



Guide to the SME scheme

(applicable from 1 January 2025)

Disclaimer: These Explanatory Notes are not legally binding and only contain practical and informal guidance about how EU law should be applied on the basis of the views of the Commission's Directorate-General for Taxation and Customs Union.

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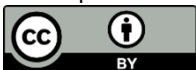
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General information on this guide

This guide aims to provide a better understanding of the EU legislation¹ relating to the new rules concerning the special scheme for small enterprises applicable from 1 January 2025 as well as to clarify the practical application of these rules.

The guide is mainly addressed to small enterprises interested in the application of the special scheme for small enterprises, which will find through the guide the key elements of the functioning of the special scheme.

This guide is not legally binding and is only a practical and informal guidance about how the EU law is to be applied on the basis of the views of DG TAXUD.

The guide is a work in progress: it is neither exhaustive nor a final product but reflects the state of play at a certain point in time in accordance with the knowledge and experience available at that time. Over time, it is expected that additional elements may be needed.

¹ **Council Directive (EU) 2020/285** of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises.

Commission Implementing Regulation (EU) 2021/2007 of 16 November 2021 laying down detailed rules for the application of Council Regulation (EU) No 904/2010 as regards the special scheme for small enterprises

Background

The special scheme for small enterprises (hereinafter referred to as 'SME scheme') aims to reduce the compliance costs borne by small enterprises, which are proportionally higher than those borne by large businesses due to their more limited resources to cope with the complexity and fragmentation of the VAT system in the EU.

Before the amendment of the VAT Directive regarding the SME scheme (which will apply as from 1 January 2025), small enterprises could only benefit from exemption under the SME scheme if they were established in the Member State where the VAT was due. As a result, small enterprises making transactions in Member States where they were not established had to register and to fulfil the VAT obligations (submit periodical VAT returns, issue full invoices, account for VAT etc.) in each Member State where VAT was due. This had a negative effect on competitiveness in the internal market for companies not established in the Member State where VAT was due compared to those established there, which made it necessary to amend the rules governing the special scheme.

Thus, **from 1 January 2025**, the SME scheme will also allow taxable persons established in a Member State to **exempt from VAT** supplies of goods and services made in Member States where they are not established and to benefit from simplified VAT obligations provided that their annual turnover in those Member States does not exceed the national threshold and their Union annual turnover does not exceed the amount of EUR 100 000. Thus, **both taxable persons established in the Member State where the VAT is due and those established in another Member State will be eligible for the SME scheme in the Member State where the VAT is due**. Taxable persons are not allowed to deduct the input VAT on their purchases of goods and services used for transactions covered by the SME scheme.

Two levels of application can thus be distinguished:

- a) At domestic level: application of the special scheme by small enterprises only in their Member State of establishment.
- b) Cross-border: application of the special scheme by small enterprises in one or more Member States other than their Member State of establishment whether the SME scheme is applied at the domestic level or not.

Taxable persons who want to avail themselves of the exemption in a Member State in which they are not established will have to submit a prior notification to their Member State of establishment. To get access to the exemption, such taxable persons must first be **identified by an individual number with the suffix 'EX' in their Member State of establishment only**.

Taxable persons benefiting from the exemption in a Member State in which they are not established must **report for each calendar quarter** their turnover in all 27 Member States to the Member State of establishment. This will allow compliant taxable persons to be released from VAT registration and from the obligation to submit VAT returns in those Member States other than the Member State of establishment where exemption is applied. If taxable persons fail to comply with their quarterly reporting obligations, they may be required by the Member State where exemption is applied to comply with the general VAT registration and reporting obligations laid down in that Member States' national VAT legislation.

The **SME scheme is optional** and can be applied in one or more Member States. The following scenarios can be identified:

- a) The application of the SME scheme only in the Member State of establishment (domestic SME scheme).
- b) The application of the SME scheme only in one or more Member States other than the Member State of establishment (cross-border SME scheme).
- c) The application of the SME scheme in the Member State of establishment and in other Member State(s) of its choice in which VAT is due (cross-border SME scheme).

To provide taxable persons with a clear understanding of the new rules concerning the SME scheme that will apply as from 1 January 2025, the Commission has compiled the most important points in the form of a Guide to the SME scheme. This guide covers the following elements:

- The registration process.
- Formal obligations.
- Cessation and exclusion.
- Input VAT deduction.

For the purposes of this guide, it is important to clarify some **concepts**:

1) SME scheme – means the special scheme for small enterprises as laid down in Title XII, Chapter 1 of the VAT Directive².

2) Domestic SME scheme – means the special scheme for small enterprises applicable only in the Member State where the taxable person is established.

² In its wording as of 1 January 2025.

3) Cross-border SME scheme – means the special scheme for small enterprises applicable in Member States other than the Member State of establishment of the taxable person only or both in the Member State of establishment and in other Member States.

4) Exempt small enterprise – in the context of the SME scheme, an exempt small enterprise is any taxable person benefitting from the VAT exemption under the SME scheme in the Member State in which the VAT is due.

5) Member State – is a country of the EU to which the Treaty establishing the European Community is applicable.

6) Member State of establishment (MSEST) – is the Member State where the taxable person is established, i.e., where the seat of the economic activity is located.

7) Member State of exemption (MSEXE) – is a Member State other than that of establishment in which a taxable person is eligible for exemption under the SME scheme on its supplies of goods and services.

8) National annual threshold – refers to the annual turnover threshold fixed by a Member State below which a taxable person may be eligible to apply the SME scheme in that Member State and be granted a VAT exemption. A national annual turnover threshold cannot be higher than EUR 85 000 (or the equivalent in national currency). See definition of ‘Member State annual turnover’.

9) Sectoral thresholds – where a Member State applies more than one national annual threshold, these thresholds are considered sectoral thresholds. None of these sectoral thresholds can be higher than EUR 85 000 (or the equivalent in national currency).

10) Member State annual turnover – means the total annual value of supplies of goods and services, exclusive of VAT, made by a taxable person within that Member State during a calendar year, whether taxed or exempt.

11) Union annual threshold – refers to the Union annual turnover threshold which is EUR 100 000.

12) Union annual turnover – means the total annual value of supplies of goods and services, exclusive of VAT, made by a taxable person within the territory of the Community during a calendar year, whether taxed or exempt.

13) ‘EX’ number – is the individual identification number allocated by the Member State of establishment to the taxable person wanting to apply the cross-border SME scheme. The individual identification number is suffixed with ‘EX’.

14) Working days – are all days other than public holidays, Saturdays and Sundays, according to Article 2(2) of [Regulation \(ECC, Euratom\) No 1182/71](#) of the Council of 3 June 1971 determining the rules applicable to periods, dates and time limits.

1. General information on the SME scheme

This section focuses on the general aspects of the exemption of the SME scheme both at domestic and cross-border level.

1.1. Who can apply the exemption of the SME scheme?

Only taxable persons considered small enterprises can apply the exemption of the SME scheme.

For the purpose of the **domestic SME scheme**, a taxable person is considered to be a small enterprise when it meets the following conditions:

- It is established in a Member State.
- Its annual turnover in the Member State where the small enterprise is established does not exceed the national threshold set by that Member State.

For the purposes of the **cross-border SME scheme**, a taxable person is considered to be a small enterprise if it meets the following conditions:

- It is established in a Member State.
- Its annual turnover in the EU (27 Member States) does not exceed EUR 100 000.
- Its annual turnover in the Member State granting the exemption does not exceed the national threshold set by that Member State.

1.2. Which is the Member State of establishment?

For the purposes of applying the SME scheme only, the Member State of establishment is the Member State in which the taxable person has the seat of its economic activity, i.e. the Member State in which the taxable person carries out the functions of its central administration (essential decisions-making concerning the general management). If the taxable person is a natural person (professionals, freelancers...), the Member State of

establishment may be the Member State in which the taxable person has its permanent address.

A Member State in which the taxable person has a fixed establishment or in which it is identified for VAT purposes without having a fixed establishment is not considered to be a Member State of establishment.

EXAMPLE:

If a taxable person has the seat of its economic activity in Member State 1 and a fixed establishment in Member State 2, the taxable person can only be considered established in Member State 1 under the SME scheme.

1.3. Can a taxable person established in a Member State apply the SME scheme in another Member State where it has a fixed establishment or a VAT registration number without fixed establishment?

A taxable person established in a Member State **can** apply the SME scheme (**cross-border SME scheme**) in another Member State where it has a fixed establishment or VAT registration number without fixed establishment if once it is granted access to the cross-border SME scheme in that Member State it **deregisters** for VAT purposes in that Member State.

If the taxable person is already applying the SME scheme in a Member State where it has a fixed establishment and wants to continue to apply the SME scheme from 1 January 2025, the taxable person has to follow the registration process for the cross-border SME scheme (section 3.2). Once the taxable person is granted access to the cross-border SME scheme in that Member State, it has to deregister its fixed establishment for VAT purposes in that Member State.

1.4. Can a taxable person established in a non-EU country with a fixed establishment in a Member State apply the SME scheme?

A taxable person established in a non-EU country with a fixed establishment in a Member State **cannot** apply the SME scheme because it is not considered to be established in a Member State.

1.5. Which transactions can be covered by the SME scheme?

When a taxable person opts to apply the SME scheme in a particular Member State, the SME scheme will be applied to all supplies of goods and services carried out by the taxable person in that Member State, i.e., in the Member State in which the VAT on those supplies is due. Under the SME scheme, the taxable person *does not have to charge VAT on its supplies and is not entitled to deduct input VAT on its purchases related to the transactions covered by the SME scheme.*

However, certain **transactions** are **excluded** from the SME scheme. These transactions are the following:

- a) Transactions carried out on an occasional basis.
- b) Exempt supplies of new means of transport made from one Member State to another Member State.
- c) Other transactions excluded by the Member State in its jurisdiction (see information available for each Member State on the [SME web portal](#)).

Nevertheless, if any of the transactions carried out by the taxable person is one of the above, this will not exclude the taxable person from the application of the SME scheme in respect of all its economic activities. Instead, the taxable person will apply the standard VAT regime on the transactions excluded from the SME scheme and will be able to apply the SME scheme in respect of the rest of the activities if it meets the conditions.

1.6. How is the annual turnover calculated?

The annual turnover of a taxable person in a given Member State is the total value of its supplies of goods and services, exclusive of VAT, made by the taxable person in that Member State during a calendar year. In other words, only output transactions with a place of supply in that Member State are included. Purchases are not part of the calculation of the annual turnover.

The following amounts, exclusive of VAT, shall be taken into account for the calculation of the annual turnover in a Member State:

- The value of supplies of goods and services, in so far as they would be taxed if they were not made under the SME scheme.
- The value of transactions which are exempt in the Member State concerned, with deductibility of the VAT paid at the preceding stage (zero rated transactions).
- The value of the following exempt transactions: export transactions, transactions related to international transport, transactions treated as exports and supplies of services by intermediaries taking part in any of the aforementioned transactions.
- The value of exempt intra-Community supplies of goods (supplies of goods dispatched or transported from one Member State to another Member State).
- The value of real estate transactions, exempt financial transactions, and insurance and reinsurance services, unless those transactions are ancillary transactions.
- The transfer of goods forming part of the business assets of the taxable person to another Member State for the purposes of its business (transfer of own goods). In this case, the amount to be included in the calculation of the annual turnover is the purchase price of the good transferred, or in the absence of a purchase price, the cost price of those goods. This amount shall be included in the calculation of the taxable person's turnover in the Member State of departure of the goods.

However, disposals of the tangible or intangible capital assets of a taxable person shall not be taken into account to calculate the annual turnover.

