



ELEARNING MODULE

Special scheme for small enterprises

Course Takeaways

This eLearning course provides a general overview of rules from the perspective of the officials in EU countries.

1. Introduction

1.1 Target Audience

This course is designed for SMEs and tax officials

1.2 Learning Objectives

The learning objectives are:

- Understand the main features and functioning of the new SME cross-border scheme, effective from 1 January 2025, as well as the domestic scheme.
- learn the conditions for applying the VAT exemption under the SME scheme.
- understand the registration procedure and VAT compliance obligations associated with applying the SME cross-border scheme, and become aware of the Member State-specific variations applicable to the domestic SME scheme.
- understand the roles and responsibilities of Member States in the framework of the new SME cross-border scheme.
- learn how the SME scheme interacts with the normal VAT regime and the One Stop Shop (OSS) Union scheme.

1.3 Context of Training

Why are you following this course?

As an SME or tax official, understanding the new rules of the SME scheme is fundamental for operating effectively within the VAT environment. From 1 January 2025, this new scheme simplifies VAT obligations for small businesses acting across borders in the EU.

2. Understanding the SME scheme

2.1 Legal basis

To confidently apply the SME scheme, understanding its legal foundation is crucial. This framework outlines the rules and guidelines shaping how the VAT exemption for small enterprises operates across the EU, effective from 1 January 2025.

Let's now explore the key legal documents underpinning the scheme. Use the cards below to familiarize yourself with each one. They lay the groundwork for everything you'll learn and apply.

- **Council Directive (EU) 2020/285:** amends the main VAT directive, Directive 2006/112/EC, updating the special scheme for small enterprises.
 - Purpose: The directive aims to simplify VAT compliance across the EU by allowing SMEs to benefit from the VAT exemption in both their home country and other Member States where VAT is due.
 - Effective date: 1 January 2025
- **Commission Implementing Regulation (EU) 2021/2007:** provides detailed rules for the application of Council Regulation (EU) No 904/2010, specifically concerning the special VAT exemption scheme for small enterprises.
 - Purpose: The regulation standardises electronic data exchange and automated information access among Member States to monitor SME VAT exemption effectively. It aims to simplify administrative processes, facilitate cooperation, and prevent VAT fraud, ensuring SMEs can seamlessly benefit from the VAT exemption.
 - Effective date: 1 January 2025

2.2 How does the SME scheme work?

Who can benefit from the SME scheme?

In this context, a *small enterprise* refers to any taxable person—such as a freelancer, start-up, self-employed professional, or company—that meets specific eligibility criteria.

- **Domestic Scheme:** To qualify, a small enterprise must meet **all** of the following conditions:
 - It is **established in an EU Member State**.
 - Its **annual turnover** in that Member State:
 - Does **not exceed the domestic threshold** set by national tax authorities
 - This applies to:

- The **current calendar year**, and
 - The **preceding calendar year**
 - *(Or the two preceding calendar years—if that's the rule set by that Member State of establishment)*
- **Cross-border scheme:** To benefit from this scheme, a small enterprise must meet **all** of the following conditions:
 - It is **established in an EU Member State**.
 - Its **total annual turnover across the EU does not exceed EUR 100 000** :
 - This applies to both:
 - the **current calendar year**, and
 - the **previous calendar year**
 - In each Member State where it wants to apply the SME exemption, its **annual turnover does not exceed the domestic threshold** set by that country

Small enterprises that are not established in an EU Member State are not eligible to apply the SME scheme.

This includes businesses established in the United Kingdom, including Northern Ireland, which are considered non-EU businesses under this scheme.

You can check your eligibility on the simulator. (opens in a new tab) Also a non-EU enterprise which has fixed or permanent establishment(s) within the EU cannot apply the SME scheme either.

Two important concepts: MEST and MEXE:

- **MEST:** Under the SME scheme, 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 general management).

If the taxable person is a natural person (professionals, freelancers...), the Member State of establishment is 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.

- **MSEXE:** Under the SME scheme, the Member State of exemption means any Member State other than that of establishment in which a small enterprise is eligible for exemption under the SME scheme on its supplies of goods and services.

This means:

- It's a Member State where the small enterprise has not located the seat of its economic activity, nor has a natural person established its permanent address there, but where it wants to benefit from the SME scheme.
- It is possible for the small enterprise to have a fixed establishment or a VAT registration in this Member State. However, it will have to deregister for VAT once it is granted access to the cross-border SME scheme in that Member State.

