleinunternehmer: What taxes do I… (2025), Exploring France's corporate tax rates… (2025), and Standard taxation: How small… (2026), Everything about the French Innovation… (n.d.), Tax relief for new start-up companies (n.d.), Research and Development (R&D)… (n.d.), Forschungszulage – up to EUR 3.5 million in R&D… (n.d.)

A comparative analysis showed that the tax policy of supporting small businesses in Germany, France and Ireland is based on a combination of tax breaks, simplified administration and incentives for innovative activities, however, the mechanisms for implementing such incentives differ significantly. Germany focuses mainly on investment incentives, digitalisation of tax administration and support for technological modernisation of enterprises. France uses the CIR and CII tax credit system to stimulate R&D and support innovative start-ups, while Ireland focuses on low corporate tax rates, attracting investments and tax incentives for newly created enterprises. In general, the effectiveness of fiscal incentives for small businesses in EU countries largely depends on the level of administrative simplicity, availability of tax breaks and integration of tax and financial mechanisms for supporting entrepreneurship. The research of F. Campos *et al.* (2023) and the results of this work coincided in the understanding that tax policy directly affected the development of small businesses, their competitiveness and ability to invest in growth. Both works emphasised that excessive tax burden, administrative complexity and high costs of tax compliance restrained the development of entrepreneurship and increased the risks of business transition to the shadow sector. At the same time, the emphases of the research differed. F. Campos *et al.* analysed the impact of effective tax rates, informality, VAT structure and public services on the development of small businesses in emerging markets, using regression analysis and panel data for Pakistan, Nigeria, Kenya and Bangladesh. In the same study, attention was focused on mechanisms for supporting small businesses in EU countries, including special VAT regimes, tax credits for R&D, depreciation allowances and financial programmes to support innovation activities. If F. Campos *et al.* (2023) considered tax policy primarily as a tool for overcoming informality and strengthening tax discipline, in this work tax incentives were analysed more broadly – as a factor in digitalisation, technological modernisation and innovative development of small businesses in the context of European economic integration. A more macroeconomic dimension of tax policy was presented in the study by M. Mellisyah (2025). The author considered different taxation models – progressive, regressive and corporate taxation – through their impact on fiscal sustainability, foreign direct investment (FDI) and economic growth in different countries of the world. In contrast to such a broad approach, in this study tax policy was analysed mainly through practical mechanisms for supporting small businesses in the EU. It was about special VAT regimes, tax credits for R&D, support for start-ups and instruments for stimulating innovation in Germany, France and Ireland. Despite differences in the scale of analysis, both studies agreed that the effectiveness of fiscal incentives depended on the balance of tax mechanisms, administrative efficiency, and the level of digitalisation of tax administration.

A similar emphasis on digitalisation was also observed in the work of K. Safitri (2025), but there it was closely related to the issues of tax compliance and economic