1.7. How is the Union annual turnover calculated?

If the taxable person carries out transactions in more than one Member State it will have to calculate its national annual turnover by Member State. Its **Union annual turnover** will be the sum of all those national turnovers, taxed or exempt.

EXAMPLE:

A taxable person established in Member State 1 carries out transactions in Member State 1 and Member State 2. The transactions made in 2025 are the following:

Transactions in Member State 1:

- *Supplies of goods to customers in Member State 1: EUR 30 000*
- *Supplies of services to customers in Member State 1: EUR 20 000.*
- *Supplies of goods to enterprises established in Member State 2 and Member State 3 (intra-Community supplies of goods): EUR 9 000.*
- *Supplies of goods to final consumers established in Member State 2 (intra-Community distance sales of goods): EUR 6 000.*
- *Purchases of goods from suppliers established in Member State 3 (intra-Community acquisitions of goods): EUR 3 000.*
- *Supplies of goods to customers established in a non-EU country (exports of goods): EUR 12 000.*
- *Sale of an industrial building used as warehouse (disposal of the tangible capital assets): EUR 500 000.*
- *Transfer of own goods from Member State 1 to Member State 2: EUR 1 000*

Transactions in Member State 2:

- *Supplies of goods to customers in Member State 2: EUR 17 000.*
- *Supplies of services from Member State 1 to enterprises established in Member State 2: EUR 2 300*
- *Exports of goods: EUR 2 000.*
- *Intra-Community acquisition of goods: EUR 1 000.*

Scenario 1: *The taxable person applies the standard VAT regime in Member State 1 and Member State 2. For intra-Community distance sales of goods, the taxable person opts to apply*

the taxation at origin rule, so the place of supply of these transactions is Member State 1, i.e., the place where the goods are located at the time when dispatch or transport of the goods to the customer begins.

Under this scenario, the national annual turnover of the taxable person in Member State 1 and Member State 2 in 2025 includes the following values:

	Member State 1 (EUR)	Member State 2 (EUR)
1. Supplies of goods	30 000	17 000
2. Supplies of services	20 000	2 300
3. Intra-Community supplies of goods*	9 000	
4. Intra-Community distance sales of goods	6 000	
5. Exports of goods	12 000	2 000
6. Transfer of own goods**	1 000	
NATIONAL ANNUAL TURNOVER (1 + 2 + 3 + 4 + 5 + 6)	78 000	21 300
UNION ANNUAL TURNOVER (78 000 + 21 300)	99 300	

** The intra-Community supplies of goods are exempt from VAT in Member State 1 under the standard VAT regime.*

*** The transfer of own goods is exempt from VAT in Member State 1 under the standard VAT regime and follows the same treatment as intra-Community supplies of goods.*

The intra-Community acquisitions of goods are not taken into account in the calculation of the turnover because they are purchases.

The sale of an industrial building used as warehouse, as it is a disposal of the tangible capital assets, is not included in the calculation of the turnover either.

Scenario 2: *The taxable person applies the SME scheme in Member State 1 and the standard VAT regime in Member State 2. For intra-Community distance sales of goods, the taxable person opts to apply the taxation at destination rule, so the place of supply of these transactions is Member State 2, i.e., the place where the goods are located at the time when dispatch or transport of the goods to the customer ends.*

Under this scenario, the national annual turnover of the taxable person in Member State 1 and Member State 2 in 2025 includes the following values:

	Member State 1 (EUR)	Member State 2 (EUR)
1. Supplies of goods	30 000	17 000
2. Supplies of services	20 000	2 300
3. Intra-Community supplies of goods*	9 000	
4. Intra-Community distance sales of goods		6 000
5. Exports of goods	12 000	2 000
6. Transfer of own goods**	1 000	
NATIONAL ANNUAL TURNOVER (1 + 2 + 3 + 4 + 5 + 6)	72 000	27 300
UNION ANNUAL TURNOVER (78 000 + 27 300)	99 300	

* *The intra-Community supplies of goods are exempt from VAT in Member State 1 under the SME scheme and follows the same treatment as domestic supplies of goods and services.*

** *The transfer of own goods is exempt from VAT in Member State 1 under the SME scheme and follows the same treatment as domestic supplies of goods and services.*

1.8. Can a taxable person registered for the One Stop Shop (OSS) Union scheme also apply the SME scheme?

Yes, provided that the taxable person meets all the conditions to apply the SME scheme. Therefore, a taxable person, if eligible, can use the SME scheme in one Member State and at the same time be registered for the OSS Union scheme to declare its supplies and pay VAT due in other Member States.

1.9. Can a taxable person registered for the Import One Stop Shop (IOSS) apply the SME scheme?

No, the IOSS and the SME scheme are mutually exclusive. A taxable person using the IOSS has to opt out of the IOSS scheme to be able to apply the SME scheme and vice versa.

2. Domestic SME scheme

The domestic SME scheme is the application of the SME scheme by a taxable person in its Member State of establishment **only**.

If a taxable person wants to apply the SME scheme in its Member State of establishment and in other Member State(s), it should consult section 3 on the cross-border SME scheme.

2.1. Access to the domestic SME scheme

2.1.1. What are the conditions for applying the domestic SME scheme?

A taxable person can benefit from the SME scheme in its Member State of establishment if its annual turnover in that Member State does not exceed the national annual threshold fixed by that Member State in the current calendar year and in the preceding calendar year (or in the two preceding calendar years if so set by the Member State of establishment).

That is, the total value of supplies of goods and services, exclusive of VAT, made by the taxable person in its Member State of establishment must not be higher than the threshold set by that Member State.

That national threshold cannot be higher than EUR 85 000 or its equivalent in national currency if the Member State has not adopted the euro.

Nevertheless, the Member State of establishment can set different thresholds for different business sectors (sectoral thresholds). However, none of these sectoral thresholds can be higher than EUR 85 000 and, in addition, the taxable person wishing to apply the domestic SME scheme can only use one of those sectoral thresholds for all its supplies in that Member State. In this case, the Member State will provide clear guidance to the taxable person on which sectoral threshold should be used (see the national annual threshold applicable per Member State on the [SME web portal](#)).

A taxable person may check whether it is eligible to apply the domestic SME scheme by using the simulator exercise available on the [SME web portal](#). The simulator provides indicative information only and does therefore not give a right to claim access to the SME scheme in any of the Member States.

EXAMPLE:

On 1 June 2025, a taxable person established in Member State 1 wants to apply the domestic SME scheme in respect of its supplies of goods and services in that Member State. The national annual threshold set by Member State 1 is EUR 85 000.

Scenario 1: Member State 1 has established that to benefit from the SME scheme in its territory the national annual threshold cannot be exceeded in the current calendar year and in the previous calendar year.

The annual turnovers of the taxable person in Member State 1 are as follows:

Member State	National threshold (EUR)	Annual turnover in 2024 (EUR)	Annual turnover in 2025 (from 1 January to 1 June) (EUR)	Eligibility to apply SME scheme
Member State 1	85 000	50 000	20 000	Yes

In this case, as the taxable person is established in Member State 1 and its annual turnover in that Member State in both 2024 (EUR 50 000) and 2025 (EUR 20 000) is not higher than the national annual threshold (EUR 85 000), the taxable person meets the conditions to apply the domestic SME scheme in its Member State of establishment (Member State 1).

Scenario 2: Member State 1 has established that to benefit from the SME scheme in its territory the national annual threshold cannot be exceeded in the current calendar year and in the two previous calendar years.

The annual turnovers of the taxable person in Member State 1 are as follows:

Member State	National threshold (EUR)	Annual turnover in 2023 (EUR)	Annual turnover in 2024 (EUR)	Annual turnover in 2025 (from 1 January to 1 June) (EUR)	Eligibility to apply SME scheme
Member State 1	85 000	86 000	50 000	20 000	No

In this case, the annual turnover of the taxable person in Member State 1 in 2024 and 2025 is not higher than the national threshold (EUR 85 000) but its annual turnover in 2023 (EUR 86 000) is higher. Therefore, the taxable person does not meet the conditions to apply the domestic SME scheme in its Member State of establishment (Member State 1).

2.1.2. How to register for the domestic SME scheme?

If a taxable person wishes to apply the domestic SME scheme in its Member State of establishment **only**, it must follow the rules and processes laid down by that Member State (see information available for each Member State on the [SME web portal](#)).

2.2. Formal obligations

A taxable person benefiting ONLY from the domestic SME scheme in its Member State of establishment (without applying the cross-border SME scheme) may be released from the following VAT obligations in respect of its supplies covered by the domestic SME scheme:

- a) To state the beginning of its activity.
- b) To be identified by means of an individual number.
- c) To submit a VAT return.
- d) To issue invoices.
- e) To keep accounts.
- f) To submit administrative statements.

However, the taxable person must state the beginning of its activity and be registered for VAT purposes in the following cases:

- a) The taxable person makes intra-Community acquisitions of goods subject to VAT.
- b) The taxable person receives services for which it is liable to pay VAT.
- c) The taxable person supplies services within the territory of another Member State for which VAT is payable solely by the recipient.

If the Member State of establishment decides not to release the taxable person from the obligations of stating the beginning of its activity and of being identified by means of an individual number, it will set a VAT registration procedure which will take no longer than 15 working days. This period may be longer if the Member State needs more time to carry out the necessary checks to prevent situations of tax evasion or avoidance.

If the Member State of establishment decides not to release the taxable person from the obligation of submitting a VAT return, it will set an annual simplified VAT return. However, the

taxable person may opt for submitting the VAT return during the tax period set by the Member State of establishment under the standard VAT regime (quarterly, bimonthly or monthly).

If the Member State of establishment decides not to release the taxable person from the obligation to issue invoices, it will allow the taxable person to issue simplified invoices.

More information on the rules applicable in your Member State of establishment is available on the [SME web portal](#).

2.3. Leaving the domestic SME scheme

A taxable person can leave the domestic SME scheme voluntarily (cessation), or it can be excluded from the scheme by its Member State of establishment when the conditions to use the domestic SME scheme are not fulfilled anymore (exclusion).

In case of exclusion, the taxable person is barred from using the domestic SME scheme for a certain period. The taxable person may also be barred upon cessation.

2.3.1. Cessation

2.3.1.1. How to cease applying the domestic SME scheme?

An exempt small enterprise can always opt out the domestic SME scheme. In that case, it should follow the detailed rules and conditions to exercise that option as set by its Member State of establishment (see information available for each Member State on the [SME web portal](#)).

Once leaving the domestic SME scheme, the taxable person may opt to apply the standard VAT regime or the simplified procedures, if the case may be, according to the national legislation (see information available for each Member State on the [SME web portal](#)).

2.3.1.2. When to re-apply the domestic SME scheme after voluntarily leaving?

In the event of a taxable person voluntarily leaving the domestic SME scheme, the Member State of establishment may provide for a quarantine period during which the taxable person cannot apply the domestic SME scheme. At the end of this period the taxable person may opt again to apply the domestic SME scheme if it fulfils all the conditions (see information available for each Member State on the [SME web portal](#)).

2.3.2. Exclusion

2.3.2.1. When is a taxable person excluded from the domestic SME scheme?

A taxable person applying the domestic SME scheme is excluded from this scheme when, during the current calendar year or in the preceding calendar year, its annual turnover exceeds the national annual threshold of its Member State of establishment.