Which transactions are covered under the SME scheme?

When a business chooses to apply the SME scheme in a specific EU Member State, it must apply the scheme to **all sales of goods and services taking place within that Member State**, unless excluded from the scheme.

- **The SME** scheme covers:
 - domestic supplies of goods and services,
 - intra-Community distance sales of goods,
 - electronically supplied services,
 - intra-Community supplies of goods dispatched or transported from a Member State to a business customer located in another Member State, and
 - exports of goods to non-EU countries.
- **Exclusions:** Supplies excluded from the SME scheme:
 - transactions carried out on an occasional basis,
 - exempt intra-Community supplies of new vehicles, and
 - other excluded supplies, based on [national rules \(opens in a new tab\)](#). The Member States may decide to additionally exclude any other supplies of goods and services from the SME scheme.

If any of the above transactions are performed, this will not exclude the business from the application of the SME scheme in respect of all its economic activities. Instead, the business should apply the standard VAT regime on the transactions excluded from the SME scheme and will be able to apply the SME scheme for the rest of the activities if it meets the conditions.

2.3 What are the advantages?

It is possible for the small enterprise to have a fixed establishment or a VAT registration in this Member State. However, it will have to deregister for VAT once it is granted access to the cross-border SME scheme in that Member State.

If a business chooses this scheme:

1. It **does not charge VAT** to its customers
2. In return, it **cannot deduct input VAT** on purchases related to those supplies
3. The VAT exemption also brings **administrative relief**, like simplified invoicing and reporting requirements

This trade-off helps reduce the compliance burden for smaller businesses operating within the EU.

The SME scheme is optional for both EU Member States and businesses. Member States may choose whether or not to offer the scheme, and small enterprises can decide if they want to opt in. An SME can apply the scheme in some countries while continuing to follow the standard VAT rules in others.

Is it an advantage for my business?

It's up to each business to assess whether applying the SME scheme is beneficial, depending on its customer base and business model.

To make this more tangible, let's explore two examples—one where applying the scheme could be an advantage, and another where it might not be the most suitable choice.

3. Applying the domestic SME scheme

3.1 How does the domestic SME scheme work?

The principle of the domestic SME scheme:

Under the **domestic SME scheme**, a small enterprise can benefit from VAT exemption, but **only in its Member State of establishment**. This means the country where the taxable person has its seat of economic activity, its central administration or a natural person has its permanent address.

It simplifies things significantly: the business doesn't have to charge VAT on its domestic supplies, which in turn reduces paperwork and reporting obligations. But there's a trade-off — **SMEs cannot deduct input VAT** on the purchases linked to those exempt supplies.

In some Member States, the domestic SME scheme goes even further by removing the requirement for VAT registration altogether, offering relief from VAT compliance.

Input VAT deduction:

A small enterprise whose **supplies are exempt under the SME scheme – either the domestic SME scheme or the cross-border SME scheme – cannot deduct VAT incurred on purchases made to provide these supplies.**

What should an SME do?

Under the domestic SME scheme, the small enterprise cannot deduct input VAT on the purchases used to make the exempt supplies of goods and/or services.

In case the small enterprise carries out both transactions covered by the SME scheme and excluded from the SME scheme in its Member State, it should consult its Member State to be informed about the possible consequences on its right to deduct input VAT, like for example the possible application of a pro rata.

3.2 What are the conditions to apply?

To benefit from the SME scheme, a small enterprise must meet certain eligibility criteria based on **its turnover and type of activity**.

- **Annual turnover threshold:** The SME's turnover in its **Member State of establishment** must stay below the **national threshold in the current and the previous calendar years** —which cannot exceed **EUR 85 000** (or its local currency equivalent).

Some Member States may require SMEs wanting to apply the SME scheme to have an annual turnover not exceeding the annual threshold in the current calendar year and in the two previous calendar years.

- **Sectoral threshold:** Some Member States define different thresholds for different sectors. These are called **sectoral thresholds**. If your business qualifies under more than one, **the tax authorities would provide clear guidance** on the one to be used. **A shift from one threshold to another, if needed, would only be carried out once a year** (at the beginning of the calendar year) based on last calendar year's activities.