resilience of small businesses in developing countries. The author used systematic literature review, bibliometric analysis and VOSviewer to investigate the relationships between tax policy, digital tools and entrepreneurial activity. In this study, digitalisation was also considered as an important element of tax support, but the main focus was shifted to fiscal incentives for innovation, tax credits and small business support mechanisms within the EU. In addition, K. Safitri paid significant attention to the role of e-filing, e-payment and the impact of the COVID-19 pandemic on the tax behaviour of MSMEs, while in this work the issues of competitiveness, digital modernisation and integration of financial and tax support instruments were prioritised. Behavioural aspects of tax compliance were studied in more detail in the work of A. Padi *et al.* (2025), devoted to VAT compliance among SMEs in Ghana. Using Partial Least Squares Structural Equation Modelling (PLS-SEM) and survey data from 520 enterprises, the authors analysed the impact of VAT knowledge, tax audits, penalties and fines, religiosity and trust in government on the tax behaviour of enterprises. In contrast to this approach, this study did not focus on socio-cultural or behavioural factors, but on the mechanisms of fiscal stimulation of small businesses in EU countries. At the same time, both works converged in the conclusion that the simplification of administrative procedures, the digitalisation of reporting and the availability of information had a positive impact on the efficiency of small business operations. The issue of simplifying tax systems and supporting MSMEs in developing countries also became central in the study of G. Widjaja (2024). The author analysed the tax regimes of Indonesia, India, Kenya and Brazil, paying attention to business formalisation mechanisms and preferential tax regimes. However, while G. Widjaja mainly focused on tax fairness and administrative simplification, in this study tax policy was considered as a tool for stimulating innovation, digital modernisation and the development of high-tech small businesses within the framework of European integration. Another perspective of analysis was presented by F. Jesus *et al.* (2024), who studied corporate income taxation in Portugal, Germany, Belgium, the Netherlands and Luxembourg. Their focus was on tax rates, international tax competition and the impact of corporate taxation on companies' investment decisions. In the same study, tax policy was considered not only through the prism of fiscal competitiveness, but also as a tool to support small businesses through special VAT regimes, R&D tax credits, depreciation allowances and financial programmes to support innovation activities. The issues of administrative burden and compliance costs were also key in the study by L. Judijanto (2024), devoted to taxation policy and compliance burden on MSMEs in Indonesia. The author analysed the legal aspects of tax regulation, taxpayer education and mechanisms to support voluntary tax discipline. At the same time, this study combined the issue of reducing compliance burden with the broader context of stimulating innovation, digitalisation and increasing the competitiveness of small businesses in EU countries. A more historical and macroeconomic approach was presented in the work of S. Gobile *et al.* (2024), which examined the evolution of tax laws in African countries and their impact on the business environment. The authors analysed the development of VAT systems, corporate tax rates, Special Economic Zones (SEZs) and international tax trends, focusing on the relationship between fiscal policy, investment activity and economic development. In contrast, this study focused on practical tools to support small businesses in the EU – tax credits, R&D incentives, special VAT regimes and innovation incentive programmes.

A comparison of the results of this study with the work of S. Yang *et al.* (2025) showed a common understanding of fiscal policy as a tool for stimulating economic development, investment activity and technological change. In both studies, the effectiveness of tax incentives was associated not only with the volume of state support, but also with the design features of fiscal instruments and the coherence of economic policy. At the same time, the emphases of the studies differed significantly. While S. Yang *et al.* focused on the development of green hydrogen energy and spatial spill over effects between regions of China, using Geographic Information System (GIS) analysis, panel data and spatial econometric models, in this study the main focus was shifted to supporting small businesses in EU countries through mechanisms of tax breaks, special VAT regime, financial programmes and simplification of tax administration. Unlike the work of S. Yang *et al.* (2025), where energy transition and regional cooperation issues played a role, in this study the priority areas were reducing compliance costs and increasing the competitiveness of small businesses. A similar logic was observed when comparing the results with the study by W. He *et al.* (2025), in which fiscal policy was viewed through the prism of digital business transformation. The authors studied the impact of tax incentives and special subsidies on the digitalisation of Chinese enterprises, paying special attention to synergistic effects between different state support instruments. In this study, digitalisation was also considered as one of the areas of stimulating entrepreneurial activity, but the emphasis was mainly on small business support instruments within the framework of EU tax policy. Unlike, W. He *et al.* (2025), where the differences between state-owned and non-state-owned enterprises were analysed, in this study the focus was on simplifying administrative procedures, tax credits and financial programmes to support small businesses. Another aspect of the impact of fiscal policy was highlighted in the study by Y. Fan & L. Shi (2025), where state support was analysed in the context of the development of green technological innovation in China. The authors established an inverted U-shaped relationship between the scale of fiscal support and innovation activity, which indicated the possibility of a decrease in the effectiveness of incentives in the event of excessive state intervention. In this study, tax incentives were also considered as a factor supporting innovation activity, but without focusing on nonlinear effects or regional heterogeneity. Instead, attention was paid