When during the current calendar year, the taxable person exceeds the national threshold set by the Member State of establishment, different consequences might be triggered depending on the options exercised by the Member State of establishment³:

- a) By default, if during the current calendar year the national threshold is exceeded by not more than **10%**, the taxable person can enjoy a transitional period and will be able to continue to benefit from the domestic SME scheme until the end of that calendar year. If however during the calendar year the national threshold is exceeded by more than 10% the taxable person must cease to apply the domestic SME scheme as of that time.
- b) Then, it might be that the Member State of establishment decides to raise the ceiling from 10% to **25%** or, alternatively, **not to set any ceiling** at all. These options have the only limit that they cannot result in exempting a taxable person whose turnover within the Member State of establishment exceeds EUR 100 000 in the current calendar year.
- c) Finally, the Member State of establishment could also determine that the domestic SME scheme ceases to apply as soon as the national threshold is exceeded. In other words, the Member State of establishment can decide that no transitional period will apply in case the national threshold is exceeded during the current calendar year.

EXAMPLE:

A taxable person established in Member State 1 is benefiting from the domestic SME scheme in that Member State. The national annual turnover threshold in Member State 1 is EUR 85 000.

***Scenario 1:** Member State 1 applies a **ceiling of 10%** of the national annual turnover threshold (ceiling of EUR 93 500) in case the threshold is exceeded during the current calendar year. On 12 July 2026, the annual turnover of the taxable person in Member State 1 is EUR 84 700. On 13 July 2026, the taxable person makes a new supply in Member State 1 of EUR 400. On*

³ See the option exercised by your Member State of establishment on the [SME web portal](#).

13 November, the annual turnover of the taxable person in Member State 1 is EUR 93 100 and on 14 November 2026 it makes another supply in Member State 1 of EUR 450.

	Amounts (EUR)
Annual turnover from 01/01/2026 to 12/07/2026	84 700
Supply on 13/7/2026	400
Annual turnover from 01/01/2026 to 13/07/2026	85 100
National threshold	85 000
Annual turnover from 01/01/2026 to 13/11/2026	93 100
Supply on 14/11/2026	450
Annual turnover from 01/01/2026 to 14/11/2026	93 550
Ceiling of 10% of the national threshold	93 500

Under scenario 1, the taxable person exceeds the national threshold set by Member State 1 on 13 July 2026 but can continue to apply the domestic SME scheme until 14 November 2026, when the taxable person exceeds the ceiling of EUR 93 500. Therefore, the taxable person cannot exempt from VAT the supply of EUR 450, but it must charge VAT on it.

Scenario 2: Member State 1 allows an **exceedance** of the national annual turnover threshold **without any ceiling** in case the threshold is exceeded during the current calendar year. On 20 August 2026, the annual turnover of the taxable person in Member State 1 is EUR 84 800. On 21 August 2026, the taxable person makes a new supply in that Member State of EUR 300. On 9 November 2026, the annual turnover of the taxable person in Member State 1 is EUR 99 000. On 10 November 2026, the taxable person makes another supply in Member State 1 of EUR 2 000.

	Amounts (EUR)
Annual turnover from 01/01/2026 to 20/08/2026	84 800
Supply on 21/8/2026	300
Annual turnover from 01/01/2026 to 21/08/2026	85 100
National threshold	85 000
Annual turnover from 01/01/2026 to 9/11/2026	99 000
Supply on 10/11/ 2026	2 000
Annual turnover from 01/01/2026 to 10/11/2026	101 000

Under scenario 2, the taxable person exceeds the national threshold on 21 August 2026, but it can continue to apply the domestic SME scheme. However, since the turnover of the taxable person on 10 November 2026 (EUR 101 000) is higher than EUR 100 000, the

taxable person must stop applying the domestic SME scheme on that same day. Therefore, the taxable person cannot exempt from VAT the supply of EUR 2 000, but it must charge VAT on it.

Scenario 3: Member State 1 does **not allow any exceedance** of the national annual threshold. On 1 October 2026, the annual turnover of the taxable person in Member State 1 is EUR 84 300. On 2 October 2026, the taxable person makes two new supplies of EUR 500 and EUR 300 in Member State 1.

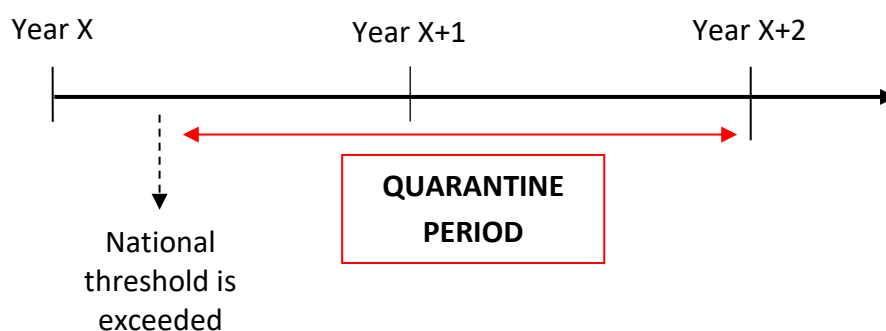
	Amounts (EUR)
Annual turnover from 01/01/2026 to 01/10/2026	84 300
Supply on 2/10/2026	500
Supply on 2/10/2026	300
Annual turnover from 01/01/2026 to 02/10/2026	85 100
National threshold	85 000

Under scenario 3, the taxable person exceeds the national annual turnover threshold on 2 October 2026 with the supply of EUR 300 and must therefore cease to apply the domestic SME scheme from that time. Consequently, the taxable person can exempt from VAT the supply of EUR 500 under the domestic SME scheme, but it cannot exempt from VAT the supply of EUR 300, instead VAT must be charged on it.

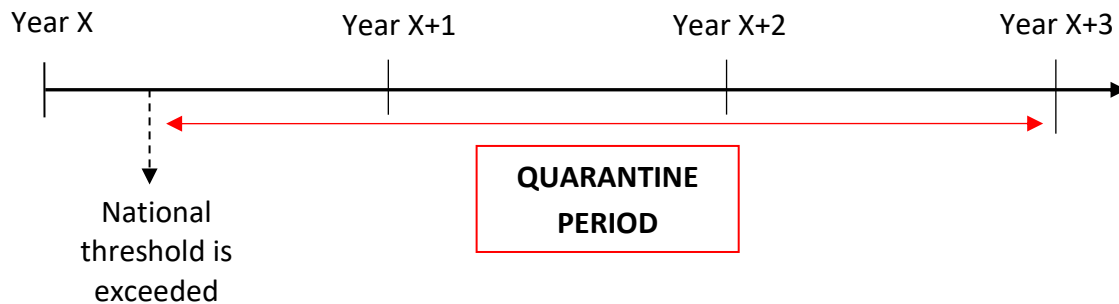
2.3.2.2. What is the quarantine period?

When the taxable person is excluded from the domestic SME scheme in its Member State of establishment, it will not be able to re-apply the domestic SME scheme for a period of time, i.e. the quarantine period.

The quarantine period starts from the moment the taxable person exceeds the national annual threshold or the ceiling set by the Member State of establishment (according to the option chosen by that Member State) and will cover the remainder of the current calendar year and the following calendar year.



The quarantine period can be extended to two following calendar years, at the choice of the Member State of establishment (see information available for each Member State on the [SME web portal](#)).



EXAMPLE:

A taxable person established in Member State 1 is benefiting from the domestic SME scheme in that Member State. Member State 1 has set a national annual threshold of EUR 75 000 and allows an excess of up to 25% (ceiling of EUR 93 750).

On 1 August 2026, the annual turnover of the taxable person in Member State 1 is EUR 74 500. On 2 August 2026, the taxable person makes a new supply in that Member State of EUR 600. On 1 November 2026, the annual turnover of the taxable person is EUR 93 000. On 2 November 2026, the taxable person makes a supply of EUR 1 000 in Member State 1.

	Amounts (EUR)
Annual turnover from 1/01/2026 to 01/08/2026	74 500
Supply on 02/08/2026	600
Annual turnover from 01/01/2026 to 02/08/2026	75 100
National threshold	75 000
Annual turnover from 01/01/2026 to 01/11/2026	93 000
Supply on 02/11/2026	1 000
Annual turnover from 01/01/2026 to 02/11/2026	94 000
Ceiling of 25% of the national threshold	93 750

In view of the above, the taxable person exceeds the national threshold set by its Member State of establishment (Member State 1) on 2 August 2026 but can continue to apply the domestic SME scheme until 2 November 2026, when the taxable person exceeds the ceiling of

EUR 93 750 with the supply of EUR 1 000. From that moment onwards, the taxable person must cease to apply the domestic SME scheme and cannot exempt from VAT the supply of EUR 1 000 and subsequent supplies but must charge VAT on them.

The taxable person will be able to re-apply the domestic SME scheme on 1 January 2028, if all conditions are met.

If Member State 1 chooses to extend the quarantine period to two calendar years, the taxable person will only be able to re-apply the domestic SME scheme on 1 January 2029, provided that all conditions are met.

2.3.2.3. What are the consequences of the exclusion?

When a taxable person is excluded from the domestic SME scheme in its Member State of establishment, it must apply the standard VAT regime. It may also apply the simplified procedures for charging and collection of the VAT, if the case may be, according to the national legislation (see information available for each Member State on the [SME web portal](#)).

Once the quarantine period has expired, the taxable person may again be eligible for the domestic SME scheme if it meets all conditions set by the Member State of establishment. The taxable person should contact the tax authorities of its Member State of establishment to get information on the possible procedure to follow to apply the domestic SME scheme again.

3. Cross-border SME scheme

The cross-border SME scheme involves the application of the SME scheme by a taxable person either in one or more Member States other than its Member State of establishment or in the Member State of establishment and in one or more Member States other than that of establishment.

3.1. Access to the cross-border SME scheme

As from 1 January 2025, small enterprises established in a Member State may opt to apply the cross-border SME scheme in respect of those of their supplies of goods and services⁴ that are carried out in a Member State other than their Member State of establishment. To be able to do so, certain conditions must be met.

3.1.1. Who is eligible to apply the cross-border SME scheme?

A taxable person is eligible to apply the cross-border SME scheme if its Union annual turnover does not exceed **EUR 100 000** (Union annual threshold) in the current calendar year and in the preceding calendar year. The Union annual turnover of a taxable person is the sum of its annual turnovers in all 27 Member States, whether the taxable person wants to apply the cross-border SME scheme in all Member States or not.

If the Union annual turnover of a taxable person exceeds EUR 100 000, the taxable person cannot apply the cross-border SME scheme in any Member State. However, the taxable person can apply or continue to apply the domestic SME scheme in its Member State of establishment if its annual turnover in that Member State does not exceed the national annual threshold.

⁴ Except on transactions excluded from the SME scheme (see question 1.5. 'Which transactions can be covered by the SME scheme?').

3.1.2. What are the additional conditions for applying the cross-border SME scheme?

To apply the cross-border SME scheme, an eligible taxable person must meet the following additional conditions:

- a) It is established in a Member State⁵.
- b) Its annual turnover in the Member State(s) where the taxable person wants to avail itself of the cross-border SME scheme does not exceed the national annual threshold set by that/those Member State(s) in the current calendar year and in the preceding calendar year (or in the two preceding calendar years if so set by the Member State(s) granting the exemption).
- c) It must submit a prior notification in its Member State of establishment (section 3.2) specifying the Member States in which it wants to apply the cross-border SME scheme.

The national annual threshold set by Member States⁶ cannot be higher than EUR 85 000 or its equivalent in national currency if the Member State concerned has not adopted the euro.

If a Member State has set varying thresholds for different business sectors (sectoral thresholds⁷), the taxable person can only use one of those sectoral thresholds for all its supplies in that Member State. In this case, the Member State will provide clear guidance to the taxable person on which sectoral threshold should be used (see the national annual threshold applicable per Member State on the [SME web portal](#)).

