



AI IN ACCOUNTING (II)

AI Regulation & Legal Implications for SMPs in the EU

The EU's Artificial Intelligence Act (AI Act) represents the world's first comprehensive legal framework for AI, establishing a new paradigm for how AI is deployed and used across the EU. For SMPs, understanding this regulatory landscape is not merely a compliance exercise, but a strategic imperative that will shape their digital transformation journey.

The AI Act extends far beyond a set of rules. It creates a unified regulatory environment across all 27 EU member states, ensuring that SMPs operating across borders can navigate a consistent legal framework. This is crucial for SMPs so that they are not burdened with unnecessary requirements.

For SMPs, the stakes are high. Unlike larger organizations with dedicated compliance teams, smaller practices must balance the complexity of AI regulations with limited resources. The AI Act recognizes this challenge, and thus incorporates specific provisions designed to support SMEs and SMPs throughout these operations.

The EU AI Act: Foundation of AI Regulation

The AI Act entered into force on August 1, 2024 and established the cornerstone of European AI governance through Regulation (EU) 2024/1689. It creates immediate legal obligations that apply consistently across the entire EU market. Its core objectives center on fostering trustworthy AI while maintaining Europe's competitive position in the global AI landscape.

For SMPs, this translates into a regulatory framework that tries to

strike a balance between innovation and risk mitigation. It recognizes that AI systems can help solve societal challenges while acknowledging that certain applications create risks that require regulatory intervention.

Its implementation is in phases to allow organizations to adapt gradually:

- **February 2, 2025:** most restrictive provisions
- **August 2, 2025:** General purpose AI model obligations
- **August 2, 2026:** comprehensive framework becomes fully applicable

Risk-Based Approach to AI Regulation

Unacceptable Risk AI Systems

- Entirely prohibited
- Includes social scoring systems, manipulative AI, real-time biometric identification, etc.

SMPs → Unlikely to directly impact typical accounting applications

High-Risk AI Systems

- Most stringent requirements
- Includes creditworthiness assessments and critical infrastructure management

SMPs → Covers performance monitoring systems and task allocation algorithms

Limited Risk AI Systems

- Primarily transparency obligations
- Includes disclosure when individuals react with AI systems

SMPs → Making clients understand they're using AI-powered chatbots and document review tools

Minimal Risk AI Systems

- Few regulatory constraints
- Covers most traditional AI applications like spam filters and recommendation systems

SMPs → Many standard accounting software features fall under this

Legal Obligations for SMPs Using AI

The AI Act delineates distinct roles and responsibilities within the AI value chain. SMPs could act as providers, deployers, or users depending on their AI implementations. To determine their obligations and compliance requirements, it's important to understand these roles.

Provider obligations apply to entities developing AI systems on the EU market. While most SMPs will not be AI providers, those customizing AI solutions or modifying existing systems may acquire provider status.

Deployer obligations apply to SMPs that use AI systems in their professional activities and includes most practical AI use cases in accounting practices. Deployers must ensure human oversight, monitor AI system performance, and maintain records of AI system usage.

Documentation and transparency requirements form the cornerstone of AI Act compliance, requiring SMPs to maintain detailed records of their AI system usage. For SMEs, simplified templates are being developed.

Special Provisions for SMPs and SMEs

The AI Act includes extensive provisions specifically designed to support small and medium-sized enterprises, recognizing their crucial role in driving AI innovation while acknowledging their resource constraints. These supportive measures create a more accessible regulatory environment for SMPs compared to larger organizations.

Tailored Support Mechanisms

These include reduced compliance costs proportional to company size, simplified documentation requirements, and dedicated communication channels for SME inquiries. The European Commission must regularly assess and work to lower compliance costs for SMEs, ensuring that regulatory burdens don't disproportionately impact smaller practices. Assessment fees for conformity assessments must be proportionate to SME size and market share, preventing excessive financial burdens

Priority Access to Regulatory Sandboxes

This provides SMPs with valuable

opportunities to test AI systems under regulatory supervision without the full compliance burden. This access includes simplified procedures and clear guidelines specifically designed for smaller organizations. SMPs can use sandboxes to validate their AI implementations, receive regulatory feedback, and build confidence in their compliance approaches before full market deployment.