to practical mechanisms for supporting small businesses in the EU, including tax credits, patent box regimes, Horizon Europe (n.d.) and COSME programmes, as well as measures to simplify tax administration. Thus, fiscal incentives are one of the instruments for supporting small businesses in the EU countries, as they contribute to reducing the tax burden, activating investment activity and developing innovations. In the EU countries, various forms of tax support for small businesses are used, including income tax benefits, special value-added tax regimes, R&D tax credits, depreciation allowances, and programmes for financial support for innovative projects. It has been established that the effectiveness of fiscal incentives largely depends on the administrative simplicity of tax procedures, the targeting of incentives and the level of integration of financial and tax mechanisms for supporting small businesses. At the same time, significant differentiation of tax policies between the countries of the EU necessitates further improvement of mechanisms for fiscal support for small businesses, taking into account modern economic and innovation challenges.

Summarising the results of the analysis, it can be concluded that the tax policy of supporting small businesses in the EU countries is based on a combination of tax benefits, simplified administration regimes, incentives for innovative activity and mechanisms for attracting investments. A comparative analysis of Germany, France and Ireland showed that EU countries use different models of fiscal stimulation of small businesses depending on the characteristics of economic policy, the structure of the national economy and the priorities of state support. It was found that the most common instruments of supporting small businesses are preferential regimes of taxation by VAT, reduced corporate tax rates, tax credits for R&D, investment incentives and simplified tax administration procedures. In general, the effectiveness of fiscal support of small businesses in EU countries largely depends on the level of administrative simplicity, availability of tax incentives, stability of tax policy and integration of tax and financial mechanisms of supporting entrepreneurship.

The impact and effectiveness of fiscal incentives for the development of small businesses in the EU countries

Fiscal incentives in the EU countries significantly affect the level of innovation activity of small businesses, the investment attractiveness of the business environment and the long-term competitiveness of the economy. An analysis of Germany, France and Ireland showed that the most effective are mechanisms aimed at supporting R&D, digitalisation and innovative modernisation of enterprises. In Germany, the positive impact of fiscal incentives is manifested in the gradual increase in the innovation activity of small businesses. According to KfW Research: German SMEs… (2026), in 2022-2024, 41% of German small and medium-sized enterprises implemented at least one innovation, which is 2 percentage points more than in the previous period. The volume of small business spending on innovation in 2024 reached EUR 35.4 billion, and after adjusting for inflation, the real growth was about 3%. At the same time, the study showed a significant concentration of innovation activity among large enterprises: among companies with more than 50 employees, 73% of enterprises implemented innovations, while among micro-enterprises with up to 5 employees, only 37%. This indicates that even with the availability of tax incentives and support programmes, small businesses' access to innovation resources remains uneven (KfW Research: German SMEs…, 2026). The positive impact of tax incentives in Germany is also confirmed by the expansion of the R&D tax incentives system in 2024-2025. Increasing the Forschungszulage rate to 35% for small and medium-sized enterprises, increasing the maximum cost base to EUR 12 million, and simplifying the mechanisms for obtaining compensation have improved enterprises' access to financing for innovation projects. Of particular importance was the expansion of the list of eligible costs, including contract research, equipment depreciation and operating costs (Germany R&D tax relief regime…, n.d.). In France, the impact of fiscal incentives is most noticeable in the field of innovation and the development of high-tech entrepreneurship. According to the European innovation scoreboard 2025 (n.d.), France belongs to the Strong Innovators group and demonstrates a level of innovation efficiency of 108.6% of the EU average. The indicators of state support for business R&D are particularly high, where France ranks first among EU countries, as well as the volume of venture financing, in which the country ranks second in the EU.