A taxable person may check whether it is eligible to apply the cross-border SME scheme by using the simulator exercise available on the [SME web portal](#). The simulator provides indicative information only and does therefore not give a right to claim access to the SME scheme in any of the Member States.

EXAMPLE:

A taxable person established in Member State 1 carries out transactions subject to VAT in Member State 1, Member State 2, Member State 3 and Member State 4. On 1 July 2026, the

⁵ See section question 1.2. 'Which is the Member State of establishment?'

⁶ The national annual turnover threshold set by Member States must be the same for both taxable persons established in that Member State (domestic SME scheme) and non-established taxable persons (cross-border SME scheme).

⁷ None of the sectoral thresholds can be higher than EUR 85 000.

taxable person wants to apply the cross-border SME scheme in respect of its supplies of goods and services in Member State 2 and Member State 3.

Scenario 1: Member State 2 and Member State 3 require that their national annual threshold is not exceeded during the current calendar year and during the previous calendar year in order to benefit from the exemption in their territory.

On 1 July 2026, the annual turnover of the taxable person in each of the Member States is as follows:

Member State	National threshold (EUR)	Annual turnover in 2025 (EUR)	Annual turnover in 2026 (EUR)	Eligible to apply the cross-border SME scheme
Member State of establishment	85 000	30 000	13 000	N/A
Member State 2	35 000	35 000	15 000	Yes
Member State 3	40 000	20 000	9 000	Yes
Member State 4	N/A	10 000	5 500	N/A
TOTAL UNION ANNUAL TURNOVER		95 000	42 500	

Analysis of the application of the cross-border SME scheme:

1. The taxable person is established in a Member State (Member State 1). ✓
2. In 2025 (the preceding calendar year) the total Union annual turnover of the taxable person (EUR 95 000) is not higher than the Union annual threshold of EUR 100 000. ✓
3. In 2026 (the current calendar year) the total Union annual turnover of the taxable person (EUR 42 500) is not higher than the Union annual threshold. ✓
4. In 2025 the annual turnover of the taxable person in Member State 2 (EUR 35 000) and Member State 3 (EUR 20 000) does not exceed the national threshold existing in those Member States. ✓
5. In 2026 the annual turnover of the taxable person in Member State 2 (EUR 15 000) and Member State 3 (EUR 9 000) does not exceed the national threshold existing in those Member States. ✓
6. In conclusion, the taxable person could benefit from the cross-border SME scheme in both Member State 2 and Member State 3.

Scenario 2: Member State 2 and Member State 3 require that their national annual threshold is not exceeded during the current calendar year and during the previous calendar year in order to benefit from the exemption in their territory.

On 1 July 2026 the annual turnover of the taxable person in each of the Member States is as follows:

Member State	National threshold (EUR)	Annual turnover in 2025 (EUR)	Annual turnover in 2026 (EUR)	Eligible to apply the cross-border SME scheme
Member State of establishment	85 000	30 000	13 000	N/A
Member State 2	35 000	35 000	15 000	No
Member State 3	40 000	20 000	9 000	No
Member State 4	N/A	18 000	5 500	N/A
TOTAL UNION TURNOVER		103 000	42 500	

Analysis of the application of the cross-border SME scheme:

1. The taxable person is established in a Member State (Member State 1). ✓
2. In 2025 (the preceding calendar year) the total Union annual turnover of the taxable person (EUR 103 000) is higher than the Union annual threshold of EUR 100 000. ✗
3. In conclusion, the taxable person could not to apply the cross-border SME scheme in Member State 2 and Member State 3.
4. Even when the taxable person is excluded from the cross-border SME scheme it could still apply the domestic SME scheme in its Member State of establishment (Member State 1) since in 2025 and 2026 its annual turnover in that Member State does not exceed the national threshold (EUR 85 000).

Scenario 3: Member State 2 and Member State 3 require that their national annual threshold is not exceeded during the current calendar year and during the previous calendar year in order to benefit from the exemption in their territory.

On 1 July 2026 the annual turnover of the taxable person in each of the Member States is as follows:

Member State	National threshold (EUR)	Annual turnover in 2025 (EUR)	Annual turnover in 2026 (EUR)	Eligible to apply the cross-border SME scheme
Member State of establishment	85 000	30 000	13 000	N/A
Member State 2	20 000	35 000	15 000	No
Member State 3	40 000	20 000	9 000	Yes
Member State 4	N/A	10 000	5 500	N/A
TOTAL UNION TURNOVER		95 000	42 500	

Analysis of the application of the cross-border SME scheme:

1. *The taxable person is established in a Member State (Member State 1). ✓*
2. *In 2025 (the preceding calendar year) the total Union annual turnover of the taxable person (EUR 95 000) is not higher than the Union annual threshold of EUR 100 000. ✓*
3. *In 2026 (the current calendar year) the total Union annual turnover of the taxable person (EUR 42 500) is not higher than the Union annual threshold of EUR 100 000. ✓*
4. *In 2025 the annual turnover of the taxable person in Member State 2 (EUR 35 000) exceeds the national threshold existing in that Member State (EUR 20 000). ✗*
5. *The annual turnover of the taxable person in Member State 3 in 2025 (EUR 20 000) and in 2026 (EUR 9 000) does not exceed the national threshold existing in that Member State (EUR 40 000). ✓*
6. *In conclusion, the taxable person could benefit from the cross-border SME scheme in Member State 3 but not in Member State 2.*

Scenario 4: *Member State 2 has established that to benefit from the exemption in its territory, its national annual threshold must not be exceeded in the current calendar year and in the previous calendar year.*

Member State 3 has laid down that to benefit from the exemption in its territory, its national annual threshold must not be exceeded in the current calendar year and in the two preceding calendar years.

On 1 July 2026, the annual turnover of the taxable person in each of the Member States is as follows:

Member State	National threshold (EUR)	Annual turnover in 2024 (EUR)	Annual turnover in 2025 (EUR)	Annual turnover in 2026 (EUR)	Eligible to apply the cross-border SME scheme
Member State of establishment	85 000	30 000	30 500	12 000	N/A
Member State 2	20 000	19 000	19 500	21 000	No
Member State 3	40 000	41 000	38 000	5 000	No
Member State 4	N/A	10 000	12 000	15 000	N/A
TOTAL UNION TURNOVER			100 000	53 000	

Analysis of the application of cross-border SME scheme:

1. *The taxable person is established in a Member State (Member State 1). ✓*
2. *In 2025 (the preceding calendar year) the total Union annual turnover of the taxable person (EUR 100 000) is not higher than the Union annual threshold. ✓*
3. *In 2026 (the current calendar year) the total Union annual turnover of the taxable person (EUR 53 000) is not higher than the Union annual threshold. ✓*
4. *The annual turnover of the taxable person in Member State 2 in 2025 (EUR 19 500) does not exceed the national threshold of that Member State (EUR 20 000) but exceeds it in 2026, as its annual turnover in 2026 is EUR 21 000. ✗*
5. *In 2024 (the calendar year before the preceding calendar year) the annual turnover of the taxable person in Member State 3 (EUR 41 000) exceeds the national threshold existing in that Member State (EUR 40 000). ✗*
6. *In conclusion, the taxable person could not benefit from the cross-border SME scheme in Member State 2 and in Member State 3.*

3.2. Registration

3.2.1. How to register for the cross-border SME scheme?

If a taxable person wants to opt for the application of the cross-border SME scheme, it must first submit **a prior notification** to its Member State of establishment. In that prior notification it shall indicate, inter alia, the Member State(s) in which it wants to apply the SME scheme.

The prior notification should be submitted by electronic means if the Member State of establishment has so provided⁸.

The Member State of establishment and the Member States for which it requests the application of the cross-border SME scheme then check if the taxable person meets the conditions for its application.

If the taxable person meets all the conditions, the Member State of establishment will assign to the taxable person **an individual identification number** with the suffix 'EX' (hereinafter referred to as 'EX number') which will be necessary for the application of the cross-border SME scheme.

⁸ See information available for each Member State on the [SME web portal](#).

If the taxable person is granted access to the cross-border SME scheme in a Member State of exemption where it was already identified for VAT purposes, the Member State of exemption shall take all the steps necessary to ensure that the taxable person will no longer be identified in respect of the supplies made in that Member State which fall within the scope of the SME scheme.

3.2.2. What information should be included in the prior notification?

The prior notification should contain at least the following information:

- a) the name, activity, legal form and address of the taxable person.
- b) the Member State or Member States in which the taxable person intends to apply the cross-border SME scheme and any VAT identification number by which the taxable person may be identified for VAT purposes in those Member States.
- c) the total value of supplies of goods and/or services carried out in the Member State of establishment and in each of the other Member States during the previous calendar year. Some Member States may require the taxable person to provide this information for the last two previous calendar years⁹.
- d) the total value of supplies of goods and/or services carried out in the Member State of establishment and in each of the other Member States during the current calendar year up until the date of submission of the prior notification.

The taxable person must indicate the total value of its supplies of goods and services, i.e., its annual turnover¹⁰, in all 27 Member States and not only in its Member State of establishment and in the Member States where it wants to apply the cross-border SME scheme. If no turnover is made, the total value to be indicated is '0'.

If a Member State has set different thresholds for different business sectors (sectoral thresholds), the total value of supplies should be specified separately for each threshold¹¹.

⁹ See information available for each Member State on the [SME web portal](#).

¹⁰ The annual turnover is the total value of the supplies of goods and services, exclusive of VAT, made in a Member State during a calendar year determined as explained in question 1.6 '*How is the annual turnover calculated?*'. See also question 1.7 '*How is the Union annual turnover calculated?*'.

¹¹ See information available for each Member State on the [SME web portal](#).

EXAMPLE:

A taxable person established in Member State 1 carries out transactions subject to VAT in its Member State of establishment, Member State 2 and Member State 3. The taxable person wants to apply the cross-border SME scheme in respect of its supplies of goods and services in its Member State of establishment and Member State 2 and therefore submits the prior notification to its Member State of establishment on 1 May 2026.

The Member State of establishment has fixed a national threshold of EUR 85 000 and requires that the national threshold is not exceeded during the current calendar year and during the previous calendar year in order to benefit from the exemption in its territory.

Member State 2 has set two national thresholds: one for the construction sector of EUR 50 000 and one for all other business sectors of EUR 70 000. Member State 2 requires that either threshold is not exceeded during the current calendar year and during the two previous calendar years in order to benefit from the exemption in its territory.

Member State 3 requires that its national threshold is not exceeded during the current calendar year and during the previous calendar year in order to benefit from the exemption in its territory.

The taxable person must include in the prior notification the following information about its annual turnover:

- *Its annual turnover in its Member State of establishment during the current calendar year (from 1 January to 30 April 2026) and during the previous calendar year (2025).*
 - *Its annual turnover in Member State 2 during the current calendar year and during the two previous calendar years (2024 and 2025). The annual turnover must be specified separately for the construction sector threshold and for the other business sectors threshold.*
 - *Its annual turnover in Member State 3 during the current calendar year and during the previous calendar year.*
 - *“0” as its annual turnover in the other 24 Member States, as it did not make any transactions in those Member States during the current calendar year and during the previous calendar year.*
-

Member State	National threshold (EUR)	Annual turnover in 2024 (EUR)	Annual turnover in 2025 (EUR)	Annual turnover in 2026 (EUR)
Member State of establishment	85 000	N/A	40 000	12 000
Member State 2	construction sector: 50 000	19 000	14 000	3 500
	other business sectors: 70 000	41 000	38 000	5 000
Member State 3	N/A	N/A	7 000	2 000
Member State 4	N/A	N/A	0	0
Member State 5	N/A	N/A	0	0
...	N/A	N/A	0	0
Member State 27	N/A	N/A	0	0

If Member State 3 had required that its national threshold not be exceeded during the current calendar year and during the two previous calendar years in order to benefit from the exemption in its territory, the taxable person would have had to include in the prior notification its turnover in Member State 3 during 2024, 2025 and from 1 January 2026 to 30 April 2026 even if it did not wish to apply the cross-border SME scheme in that Member State.