None of these sectoral thresholds can be higher than EUR 85 000 (or the equivalent in national currency).

- **New businesses:** SMEs that are just starting out can apply too—since their **previous turnover is zero**, they automatically meet the requirement.
- **Type of activity:** **The MEST may exclude certain transactions** from the SME scheme. If **the SME** would only carry out such transactions, it **would not be eligible** for the SME scheme.

3.3 How to register for the domestic SME scheme?

VAT registration is the process by which a business officially notifies its national tax authority that it will be carrying out VAT-relevant economic activities. Once registered, the business typically receives a **VAT number**, which is used for reporting and invoicing purposes.

Under the **domestic SME scheme**, some Member States may **waive this requirement**—meaning small enterprises don't need to register for VAT or obtain a VAT number if they apply to the domestic scheme only.

However, in Member States that require registration, the identification procedure should not take longer than **15 working days**. In specific cases, where necessary to prevent tax evasion or avoidance, Member States **may require additional time** to carry out the necessary checks.

For detailed guidance and contact information, SMEs should consult their **Member State of establishment**.

3.4 How can the domestic scheme simplify VAT compliance?

Under the **domestic SME scheme**, some Member States offer **simplified VAT obligations** to eligible small enterprises. These relief measures are optional and vary depending on each country's choices.

When granted, simplifications may include:

- no need to **register for VAT** or obtain a VAT number (if applying the domestic scheme only),

- exemption from filing **regular VAT returns** — or using **simplified annual returns** instead (if applying the domestic scheme only),
- reduced or removed **accounting obligations**,
- no requirement to **issue detailed invoices** — simplified formats may be permitted,
- exemption from other routine **administrative duties**.

These measures aim to ease the compliance burden for SMEs. However, each Member State defines the scope of simplifications it offers.

Businesses must check local [regulations](#) to determine which simplifications are applicable for them.

3.5 How to leave the domestic SME scheme?

A small enterprise can exit the domestic SME scheme in two ways, click on the cards to see the explanations.

- **Voluntary:** An SME decides to stop applying the scheme.
- **Automatically (exclusion):** An SME no longer meets the eligibility conditions and is excluded from the scheme.

Voluntary cessation:

An SME may choose to leave the domestic scheme at any time. If it opts for voluntary exit, it must follow the **specific rules and conditions** laid down by its Member State of establishment, click on the cards to see the explanation.

- **Standard VAT rules:** Once the scheme is exited, the business will switch to **standard VAT rules or simplified procedures for charging and collection of the VAT**, depending on the Member State.
- **Switching to cross-border SME scheme:** If a small enterprise wants to apply the SME scheme **in other Member States beyond their country of establishment**, they will have to leave the **domestic scheme** first, following the national rules. Then, if they meet the necessary conditions, **register** for the **cross-border SME scheme**, which comes with **its own separate rules and obligations**.

When switching to the cross border SME scheme, this transition allows an SME to benefit from VAT exemption in multiple countries—but it requires a formal change in status and compliance with the cross-border scheme.

Exclusion:

A small enterprise may be **automatically excluded** from the domestic SME scheme if the enterprise no longer meets the conditions. Here are the key cases:

- **Excluding the turnover threshold:** An SME applying the domestic SME scheme will be excluded when, during the current calendar year or the preceding one, **its annual turnover exceeds** their Member State of establishment's threshold:
 - **national threshold**, or
 - **sectoral threshold**, based on their business activity.

This applies whether the excess happens in the **current calendar year** or the **previous one**.

If the excess happens during the current calendar year, Member States may allow SMEs to **remain** in the domestic scheme and apply a **transitional period** until the end of the calendar year:

- by default, if SMEs exceed the national/sectoral threshold with not more than 10%, the SME may benefit from the domestic SME scheme until the end of that calendar year, or
- if the Member State decides as such, the 10% ceiling can be increased up to **25%**, or
- a Member State can decide **not to implement a ceiling at all**.

The above options have the only limit that they cannot result in exempting a taxable person whose annual turnover within the Member State of establishment exceeds EUR 100 000 in the current calendar year.

If Member States opt not to apply a transitional period, the domestic SME scheme ceases to apply immediately once the national threshold is exceeded.