The positive effect of fiscal support in France is largely ensured by the CIR (2025) and CII (2026) systems, which compensate for part of the costs of enterprises for research, development of prototypes and technological renewal. The European Commission notes that the main tax scheme had a significant positive impact on SMEs, stimulating their R&D activity and economic performance, while the effect for large companies was less pronounced. In addition, France demonstrates a high level of cooperation between innovative SMEs: the indicator of innovative SMEs collaborating with others is 131.3% of the EU average. This indicates a positive impact of state support not only on individual enterprises, but also on the development of innovation networks and partnerships. At the same time, the French experience has shown that significant amounts of tax incentives do not guarantee an automatic increase in the efficiency of commercialisation of innovations. Despite high levels of government support, France lags behind in terms of sales of new-to-market and new-to-firm innovations, which are only 52.1% of the EU average. In addition, the country shows low results in terms of cloud computing adoption and non-R&D innovation expenditures. This shows that the effectiveness of fiscal support depends on the ability of enterprises to integrate innovations into business processes, digital infrastructure and market activities (European innovation scoreboard 2025 country…, 2025a). In Ireland, the positive impact of fiscal

incentives on entrepreneurial activity was manifested through the development of innovative entrepreneurship, digital transformation and high-tech sectors of the economy. According to the European innovation scoreboard 2025 country… (2025a), Ireland belongs to the Strong Innovators group and ranks 5th among EU countries in terms of overall innovation efficiency. The country demonstrates high rates of SMEs introducing product innovations – 120.5% of the EU average, as well as one of the highest rates of cooperation between innovative SMEs – 178.1% of the EU average. One of the elements of this model is the system of indirect government support for business R&D through tax incentives. Direct and indirect government support of business R&D in Ireland is 144.3% of the EU average, with about 80% of all government support for innovative businesses provided through R&D tax credits. This mechanism has allowed for the formation of a stable environment for the development of high-tech SMEs, start-ups and knowledge-intensive services. At the same time, the low corporate tax rate and the Employment Investment Incentive, Start-Up Relief for Entrepreneurs and Knowledge Development Box programmes have contributed to attracting private capital and scaling innovative enterprises. Ireland also demonstrates a high level of business digitalisation, which is largely due to a combination of fiscal incentives and government digital programmes. The cloud computing adoption rate in 2025 was 146% of the EU average, and the Digital Intensity Index exceeded the European average and reached 41.1 against 34.2 in the EU (European innovation scoreboard 2025 country…, 2025b).

The effectiveness of the Irish model is also confirmed by the high economic indicators of the innovation sector. Sales of new-to-market and new-to-firm innovations in Ireland are 195.4% of the EU average, which is the highest rate among the EU countries. In addition, the country demonstrates high indicators of labour productivity – 256.2% of the EU average, knowledge-intensive services exports – 128.8% and exports of medium and high-tech products – 111.6%. This indicates that the combination of tax incentives, support for digitalisation and investments in the knowledge economy creates favourable conditions for the development of entrepreneurial activity and increasing the competitiveness of the economy (European innovation scoreboard 2025, n.d.). To summarise the impact of fiscal incentives on the development of small businesses and innovative activity in Germany, France and Ireland, it is advisable to conduct a comparative analysis of key indicators of the effectiveness of state support for entrepreneurship (Table 2).

Table 2. Impact of fiscal incentives on innovation activity and entrepreneurial development in Germany, France and Ireland

Indicator	Germany	France	Ireland
SMEs implementing innovations	41% of SMEs introduced at least one innovation during 2022-2024	High level of innovative SME cooperation	High level of product innovation among SMEs
Innovation expenditure	EUR 35.4 billion in 2024	High level of public support for business R&D	Significant share of support through R&D tax credits
Share of innovative large enterprises	73%	Strong innovation performance above EU average	Strong Innovator; 5th place in EU
Share of innovative microenterprises	37%	Lower commercialisation performance of innovations	High commercialisation of innovations
Government support for business R&D	Expanded Forschungszulage and innovation programmes	1st place in EU for public support of business R&D	144.3% of EU average
Venture capital and start-up support	Innovation grants and technology programmes	2nd place in EU by venture financing volumes	Strong venture and angel investment incentives
SMEs collaborating with others	Support through ZIM and KMU-innovative programmes	131.3% of EU average	178.1% of EU average
Cloud computing adoption	Moderate growth	Below EU average	146% of EU average
Sales of new-to-market innovations	Growth constrained by uneven SME access to innovation resources	52.1% of EU average	195.4% of EU average
Main impact of fiscal incentives	Support of technological modernisation and R&D	Support of innovation ecosystems and startup activity	Development of high-tech SMEs and digital economy