Similarly, if the Member State 3 had set different thresholds for different business sectors, the taxable person would have had to break down its turnover by business sectors.

3.2.3. In which currency are the values of the prior notification to be denominated?

The values of supplies to be included in the prior notification shall be denominated in **euro**. However, Member States which have not adopted the euro may require the values to be expressed in their national currencies. If the supplies have been made in other currencies, the conversion shall be made by applying the exchange rate published by the European Central Bank on the first day of the calendar year or if there is no publication on that day, on the next day of publication.

3.2.4. How long will the registration process take?

Generally, the registration process takes a maximum of 35 working days from the day on which the Member State of establishment receives the prior notification submitted by the taxable person requesting the application of the cross-border SME scheme until the

exemption becomes effective. This period may be longer if Member States of exemption need more time to carry out the necessary checks to prevent situations of tax evasion or avoidance. In that case, the Member State of exemption concerned shall inform the Member State of establishment to enable it to inform the taxable person about the delay.

In summary, the steps are as follows:

1.- The taxable person submits to its Member State of establishment the prior notification requesting to benefit from the cross-border SME scheme in one (or more) Member State(s) of exemption.

2.- Within 15 working days, the Member State of establishment must verify that the volume of transactions carried out by the taxable person in all 27 Member States does not exceed the Union annual threshold (EUR 100 000) in both the calendar year of the prior notification and the previous calendar year.

3a.- If the Union annual turnover of the taxable person is higher than the Union annual threshold, the Member State of establishment will deny the taxable person access to the cross-border SME scheme¹². The process would end at this stage.

3b.- If the Union annual turnover of the taxable person is not higher than the Union annual threshold, the Member State of establishment must share the information provided by the taxable person in the prior notification to the Member State of exemption.

4.- Within 15 working days, the Member State of exemption will check if the taxable person meets the national conditions to apply the cross-border SME scheme, for example that the annual turnover of the taxable person in its territory is not higher than the national annual threshold in the current calendar year and in the previous calendar year (or in the two previous calendar years if so set by the Member State of exemption). The Member State of exemption will then inform the Member State of establishment of the result.

5.- The Member State of establishment will inform the taxable person of the outcome:

a) If the taxable person meets the national conditions to apply the cross-border SME scheme in the Member State in which it wants to apply the SME scheme: the 'EX' number assigned to it¹³.

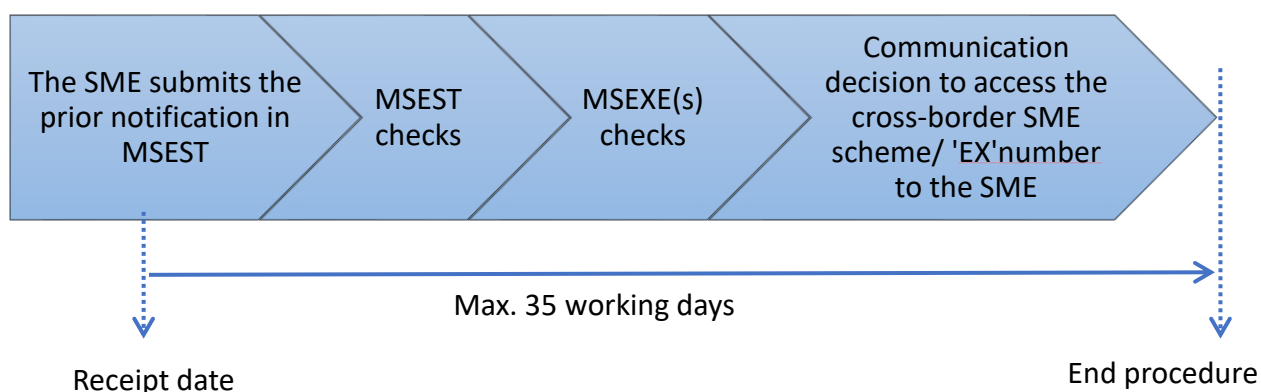
¹² In this case the taxable person can apply the domestic SME scheme in its Member State of establishment if its annual turnover in that Member State does not exceed the national annual threshold. See question 2.1.1 *'What are the conditions for applying the domestic SME scheme?'*.

¹³ This situation also covers the case where the taxable person not only request the application of the cross-border SME scheme in the Member State(s) of exemption but also in its Member State of establishment.

b) If the taxable person does not meet the national conditions to apply the cross-border SME scheme in the Member State in which it wants to apply the SME scheme: refusal of the request to apply the SME scheme duly motivated.

Where the taxable person has requested to apply the cross-border SME scheme in more than one Member State, the Member State of establishment will grant access to exemption in each Member State, by issuing the 'EX' number or updating it to new Member States where the exemption can be used, as soon as it receives a reply from any of the Member States of exemption, rather than waiting for the reply to be received from all the Member States of the exemption. The Member State of establishment will follow the same approach in case the conditions of exemption are not met.

If the Member State of establishment has not received a reply from the Member State(s) of exemption within 35 working days of submitting the prior notification, the Member State of establishment will grant access to the cross-border SME scheme to the taxable person in the Member State(s) concerned by issuing the 'EX' number or updating it upon expiry of the 35 working day period. The latter does not apply if the procedure has to take longer than 35 working days in order to prevent situations of tax evasion or avoidance.



3.2.5. When will the exemption take effect (commencement date)?

The taxable person may start applying the cross-border SME scheme in the Member State(s) in which it requested to avail of the exemption, as from the date on which it receives the 'EX' number issued to it or when this 'EX' number is updated by its Member State of establishment. The commencement date may differ from one Member State to another, as the Member State of establishment gives access to the exemption as soon as it receives a reply from the Member States of exemption on the fulfilment of the national conditions to apply the cross-border SME scheme.

EXAMPLE:

A taxable person established in Member State 1 carries out transactions subject to VAT in Member State 1, Member State 2 and Member State 3. The taxable person wants to apply the cross-border SME scheme in Member State 2 and Member State 3 and submits the prior notification in its Member State of establishment on 1 April 2025. The taxable person meets the conditions to apply the cross-border SME scheme in those Member States.

Member State of establishment receives the reply from Member State 2 on 21 April 2025 and from Member State 3 on 28 April 2025.

The Member State of establishment gives access to the exemption to the taxable as soon as it receives the decisions from Member State 2 and from Member State 3, thus:

- *On 23 April 2025, the Member State of establishment issues the 'EX' number and communicates it to the taxable person indicating that it can apply the cross-border SME scheme in Member State 2.*
- *On 1 May 2025, the Member State of establishment updates the 'EX' number and communicates it to the taxable person indicating that it can apply the cross-border SME scheme in Member State 3.*

Therefore, the commencement date of the exemption is 23 April 2025 in Member State 2 and 1 May 2025 in Member State 3.

3.2.6. Can an appeal be made against a decision of refusal?

Yes, any taxable person can appeal against the decision refusing the application of the cross-border SME scheme.

If the reason for the refusal is that the Union turnover threshold is exceeded, the taxable person must address the appeal to its Member State of establishment.

If the reason for the refusal is that the national annual turnover threshold is exceeded, the taxable person must address the appeal to the Member State concerned.

Appeals are a national matter, so Member States will set their own rules and procedures. The Member State of establishment should take all steps necessary to inform the taxable person of the reasons for the refusal to apply the cross-border SME scheme and to which Member State to address its appeal in case it wants to contest the refusal.

3.2.7. Can a taxable person apply to benefit from the cross-border SME scheme in a Member State or Member States other than those indicated in the prior notification?

Yes, the taxable person can apply to use the cross-border SME scheme in Member State(s) other than those indicated in the prior notification.

To do so, the taxable person must submit to its Member State of establishment an update to the prior notification. The update to the prior notification should be submitted by electronic means if the Member State of establishment has so provided¹⁴.

Two situations may arise:

- a) The taxable person is already applying the cross-border SME scheme. In this case, the taxable person will indicate in the update to the prior notification the following information:
- Its 'EX' number assigned to it by the Member State of establishment.
 - The new Member State(s) in which the taxable person wishes to apply the cross-border SME scheme.
 - Information on total value of supplies not previously provided to the Member State of establishment through its quarterly reports¹⁵.

The update to the prior notification (as a new application) follows the same registration process as the prior notification previously submitted by the taxable person¹⁶. The whole procedure will take no longer than 35 working days and the Member State of establishment will notify the taxable person about the acceptance or refusal of its new request. This period may be longer if Member States of exemption need more time to carry out the necessary checks to prevent situations of tax evasion or avoidance.

¹⁴ See information available for each Member State on the [SME web portal](#).

¹⁵ See question 3.3.1 'What reporting obligations will the taxable person face under the cross-border SME scheme?'.

¹⁶ See question 3.2.4 'How long will the registration process take?'.

The taxable person may start applying the cross-border SME scheme in the new Member State(s), from the date it receives the communication from its Member State of establishment that it can use its existing 'EX' number in the new Member State(s).

After 35 working days from the submission of the update to the prior notification without receiving a reply from the new Member State(s) of exemption on the fulfilment of the conditions for applying the cross-border SME scheme, the Member State of establishment will grant the taxable person access to the exemption in the new Member State(s).

b) The taxable person has submitted the prior notification and it is still being processed.

In this case, the taxable person must wait for its 'EX' number to be issued before requesting to avail itself of the exemption in the new Member State(s). The process is then the same as explained under point a) above.

3.2.8. What happens if information in the prior notification is wrong or incomplete?

Upon submission of the prior notification and before receipt of the 'EX' number, if the information in the prior notification is wrong or incomplete, the taxable person can correct or complete it by submitting a new prior notification to replace that first sent. In this case, the maximum period for processing the prior notification (35 working days) starts to count from the day on which the taxable person submits the new prior notification.

Where errors are detected after the admission of the taxable person to the cross-border SME scheme, the correction shall be made by submitting an update of the prior notification. The update shall always mention the 'EX' number already allocated to the taxable person.

If, based on the new information provided in an update of the prior notification, it results that the taxable person did not meet the conditions to apply the cross-border SME scheme, the taxable person will be rejected from the SME scheme with retroactive effect. This means that the taxable person will be seen as not having been given access to the cross-border SME scheme from the date of submission of the original prior notification and as being obliged to apply the standard VAT regime – or simplified procedures – to its supplies as from that date. If the taxable person exempted from VAT its supplies in one or more Member States following the outcome of the original prior notification, it will have to contact the Member States concerned to regularise its VAT situation.

3.2.9. What to do when changing the Member State of establishment?

If the taxable person benefiting from cross-border SME scheme changes its Member State of establishment (from Member State 1 to Member State 2) it must submit an update to the prior notification in the previous Member State of establishment (Member State 1) indicating its new Member State of establishment (Member State 2).

The Member State 1 will then deactivate the 'EX' number it assigned to the taxable person. The taxable person must submit a new prior notification to Member State 2 to apply again the cross-border SME scheme and, if all conditions are still met, Member State 2 will issue a new 'EX' number.

3.2.10. Can other amendments be made to the prior notification?

The taxable person must inform its Member State of establishment by an update to the prior notification of any changes to the information previously provided by the prior notification such as a change to the name, activity or address of the taxable person.