- **Relocation:** If an SME relocates the **seat of its economic activity** (or **permanent address** if a natural person) to:
 - **Another EU Member State**, the domestic SME scheme ceases to apply in its original MEST. Nevertheless, it could apply the domestic SME scheme in its 'new' MEST if it complies with the applicable conditions there.
 - **Outside the EU**, the domestic SME scheme in its original MEST ceases to apply. If an SME is established outside the EU, the domestic SME scheme cannot be used, even if a fixed establishment is available in an EU Member State.

Quarantine period:

Before an SME can re-enter the domestic scheme, a **quarantine period** may apply — this is a waiting period during which the business is not allowed to rejoin the scheme.

- If the SME **voluntarily leaves** the scheme (*cessation*), its Member State of establishment **may choose** to impose a quarantine period.
- If an SME is excluded due to no longer meeting the eligibility criteria, its Member State must enforce a quarantine period before it can re-enter.

When can you rejoin?

- **An SME voluntary leaving the domestic SME scheme**, can opt again to apply the domestic scheme if all conditions are still fulfilled, and in the event the MEST foresees a quarantine period, at the end of this period.
- **If an SME is excluded from the domestic SME scheme**, it will not be able to re-apply the domestic SME scheme until the end of the quarantine period.
 - The quarantine period starts as from exceeding the national/sectoral threshold 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.

4. Applying the cross-border SME scheme

4.1 How does the cross-border SME scheme work?

As of **1 January 2025**, small enterprises established in any EU Member State can choose to apply the SME scheme in **other Member States where VAT is due**, even if they are **not established there**.

This means:

- Simplification of VAT compliance obligations.
- No obligation to **charge VAT** on qualifying supplies.
- No need to comply with **each country's national VAT procedures**.

However, just like with the domestic scheme, businesses using the cross-border SME scheme **cannot deduct input VAT** related to the transactions covered by the exemption.

Can the domestic and cross-border SME scheme be combined?

No — If an SME wants to benefit from VAT exemption in other Member States, it must leave the domestic SME scheme and instead register for the cross-border SME scheme. Each scheme has its own rules, and they cannot be combined.

4.2 What are the conditions to apply?

Is your business eligible?

To be eligible to apply for the cross-border SME scheme, your enterprise must have a Union annual turnover not exceeding EUR 100 000 (or the equivalent in national currency). This condition must be met in both the current calendar year and the previous calendar year.

How is the Union annual turnover calculated?

The Union annual turnover of an SME is the sum of its annual turnovers in all 27 Member States, whether or not it wants to apply the cross-border SME scheme in all Member States.

What conditions must you meet?

To apply the cross-border scheme, an eligible business must also meet the following conditions:

- **Prior notification:** An SME must submit a prior notification in its Member State of establishment (MSEST) specifying the Member States where it wants to apply the scheme.

- **Establishment in a Member State:** The enterprise must be **established in the EU** – meaning it has its **seat of economic activity** or, in case of a natural person, **its permanent address** in one of the Member States.
- **Scope of Activities:** The supplies must include **transactions covered by the SME scheme**. The enterprise can also make other supplies **excluded** from the scheme, but only the covered ones benefit from the exemption.
- **National Annual Threshold:** In each Member State where the business wants to apply the SME scheme:
 - the annual turnover must stay **below that country’s national or sectoral threshold**,
 - calculated for both the **current and previous calendar year or, over two previous years**—if the Member State applies a longer reference period.

If a Member State has set varying thresholds for different business sectors, the SME 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 SME on which sectoral threshold should be used.

If all conditions are met, the Member State of establishment will assign the SME an **individual identification number** with the suffix ‘EX’ (**‘EX number’**) – this identifier is required to apply the cross-border SME scheme.

4.3 How to register for the cross-border SME scheme?

To register for the cross-border SME scheme, SMEs must submit a prior notification to their Member State of establishment (MSEST)—this is the only point of contact for registration.

The MSEST handles communication with tax authorities in the other Member States where the SME wishes to apply the VAT exemption.

What should the prior notification include?

Before applying the SME VAT scheme, small enterprises must submit a prior notification containing the following essential elements:

- **Enterprise Details:** Include the **name, business activity, legal form**, and **registered address** of the small enterprise.
- **Supply Value Disclosure:**

- 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 years.
- 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.
- **Member State of Application:** Specify the Member State where the taxpayer wants to apply **the VAT exemption under the cross-border scheme**. If the SME is already identified for VAT purposes in a Member State where it wants to apply the cross-border SME scheme, it shall also communicate any such VAT identification number.