Simplified Compliance Pathways

These acknowledge that SMPs cannot maintain the same compliance infrastructure as larger organizations. The AI Act requires the European Commission to develop simplified technical documentation forms that are accepted by national authorities, reducing the administrative burden while maintaining regulatory oversight. Training activities tailored to SME needs will help smaller practices understand and comply with AI Act requirements without requiring extensive legal expertise.

Transparency and Accountability

Transparency requirements create significant obligations for SMPs. These aim to ensure that AI decision-making processes remain comprehensible and accountable. Generative and general-purpose AI rules place obligations on both providers and deployers.

Providers must follow EU copyright law, publish training data summaries, and enforce copyright compliance. While SMPs using tools like ChatGPT aren't directly responsible as providers, they must ensure their chosen tools meet these requirements.

Disclosure, labeling, and copyright compliance requirements mean SMPs must label AI-generated content clearly and ensure clients are aware when interacting with AI, maintaining transparency and respecting copyright.



Penalties and Enforcement

The AI Act establishes some of the most stringent penalties in EU regulatory history, with fines potentially higher than GDPR. For SMPs, understanding the penalty structure is crucial for risk assessment and compliance prioritization.

Fines and sanctions follow a tiered structure based on violation severity. Violations of prohibited AI practices carry the highest penalties—up to €35 million or 7% of annual turnover, whichever is higher. Non-compliance with most other AI Act obligations faces fines up to €15 million or 3% of annual

worldwide turnover. Even providing incorrect or incomplete information to authorities can result in fines up to €7.5 million or 1% of annual turnover.

For SMEs, the lower of the percentage or fixed amount applies, providing some protection against disproportionate penalties. However, even reduced penalties can be substantial, making compliance a critical business priority. The Act explicitly requires that penalties consider SME interests and viability, but this doesn't eliminate the risk of significant financial impact.

Preparing for Compliance

Developing an effective AI Act compliance strategy requires SMPs to take systematic steps to assess, document, and manage their AI usage. This preparation process should begin immediately, even for AI systems that won't face full compliance requirements until 2026.

Practical steps for SMPs begin with comprehensive AI system assessment. SMPs should inventory all AI tools and systems in use, from obvious applications to less visible features in standard software. Each system should be classified by AI Act risk category, with obligations and timelines noted. Assessments should be documented and updated as new tools are adopted or changed.

Risk management and documentation systems must be established to support ongoing compliance. For high-risk AI systems, SMPs must implement comprehensive risk management frameworks, including regular monitoring, incident reporting, and performance

assessment. Even for lower-risk systems, maintaining basic documentation of AI usage, decision-making processes, and human oversight measures provides valuable protection and demonstrates good faith compliance efforts.

Training and capacity-building for staff represents a critical investment in compliance preparedness. The AI Act's literacy requirements apply to all AI users, requiring SMPs to ensure their staff understand AI capabilities, limitations, and risks – covering both technical aspects and legal obligations.

The AI Act is just the start of EU AI regulation, with future developments set to shape the landscape for SMPs. As these trends unfold, it is essential that regulators apply the 'think small firm' principle, ensuring proportionality, considering the resources of SMPs and SMEs, and striving for homogeneity across the EU to support fair compliance.



About EFAA

The European Federation of Accountants and Auditors for SMEs is an umbrella organization for national accountants and auditors' organizations whose individual members provide professional services primarily to SMEs within the European Union and Europe as a whole. It was founded in 1994.

EFAA for SMEs has 15 members throughout Europe representing over 400,000 accountants, auditors and tax advisors.

EFAA for SMEs is a member of the association of crafts and SMEs (SME united) and a founding member of the European Financial Reporting Advisory Group (EFRAG).