3.3. Formal obligations

3.3.1. What reporting obligations will the taxable person face under the cross-border SME scheme?

A taxable person benefiting from the cross-border SME scheme must submit **quarterly reports to its Member State of establishment for all the supplies of goods and services it makes in all Member States.**

Quarterly reports should include the following information:

- the 'EX' number of the taxable person.
 - the total value of supplies (exempt or taxed) carried out during the calendar quarter in the Member State of establishment or '0' if no supplies have been made.
 - the total value of supplies (exempt or taxed) carried out during the calendar quarter in each Member State other than the Member State of establishment or '0' if no supplies have been made.
-

If Member States granting the exemption have set different thresholds for different business sectors, the total value of supplies should be specified separately for each threshold¹⁷.

The values of supplies to be included in the quarterly report are the values used to calculate the annual turnover¹⁸.

The values of supplies to be included in the quarterly reports shall be denominated in euro. However, Member States which have not adopted the euro may require the values to be expressed in their national currency. For any conversion, the taxable person will use the exchange rate published by the European Central Bank on the first day of the calendar year or if there is no publication on that day, on the next day of publication.

The taxable person is required to submit the quarterly report to the Member State of establishment within a month from the end of the calendar quarter.

CALENDAR QUARTER	SUBMISSION OF RETURN
Q1: 1 January to 31 March	1 - 30 April
Q2: 1 April to 30 June	1 - 31 July
Q3: 1 July to 30 September	1 - 31 October
Q4: 1 October to 31 December	1 - 31 January of the following year

The quarterly report should be submitted by electronic means if the Member State of establishment has so provided¹⁹.

3.3.2. What values to include in the first quarterly report?

Since the date on which the prior notification is submitted differs from the date on which a taxable person may start to apply the cross-border SME scheme, this can result in duplication or missing information in the first quarterly report to be submitted.

¹⁷ See information available for each Member State on the [SME web portal](#).

¹⁸ See question 1.6 'How is the annual turnover calculated?'

¹⁹ See information available for each Member State on the [SME web portal](#).

To avoid this, two situations are envisaged:

- a) The prior notification is submitted in one calendar quarter and in the following calendar quarter, the taxable person receives its 'EX' number to apply the cross-border SME scheme.

In this case, the first quarterly report to be submitted under the cross-border SME scheme should include the value of supplies made in the calendar quarter covered by the quarterly report and separately the total value of supplies made between the date of submission of the prior notification and the last day of the calendar quarter corresponding to the prior notification.

EXAMPLE:

A taxable person submits a prior notification on 14 March 2025 and receives its 'EX' number on 15 April 2025. The first quarterly report to be submitted by the taxable person under the SME scheme corresponds to the second quarter (Q2) of 2025 in which it will include the following values:

- The total value of supplies made in the months of April, May and June 2025.*
- The total value of supplies made between the date of submission of the prior notification (14 March 2025) and the last day of the first calendar quarter (31 March 2025).*

EXAMPLE:

A taxable person submits a prior notification on 15 December 2025 and receives its 'EX' number on 14 January 2026. The first quarterly report to be submitted by the taxable person under the SME scheme corresponds to the first quarter (Q1) of 2026 in which it will include the following values:

- The total value of supplies made in the months of January, February and March 2026.*
- The total value of supplies made between the date of submission of the prior notification (15 December 2025) and the last day of the fourth calendar quarter (31 December 2025).*

- b) The prior notification is submitted and the taxable person receives its individual 'EX' identification number to apply the cross-border SME scheme in one and the same calendar quarter.

In this case, the first quarterly report to be submitted under the cross-border SME scheme should only include the value of supplies made between the date of

submission of the prior notification and the last day of the calendar quarter covered by that quarterly report.

EXAMPLE:

A taxable person submits a prior notification on 15 July 2025 and receives its 'EX' number on 10 August 2025. The first quarterly report to be submitted by the taxable person corresponds to the third quarter (Q3) of 2025 in which it will include the following values:

- The total value of supplies made between the date of submission of the prior notification (15 July 2025) and the last day of the third calendar quarter (30 September 2025).*

The value of supplies made between 1 July and 15 July 2025 is already included in the prior notification.

3.3.3. What happens if the information in the quarterly report is wrong? (correction of quarterly reports)

If a taxable person detects errors in a quarterly report or a transaction carried out in the calendar quarter is cancelled (for example, returns of goods), the correction shall be done by resubmission of the original quarterly report and must be done as soon as the error is detected.

The deadline to correct a quarterly report is three years.

3.3.4. What happens if quarterly reports are not submitted or submitted late?

In such cases, a taxable person may continue to benefit from the cross-border SME scheme, but any of the Member States granting the exemption may require the taxable person to fulfil VAT obligations in their territory such as to be registered for VAT purposes and to submit a VAT return²⁰, thereby losing the advantage of being exempted from these obligations. If even then, the taxable person still fails to comply with the VAT obligations, the Member State granting the exemption may impose penalties.

²⁰ See information available for each Member State on the [SME web portal](#).

A quarterly report is considered to be submitted late when the taxable person is late in submitting it by more than 30 days or where consecutively two or more quarterly reports are submitted late.

3.3.5. Does the taxable person have to issue invoices?

Member States may release a taxable person benefiting from the cross-border SME scheme in their territory from the obligation to issue invoices. In case a Member State decides not to release the taxable person from the obligation to issue invoices, it will allow the taxable person to issue simplified invoices.

More information on the rules applicable in your Member State of establishment and in all other Member States is available on the [SME web portal](#).

3.3.6. Does the taxable person have to be registered and submit VAT returns?

No, when a taxable person benefits from the cross-border SME scheme, it is only required to submit a prior notification and to file quarterly reports in its Member State of establishment. Therefore, in a Member State of exemption, it will not be required to register for VAT purposes and to submit a VAT return in relation to its supplies covered by the exemption in that Member State.

In addition, if the taxable person is also benefiting from the SME scheme in its Member State of establishment, it will also not be required to submit a VAT return in respect of the supplies covered by the exemption in its Member State of establishment.

However, it should be recalled that the SME scheme covers supplies only. Therefore, a taxable person applying the cross-border SME scheme must fulfil its VAT obligations and pay VAT on the purchases for which it is liable to pay VAT: for example, when it makes imports, intra-Community acquisitions of goods and purchases of services with application of the reverse charge mechanism²¹.

²¹ See more information in Explanatory Notes on the EU VAT changes as regards the special scheme for small enterprises, section 6. '*INTERACTION WITH THE STANDARD VAT REGIME*'.

3.4. Leaving the cross-border SME scheme

A taxable person can leave the cross-border SME scheme voluntarily (cessation), or it can be excluded from the scheme (exclusion) when the conditions to use the cross-border SME scheme are not fulfilled anymore.

In case of exclusion, the taxable person is barred from using the cross-border SME scheme for a certain period. The taxable person may also be barred upon cessation.

3.4.1. Cessation

3.4.1.1. How to cease applying the cross-border SME scheme?

If a taxable person decides to cease applying the cross-border SME scheme in some or in all Member States of exemption or when its economic activity has ceased, the taxable person must inform its Member State of establishment about that by submitting an update to the prior notification.

3.4.1.2. When will the cessation take effect?

The cessation will take effect:

- If the Member State of establishment receives the update to the prior notification during the first two months of a calendar quarter, as from the first day of the next calendar quarter.
- If the Member State of establishment receives the update to the prior notification during the last month of a calendar quarter, as from the first day of the second month of the next calendar quarter.

EXAMPLE:

A taxable person benefiting from the cross-border SME scheme in Member State 1 wishes to cease applying it. To do so, the taxable person submits an update to the prior notification which is received by the Member State of establishment on 20 August 2026. In this case, the cessation will take effect from 1 October 2026.

If the Member State of establishment had received the update to the prior notification on 15 September 2026, the cessation would have taken effect from 1 November 2026.

Once the taxable person has submitted the update to the prior notification informing about the cessation of the cross-border SME scheme, the Member State of establishment will proceed without delay to one of the following actions:

- a) If the taxable person ceases applying the cross-border SME scheme in all Member States in which it was applying the special scheme: DEACTIVATION OF THE 'EX' NUMBER of the taxable person.
- b) If the taxable person only ceases applying the cross-border SME scheme in some Member States while continuing to apply it in others: the 'EX' NUMBER of the taxable person REMAINS ACTIVATED and the INFORMATION about the Member States to which the 'EX' number gives access to the exemption is UPDATED.

3.4.1.3. When can a taxable person re-apply the cross-border SME scheme after voluntarily leaving the special scheme?

The detailed rules and conditions for voluntarily leaving the scheme are defined by the Member States. In the event of voluntary leaving the cross-border SME scheme in a Member State, that Member State may provide for a quarantine period during which the taxable person cannot apply the cross-border SME scheme. At the end of this period the taxable person may opt again to apply the cross-border SME scheme if it fulfils all the conditions (see information available for each Member State on the [SME web portal](#)) through the submission of a prior notification or an update to the prior notification, depending on the case.

3.4.2. Exclusion

3.4.2.1. When will a taxable person be excluded from the cross-border SME scheme?

A taxable person applying the cross-border SME scheme is excluded from this special scheme in the following situations:

- a) When it exceeds the Union annual threshold (EUR 100 000) during the current calendar year or in the preceding calendar year.
 - b) When it exceeds the national annual threshold of a Member State granting the exemption during the current calendar year or in the preceding calendar year.
 - c) When it has ceased its economic activity but did not communicate it to its Member State of establishment.
-

3.4.2.2. What happens when the taxable person exceeds the Union annual turnover threshold?

As mentioned above, when a taxable person benefiting from the cross-border SME scheme exceeds the Union annual turnover threshold in the preceding calendar year or during the current calendar year, it will be excluded from that scheme as of that moment. This means that from the moment the Union annual threshold is exceeded:

- The taxable person must cease to apply the cross-border SME scheme in all Member States where it was applying the scheme and,
- The taxable person cannot apply the cross-border SME scheme in new Member States (other than those where it was already applying the special scheme). The taxable person might be entitled to apply the domestic SME scheme in its Member State of establishment if all conditions are met²².

Consequently, the Member State of establishment will, without delay, **deactivate the 'EX' number** that it assigned to the taxable person for the purposes of the cross-border SME scheme.

When the taxable person is excluded from the cross-border SME scheme, it must apply the standard VAT regime in each Member State where it was applying the cross-border SME scheme. It may also opt to apply the simplified procedures for charging and collection of the VAT, if the case may be, according to the national legislation (see information available for each Member State on the [SME web portal](#)).

EXAMPLE:

A taxable person established in Member State 1 is benefiting from the cross-border SME scheme in Member State 2 and Member State 3. The taxable person also carries out transactions in Member State 4 under the standard VAT regime. On 30 December 2026, the Union turnover of the taxable person is EUR 99 300. On 31 December 2026 the taxable person makes a new supply in Member State 3 of EUR 1 000.

	Amounts (EUR)
Union turnover from 01/01/2026 to 30/12/2026	99 300
Supply on 31/12/2026 in Member State 3	1 000
Union turnover from 01/01/2026 to 31/12/2026	100 300
Union threshold	100 000

²² See question 2.1.1 'What are the conditions for applying the domestic SME scheme?'.