How long does the registration take?

The entire registration process for the cross-border SME scheme should be completed within **35 working days** (from the date you submit your prior notification) until the exemption becomes effective.

After the Member State of establishment received your prior notification, **it must verify within 15 working days that the Union annual threshold of EUR 100 000 was not exceeded** in both the current and previous calendar year.

Afterwards, the **Member State of exemption has 15 working days to check if the taxable person meets its national conditions** and informs the MEST of the outcome. However, 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.

4.4 How can the cross-border SME scheme simplify VAT compliance?

The cross-border scheme **streamlines VAT tasks** for SMEs operating across EU Member States by simplifying reporting and invoicing.

Simplified reporting obligations:

Instead of filing separate reports in each country, SMEs submit **one quarterly report** to their own **Member State of establishment**, for all supplies of goods and services carried out in all Member States.

Here's how it works:

- They report the total value of supplies (taxed or exempt) carried out during the calendar quarter in each of the 27 EU Member States regardless of whether the SME applies the SME scheme there.
- The turnover is reported per Member State which allows the Member State of establishment to monitor the Union annual turnover of the small enterprise and also enables each Member State of exemption to verify that the conditions of exemption continue to be met.
- The value of supplies is to be reported Member State by Member State and should be done in euro. However, Member States which have not adopted the euro may require the value to be expressed in their national currency. In that case, for conversion, the exchange rate to be used by the SME is the one published by the European Central Bank on the first day of the calendar year, or, if no publication on that day, on the next day of publication must be used .
- Where the Member State granting the exemption applies more than one threshold (sectoral thresholds), the SME should report the value of supplies corresponding to each threshold separately. This serves to monitor correct application of the sectoral threshold.

When do you have to report?

An SME has one month after the end of each calendar quarter to submit their report.

Calendar Quarters		Period of submission of the quarterly report
Q1	January, February, March	April
Q2	April, May, June	July
Q3	July, August, September	October
Q4	October, November, December	January

What gets reported?

The report must show the SME's turnover from supplies made during the calendar quarter. The turnover is to be reported Member State by Member State and should include:

- The value of supplies of goods and services that would otherwise have been taxed under the standard VAT regime.
- The value of transactions which are exempt, with VAT deduction of the VAT paid at the preceding stage.
- The value of transactions related to exempt exports of goods, international transports and the related supplies of services by intermediaries.
- The value of exempt intra-EU supplies of goods, as well as transfers of own goods between EU Member States.
- The value of exempt real estate transactions, financial transactions and insurance and reinsurance services, unless those transactions are ancillary transactions.

All reported values must be VAT exclusive and submitted in a single quarterly report, detailing the total value per Member State. If no supplies have been made in a Member State, the SME should report zero '0'.

4.5 How to leave the cross-border SME scheme?

A) Voluntary exit from the SME scheme:

What is cessation? A business is considered to cease applying the cross-border scheme when:

- It chooses to stop applying the VAT exemption in some or all Member States.
- It decides to continue under the domestic scheme only, in its Member State of establishment.
- It has ceased its economic activity altogether.

What to do: an SME must submit an update to a prior notification to their Member State of establishment.

When is it effective?

- If submitted in the first 2 months of a quarter: Exit takes effect on the first day of the next calendar quarter.
- If submitted in the last month of a quarter: Exit takes effect on the first day of the second month of the next calendar quarter.

What happens to the EX number?

- If it exits all Member States, their EX number is deactivated.
- If it exits only some Member States, its EX number is updated but remains active for the Member States where the exemption continues to apply.

Quarantine period: Some Member States may require a waiting period before an SME can rejoin the scheme.

B) Exclusion from the cross-border scheme:

When is an SME excluded?

- It exceeded the **Union annual threshold** of EUR 100 000 this year or last.
- It exceeded a **national annual threshold** set by a Member State.
- It exceeded the **Union turnover threshold**.
- It ceased business activity but didn't notify their Member State of establishment.
- It declared **bankruptcy** and taxable operations ended.

If an SME exceeded the Union annual threshold:

- It is excluded from the **entire scheme**.
- Its **EX number is deactivated**.
- It must submit a **final report within 15 working days**.