Source: compiled by the authors based on European innovation scoreboard 2025 country… (2025a; 2025b), KfW Research: German SMEs… (2026), Forschungszulage – up to EUR 3.5 million in R&D… (n.d.)

The comparative analysis showed that fiscal incentives in Germany, France and Ireland have different effects on the development of small businesses depending on the structure of tax policy and state support mechanisms. Germany focuses mainly on stimulating technological modernisation and supporting R&D through tax breaks and innovation programmes, France – on the development of innovation networks, start-ups and state funding for research, while Ireland demonstrates the highest indicators of digitalisation, commercialisation of

innovations and integration of tax incentives with mechanisms for attracting private capital. Overall, the results confirm that the most effective are models of fiscal support that combine tax incentives for R&D, simplification of administrative procedures, digitalisation of tax administration and development of venture financing for small businesses. Thus, the experience of Germany, France and Ireland shows that the effectiveness of fiscal support for small businesses is determined by a complex combination of tax incentives, innovation programmes, digitalisation of tax administration and access to financial resources for enterprises. The most effective models are those that combine tax credits for innovation activities with venture financing mechanisms, grant support and simplification of administrative procedures for small businesses. The results of this study are consistent with the findings of Y. Ding (2024), who also identified tax incentives in the field of VAT and corporate taxation as important instruments for reducing the financial burden on SMEs and stimulating innovation activity. Both studies confirmed that fiscal incentives contribute to enterprise modernisation and support the development of innovation-oriented sectors. However, while Y. Ding (2024) focused mainly on sectoral differences in the effectiveness of tax incentives in China, this study emphasised the comparative effectiveness of fiscal support models in Germany, France and Ireland within the framework of European economic integration. Similar conclusions regarding the role of fiscal incentives in supporting enterprise sustainability and investment activity were presented by K.O. Deyganto (2022). Both studies showed that tax incentives may strengthen the economic resilience of SMEs and facilitate the redirection of resources toward modernisation and business development. At the same time, this study focused primarily on long-term mechanisms of innovation and investment support in EU countries rather than on anti-crisis fiscal measures.

The findings of this study also complement the conclusions of P. Du *et al.* (2022), who emphasised the importance of government support and financial instruments for enterprise development. While P. Du *et al.* (2022) analysed fiscal incentives mainly through the perspective of ESG and financial technologies, this study examined them as instruments for stimulating innovation, technological modernisation and the competitiveness of SMEs in the EU. The conclusions are also consistent with the work of A. Lynch *et al.* (2026) and L. Judijanto (2024), which highlighted the importance of institutional conditions, financial awareness and administrative accessibility for the effectiveness of tax incentives. In contrast to these studies, which focused mainly on generalised or behavioural aspects of fiscal policy, this research concentrated on the practical effectiveness of fiscal support instruments in Germany, France and Ireland, particularly their influence on innovation activity, commercialisation and SME competitiveness. The comparative analysis showed that Germany, France and Ireland apply different fiscal support models for small businesses depending on national economic priorities and the structure of their tax systems. Germany's model is focused on technological modernisation and industrial innovation through accelerated depreciation, R&D incentives and digital tax administration. France demonstrates a stronger role of the state in financing innovation activity through large-scale tax credits and startup support mechanisms, while Ireland's approach is based on maintaining low corporate taxation and stimulating private investment and venture financing The analysis also showed that the effectiveness of fiscal incentives depends not only on the scale of tax benefits, but also on the level of administrative simplicity and the orientation of support instruments toward commercialisation and investment activity. Countries combining tax incentives with simplified administration and access to financing demonstrate higher indicators of innovation activity and SME competitiveness. At the same time, high fiscal complexity, uneven access of microenterprises to innovation resources and dependence on external investment may reduce the long-term effectiveness of support mechanisms.