Given that on 31 December 2026 the Union turnover of the taxable person (EUR 100 300) is higher than the Union annual threshold (EUR 100 000):

- *The taxable person must cease to apply the cross-border SME scheme in Member State 2 and Member State 3 on 31 December 2026 and the quarantine period starts on that date.*
- *The taxable person must apply the standard VAT regime (VAT register, submit VAT return, ...) or simplified procedures in Member State 2 and Member State 3 on 31 December 2026 from the supply of EUR 1 000 as it is the first supply that causes the Union threshold to be exceeded. Therefore, the taxable person cannot exempt from VAT the supply of EUR 1 000 in Member State 3, but it must charge VAT on it.*
- *The taxable person cannot request the application of the cross-border SME scheme in Member State 4. It could apply the domestic SME scheme in its Member State of establishment (Member State 1) if all conditions are met.*

3.4.2.3. Must the taxable person report when it exceeds the Union annual turnover threshold?

Yes, when the Union annual turnover threshold (EUR 100 000) is exceeded, the taxable person must inform the Member State of establishment within 15 working days from the day on which the threshold was exceeded through the submission of a **final report** with the following information:

- the total value of supplies carried out in the Member State of establishment from the beginning of the current calendar quarter up until the date the Union annual turnover threshold was exceeded.
- the total value of supplies carried out in each of the Member States other than the Member State of establishment from the beginning of the current calendar quarter up until the date the Union annual turnover threshold was exceeded.

All this information should be submitted by electronic means if the Member State of establishment has so provided²³.

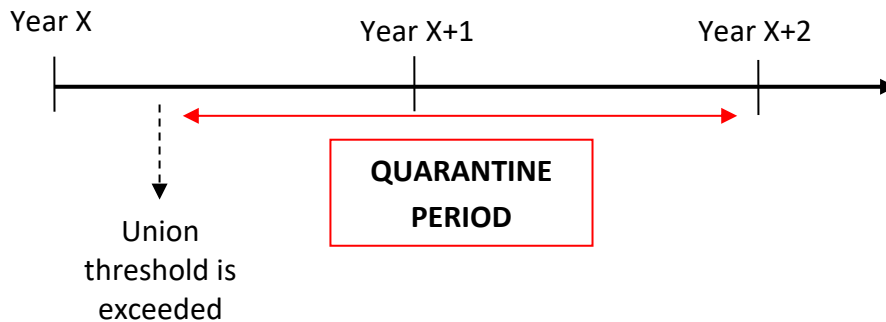
If the taxable person does not submit the final report within 15 working days, the Member State of establishment may impose sanctions to the taxable person.

²³ See information available for each Member State on the [SME web portal](#).

3.4.2.4. What is the quarantine period?

When the taxable person is excluded from the cross-border SME scheme, it will not be able to apply the cross-border SME scheme again for a period of time, i.e. the quarantine period.

The quarantine period starts from the moment the Union annual threshold has been exceeded and will cover the remainder of the current calendar year and the following calendar year.



Once the quarantine period has ended, the taxable person may submit a new prior notification to apply the cross-border SME scheme again in those Member States where it was previously applied (or apply it in new Member States) provided that all conditions are met.

EXAMPLE:

A taxable person established in Member State 1 is benefiting from the cross-border SME scheme in Member State 2 and Member State 3. The taxable person also carries out transactions in Member State 4 under the standard VAT regime. On 12 October 2026, the Union turnover of the taxable person is EUR 98 000. On 13 October 2026 the taxable person makes a new supply in Member State 4 of EUR 2 100.

	Amounts (EUR)
Union turnover from 01/01/2026 to 12/10/2026	98 000
Supply on 13/10/ 2026 in Member State 4	2 100
Union turnover from 01/01/2026 to 13/10/2026	100 100
Union threshold	100 000

Given that on 13 October 2026 the Union turnover of the taxable person (EUR 100 100) is higher than the Union annual turnover threshold (EUR 100 000):

- *The taxable person must cease to apply the cross-border SME scheme in Member State 2 and Member State 3 on 13 October 2026 and the quarantine period starts on*

13 October 2026. Therefore, the taxable person cannot exempt from VAT the supply of EUR 2 100, but it must charge VAT on it.

- *The quarantine period ends on 31 December 2027.*
- *From 1 January 2028, the taxable person can submit a new prior notification to reapply the cross-border SME scheme in Member State 2, Member State 3 as well as to apply the cross-border SME scheme in other Member States if all conditions are met (not exceeding the Union annual turnover, not exceeding the national annual turnover threshold).*

3.4.2.5. Can a taxable person continue to apply the domestic SME scheme in its Member State of establishment if the Union annual threshold is exceeded?

Even if the taxable person has exceeded the Union annual turnover threshold, it may continue to apply the domestic SME scheme in its Member State of establishment as long as it does not exceed the annual turnover threshold in that Member State.

3.4.2.6. What happens if the taxable person only exceeds the national annual turnover threshold?

When a taxable person benefiting from the cross-border SME scheme in a Member State exceeds the national annual threshold during the current calendar year or in the preceding calendar year, it will be excluded from that scheme in that particular Member State only. The taxable person can continue to apply the cross-border SME scheme in other Member State(s) of exemption.

The exclusion from the cross-border SME scheme in a Member State of exemption operates like the exclusion from the domestic SME scheme²⁴.

Thus, the effective date as from which the taxable person must cease to apply the cross-border SME scheme in a Member State in case of exceeding the national annual threshold during a calendar year will depend on the option exercised by that Member State²⁵:

- a) By default, if the national threshold is exceeded by not more than 10%, the taxable person will be able to continue to benefit from the cross-border SME scheme until the end of that calendar year. If however, the national threshold is exceeded by more than

²⁴ See question 2.3.2.1 'When is a taxable person excluded from the domestic SME scheme?', question 2.3.2.2 'What is the quarantine period?' and question 2.3.2.3 'What are the consequences of the exclusion?'

²⁵ See the option exercised by each Member State on the [SME web portal](#).

10% the taxable person must cease to apply the cross-border SME scheme only in the Member State of exemption concerned as of that time.

- b) Then, it might be that the Member State granting the exemption has decided to raise the ceiling from 10% to 25% or, alternatively, not to set any ceiling at all. These options have the only one limit that they cannot result in exempting a taxable person whose turnover within the Member State granting the exemption exceeds EUR 100 000 in the current calendar year.
- c) Finally, the Member State granting the exemption could also have determined that the cross-border SME scheme will cease to apply in its territory as of the time when the national threshold is exceeded.

As a consequence of being excluded from the cross-border SME scheme, the Member State of establishment will proceed without delay to one of the following actions:

- If the taxable person exceeds the national annual threshold in all Member States where it was applying the cross-border SME scheme: DEACTIVATION OF THE 'EX' NUMBER of the taxable person.
- If the taxable person only exceeds the national annual turnover threshold in some of the Member States where it was applying the cross-border SME scheme: the 'EX' NUMBER of the taxable person REMAINS ACTIVATED and the INFORMATION about the Member States to which the 'EX' number gives access to the exemption is UPDATED.

When the taxable person is excluded from the cross-border SME scheme, it must apply the standard VAT regime in each Member State where it was applying the cross-border SME scheme. It may also opt to apply the simplified procedures for charging and collection of the VAT, if the case may be, according to the national legislation (see information available for each Member State on the [SME web portal](#)).

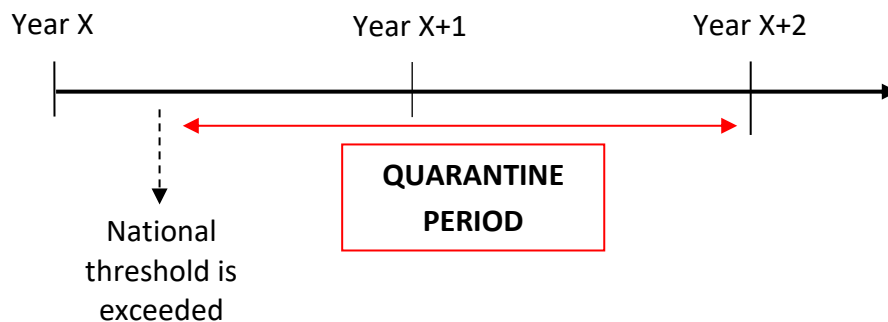
3.4.2.7. What is the quarantine period when the national annual turnover threshold is exceeded?

When a taxable person is excluded from the cross-border SME scheme in a Member State, the quarantine period is the period of time during which the taxable person cannot reapply the cross-border SME scheme in that Member State.

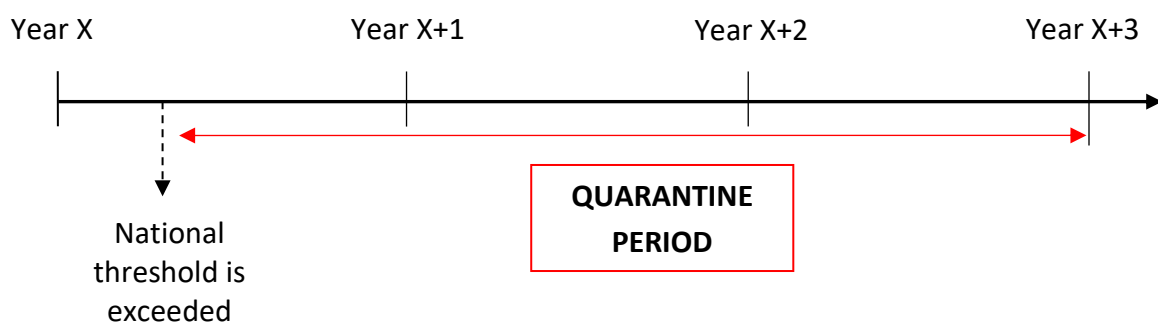
The quarantine period from the cross-border SME scheme in a Member State of exemption applies as the quarantine period from the domestic SME scheme²⁶.

²⁶ See question 2.3.2.2 'What is the quarantine period?'.

Thus, the quarantine period starts from the moment the national annual threshold or the ceiling set by the Member State granting the exemption has been exceeded (according to the option chosen by the Member State) and will cover the remainder of the current calendar year and the following calendar year.



The quarantine period can be extended to two following calendar years, at the choice of the Member State(s) granting the exemption (see information available for each Member State on the [SME web portal](#)).



Once the quarantine period has expired, the taxable person may submit an update to the prior notification (or a new prior notification, depending on the case) to apply the cross-border SME scheme again in the Member State concerned if it meets all conditions.

3.4.2.8. When can the Member State of establishment or the Member State of exemption assume that a taxable person has ceased its economic activity?

If for 8 consecutive calendar quarters (in its quarterly reports) a taxable person has reported not to have made supplies in all or some Member States in which it has been applying the cross-border SME scheme, the Member State of establishment shall assume, absent information to the contrary, that the taxable person has ceased its economic activity in those Member States.

In that case, the Member State of establishment will deactivate or adapt the 'EX' number of the taxable person depending on whether it is assumed that the taxable person has ceased its economic activity in all or only some Member States.

4. Input VAT deduction

A taxable person applying the SME scheme, either the domestic SME scheme or the cross-border SME scheme, will exempt from VAT its supplies but will not be able to deduct the input VAT on its purchases of good and/or services used to make those supplies.