If an SME exceeded a national annual threshold:

- It is excluded from the scheme in **that Member State only**.
- It can still apply the scheme in other Member States if conditions are met.
- It may benefit from a **transitional period** (if allowed and within acceptable margin).
- The EX number will no longer be valid in the Member State(s) where the national annual threshold is exceeded, but will remain valid in the other Member States of exemption.

Quarantine period: an SME cannot reapply in that Member State until **1 January (Y+2)** (with Y being the year of exclusion). Some Member States may extend this to **1 January (Y+3)**.

This quarantine period also applies when the SME exceeds the Union turnover threshold.

4.6 How does the SME scheme interact with other schemes?

The SME scheme doesn't operate in isolation—it can overlap or run alongside other VAT regimes depending on an SME's situation. Here's how:

SME Scheme & Standard VAT Regime:

Purchases (inputs): The SME scheme applies only to supplies made by the business (outputs). Purchases the business makes are still subject to the standard VAT regime, so they may need to handle VAT obligations for those separately.

The following input transactions often trigger a VAT registration obligation in Member States and the obligation to declare and pay VAT:

- intra-Community acquisitions of goods subject to VAT,
- imports of goods,
- purchases of services for which the small enterprise is liable to pay VAT (reverse charge),
- supplies of services within the territory of another Member State for which VAT is payable solely by the recipient (although there may be no VAT to pay).

Supplies not covered by the SME scheme: If a business makes supplies that are not eligible for the SME scheme, those specific transactions are taxed under the standard VAT regime—even if other supplies benefit from the exemption (This was explained in "How does the SME scheme work?").

Different rules in different Member States: You can apply the SME scheme in **some Member States**, while opting or being required to use the **standard VAT regime** in others. This may depend on business needs or eligibility criteria in each country.

SME Scheme & One Stop Shop (OSS) Union Scheme: The One Stop Shop (OSS) is an electronic system that allows a business to declare and pay VAT due across the EU, through one single Member State: the Member State where the business is established. The OSS has 3 different special schemes:

- Union One-Stop-Shop scheme: Union One-Stop-Shop scheme: special scheme for intra-Community distance sales of goods, for domestic and intra-Community supplies of goods to EU final consumers by an electronic interfaces considered to be deemed supplier, and for services to EU final consumers supplied by taxable persons established within the EU but not in the Member State of consumption.

- Non-Union One-Stop-Shop scheme: Non-Union One-Stop-Shop scheme: special scheme for services to EU final consumers supplied by taxable persons not established in the EU.
- Import One-Stop-Shop scheme: Import One-Stop-Shop scheme: special scheme for sales of goods to EU final consumers whereby the goods are physically transported from a non-EU country to a Member State and whereby the value of the imported goods does not exceed 150 EUR.

Only cohabitation between the SME scheme and the OSS Union scheme is possible. A SME who meets the requirements shall be able to VAT exempt its supplies under the SME scheme made in its Member State of establishment and/or in other Member States of exemption and at the same time be registered for the OSS Union scheme and declare the supplies located in the Member States where the SME does not apply the SME scheme. It is not possible to apply both the SME and OSS Union schemes at the same time in one same jurisdiction.

An SME has economic activities in its Member State of establishment (Member State 1), in Member State 2 (MS 2) and in Member State 3 (MS 3).

It applies the cross-border SME scheme in MS 1 and in MS 2 but not in MS 3.

Under this scenario, the small enterprise:

- Can apply the OSS Union scheme for MS 3 to declare and pay VAT on the supplies located in MS 3, since it does not apply the cross-border SME scheme in that Member State. The OSS declaration will have to be submitted in MS 1 (Member State of establishment) and should only cover supplies made in MS 3.
- Applies the cross-border SME scheme in MS 1 and in MS 2 so supplies in these two Member States are VAT exempt. The SME must submit a quarterly report in MS 1 (Member State of establishment) that will cover its turnover in all 27 Member States, MS 3 included. For the Member States where the small enterprise does not have any economic activity, the turnover to report is zero '0'.

The OSS helps **simplify** the declaration and payment of VAT for B2C supplies across Member States. The SME scheme, meanwhile, **exempts** output transactions from VAT within the EU.

*Remember, this is a quick and handy summary of the most relevant course information.
Only the European Union legislation published in the Official Journal of the European Union is deemed authentic. The Commission accepts no responsibility or liability whatsoever with regard to the training.*