CONCLUSIONS

Summarising the results of the study, it can be concluded that fiscal incentives are an important instrument for supporting small businesses in the EU, contributing to innovation activity, investment development and enterprise competitiveness. EU countries apply tax incentives, special VAT regimes, R&D tax credits and simplified tax administration mechanisms to support SMEs. The study showed that Germany, France and Ireland use different models of fiscal support depending on national economic priorities. Germany focused mainly on technological modernisation and innovation support through accelerated depreciation and R&D programmes. During 2022-2024, 41% of German SMEs implemented at least one innovation, while innovation expenditures reached EUR 35.4 billion in 2024. However, innovation activity remained unevenly distributed, as 73% of large enterprises introduced innovations compared to 37% of microenterprises. France emphasised support for R&D and start-ups through the CIR and CII mechanisms. France demonstrated an innovation efficiency level of 108.6% of the EU average and ranked first in the EU in government support for business R&D, although sales of new-to-market and new-to-firm innovations accounted for only 52.1% of the EU average. The highest effectiveness indicators were observed in Ireland, where a 12.5% corporate tax rate was combined with innovation incentives and private investment support mechanisms. SMEs introducing product innovations reached 120.5% of the EU average, while sales of new-to-market and new-to-firm innovations amounted to 195.4% of the EU average. Ireland also demonstrated labour productivity at 256.2% of the EU average. The comparative analysis confirmed that the most effective fiscal support models combine innovation tax incentives,

administrative simplification and mechanisms for attracting private investment. Further research may focus on econometric analysis of the long-term impact of fiscal incentives on SME competitiveness in the EU.

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CONFLICT OF INTEREST

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Фіскальні стимули розвитку малого підприємництва в країнах Європейського Союзу

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Анотація. Метою дослідження було оцінювання ефективності фіскальних інструментів підтримки малого бізнесу в Європейському Союзі на прикладі Німеччини, Франції та Ірландії. Методологія базувалася на аналізі нормативно-правових і статистичних джерел, порівняльному аналізі податкової політики та оцінюванні інноваційних показників малих і середніх підприємств у 2022-2025 роках. Результати засвідчили, що найефективніші моделі поєднували податкові стимули для інновацій, цифровізацію податкового адміністрування та механізми залучення приватного капіталу. Показники Німеччини, де 41 % малих і середніх підприємств упровадили щонайменше одну інновацію протягом 2022-2024 років, а витрати на інновації у 2024 році сягнули 35,4 млрд євро, продемонстрували відносно високий рівень інноваційної активності за підтримки фіскальних та інвестиційних стимулів, хоча розрив між великими підприємствами (73 %) та мікропідприємствами (37 %) відображав нерівний доступ до інноваційних ресурсів. Рівень ефективності інновацій у Франції, що становить 108,6 % від середнього показника по Європейському Союзу, підтвердив важливу роль податкових кредитів та державного фінансування в підтримці науково-дослідних і дослідно-конструкторських робіт. Показники Ірландії, зокрема впровадження малими та середніми підприємствами продуктових інновацій на рівні 120,5 % від середнього по ЄС та продуктивність праці на рівні 256,2 %, відобразили ефективність поєднання низького корпоративного оподаткування з інвестиційними стимулами. Дослідження встановило, що ефективність фіскальних інструментів залежить не лише від податкових пільг, а й від спрощення адміністративних процедур та інтеграції механізмів податкової та фінансової підтримки. Практичне значення дослідження полягає в можливості використання його результатів для вдосконалення фіскальних інструментів підтримки та формування інноваційно орієнтованої податкової політики для малого бізнесу в країнах Європейського Союзу

Ключові слова: податкова політика; корпоративне оподаткування; податок на додану вартість; економічне зростання; підтримка інновацій