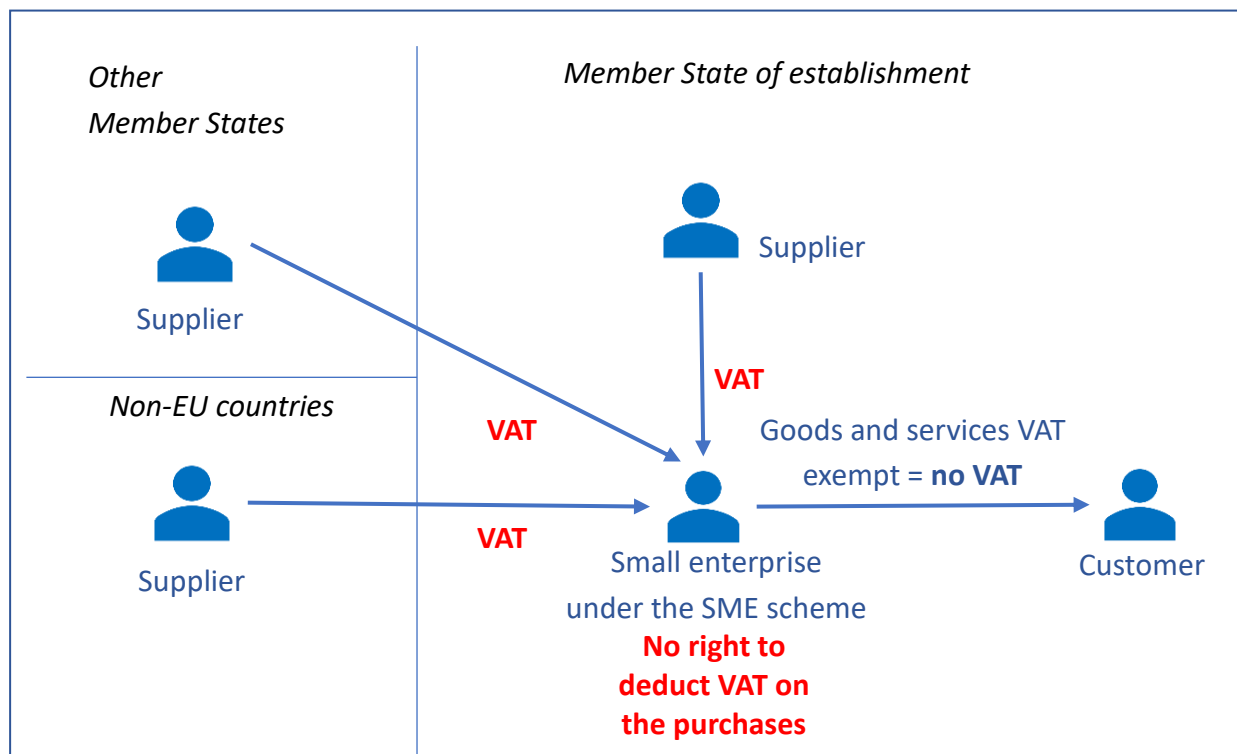
This section will be addressed through examples to make it easier to understand.

4.1. Domestic SME scheme

Example 1: A taxable person carries out economic activity only in its Member State of establishment and applies the domestic SME scheme in that Member State.

The taxable person buys goods and services in its Member State of establishment from suppliers located in its Member State of establishment, in other Member States and in non-EU countries. Those goods and services are used to make its exempt supplies in its Member State of establishment.

Under the domestic SME scheme, the taxable person pays VAT on its purchases, but it cannot deduct it.



Example 2: A taxable person established in Member State 1 carries out two kinds of economic activities in that Member State:

- Activity A.
- Activity B, which is excluded from the application of the SME scheme.

The taxable person only applies the domestic SME scheme to activity A as activity B is excluded from the SME scheme. The taxable person therefore has to apply the standard VAT regime to activity B and charge VAT to its customers for supplies made under that activity.

The taxable person buys the following goods and services from suppliers located in its Member State of establishment, in other Member States and in non-EU countries:

- Goods and services used to make supplies under activity A.
- Goods and services used to make supplies under activity B.
- Goods and services used to make supplies for both activities (computers, office equipment, electricity, etc., i.e., overheads and administration costs).

The taxable person can deduct input VAT on its purchases in the following way:

- No deduction of input VAT on purchases for its activity A.
- Full deduction of input VAT on purchases for its activity B.
- Partial deduction (pro-rata) of input VAT on common purchases for both activity A and activity B²⁷.

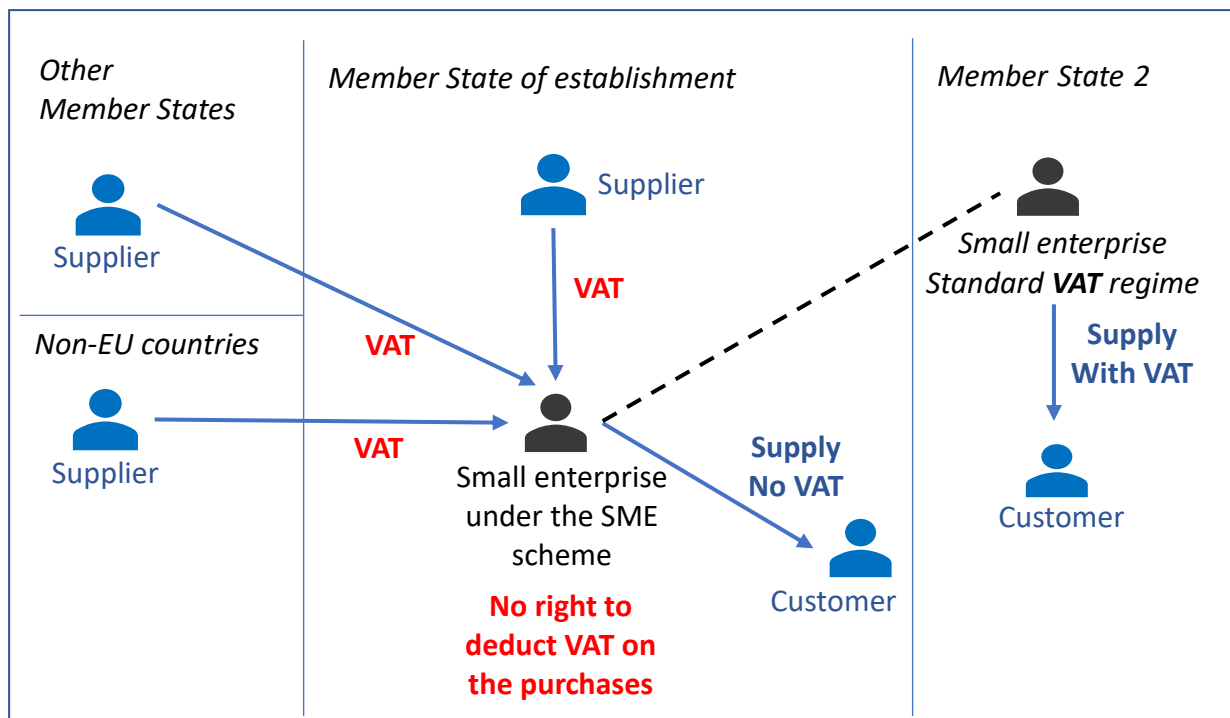
Example 3: A taxable person established in Member State 1 carries out supplies in its Member State of establishment and in Member State 2. It applies the domestic SME scheme in its Member State of establishment so its supplies in that Member State are exempt from VAT. The taxable person applies the standard VAT regimen in Member State 2 and charges VAT to its customer in that Member State.

The taxable person buys the following goods and services in its Member State of establishment from suppliers located in its Member State of establishment, in other Member States and in non-EU countries:

²⁷ The taxable person may consult the tax authorities of its Member State of establishment for more information on the application of pro-rata rule.

- Goods and services used to make its supplies in its Member State of establishment.
- Goods and services used to make its supplies in Member State 2.
- Goods and services used to make its supplies in both Member States (overheads and administration costs).

In this case, the taxable person cannot deduct the input VAT on any of its purchases.



4.2. Cross-border SME scheme

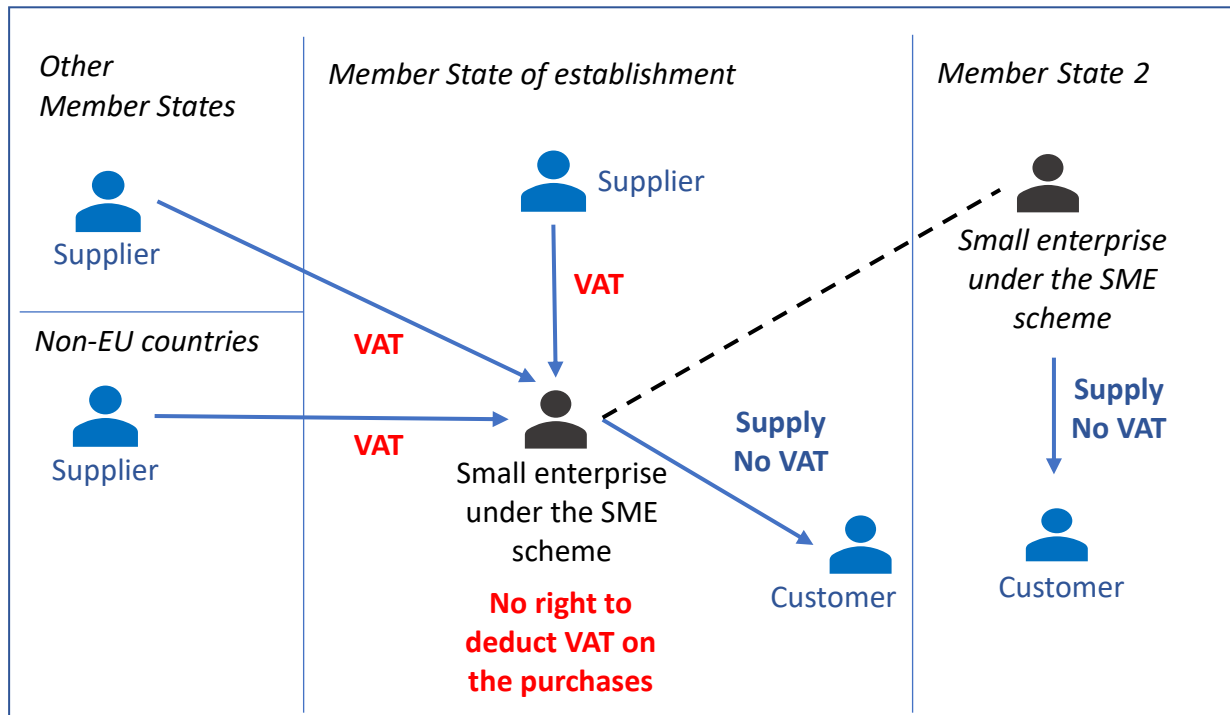
Example 4: A taxable person established in Member State 1 carries out supplies in its Member State of establishment and in Member State 2. It applies the cross-border SME scheme in both Member States, so its supplies are exempt from VAT.

The taxable person buys the following goods and services in its Member State of establishment from suppliers located in its Member State of establishment, in other Member States and in non-EU countries:

- Goods and services used to make its supplies in its Member State of establishment.
- Goods and services used to make its supplies in Member State 2.

- Goods and services used to make its supplies in both Member States (overheads and administration costs).

In this case, the taxable person cannot deduct the input VAT on any of the purchases used to make exempt supplies in its Member State of establishment or in Member State 2.



Example 5: A taxable person established in Member State 1 carries out supplies in its Member State of establishment and in Member State 2. It applies the standard VAT regime in its Member State of establishment and charges VAT to its customer in that Member State. The taxable person applies the cross-border SME scheme in Member State 2 so its supplies in that Member State are exempt from VAT.

The taxable person buys the following goods and services in its Member State of establishment from suppliers located in its Member State of establishment, in other Member States and in non-EU countries:

- Goods and services used to make its supplies in its Member State of establishment.
- Goods and services used to make its supplies in Member State 2.
- Goods and services used to make its supplies in both Member States (overheads and administration costs).

In this case, the taxable person can deduct input VAT on its purchases in the following way:

- Full deduction of input VAT on purchases used to make taxed supplies in its Member State of establishment.
- No deduction of input VAT on purchases used to make exempt supplies in Member State 2.
- Partial deduction (pro-rata) of input VAT on purchases used to make supplies in both Member States²⁸.

²⁸ The taxable person may consult the tax authorities of its Member State of establishment for more information on the application of pro-rata rule.

