Special VAT provisions

Table of contents

Special scheme for small businesses **3**
Applying for the special scheme for small businesses in other Member States **4**
How is the supply of a calendar year calculated **5**
How can an Estonian entrepreneur become a user of the special scheme for small businesses **6**
For non-residents who wish to apply for the special scheme for small business in Estonia **7**
Obligations of the user of the special scheme **8**
Expiration of the right to use the special scheme **8**
Checking the validity of the registration number of the special scheme for small businesses (EX number) **9**
Special scheme for small businesses – FAQ **10**

Special scheme for small businesses

The bill to amend the Value-Added Tax Act and the Taxation Act, adopted by the Riigikogu on 13.11.2024, will simplify the operations of small businesses in other Member States from 01.01.2025 by equalising the rights and obligations connected to the occurrence of VAT liability of enterprises that do not have a seat or permanent establishment in a Member State with those that do.

According to the procedure valid until the end of 2024, a threshold for supply has been established in the Member States, up to which a person is not obliged to register as a person liable to VAT (hereinafter *referred to as taxable person*), **but this threshold applies only to persons with a seat or a permanent establishment in a Member State**. In Estonia, the threshold is 40,000 euros. A foreign person engaged in business, who does not have a permanent establishment in the Member State where supply is generated, must, regardless of the amount of supply generated, register as a taxable person in that Member State from the date of the first taxable supply in which the purchaser of the goods or recipient of the service cannot apply reverse charge themselves. This means that, compared to a person engaged in business with a seat in the country, they do not have the right to operate as a taxable person without being registered until the supply threshold in force in the relevant country is exceeded.

To treat equally both the persons with a seat in a Member State and the non-residents with a seat in another Member State, a new special scheme for small businesses will be introduced from 1 January 2025. According to the scheme, an entrepreneur may, by operating in another Member State without having a permanent establishment, register as a taxable person there under the same conditions as entrepreneurs with a seat or a permanent establishment in that Member State. However, there is one additional condition: the special scheme for small businesses can be used by a person whose total supply in a calendar year in all Member States (including the Member State of their location) has not exceeded 100,000 euros in the current year and did not exceed 100,000 euros in the previous calendar year.

Using the special scheme for small businesses is voluntary.

Read more

- **Applying for the special scheme for small businesses in other Member States**
- **How is the supply of a calendar year calculated**
- **How can an Estonian entrepreneur become a user of the special scheme for small businesses**
- **For non-residents who wish to apply for the special scheme for small business in Estonia**
- **Obligations of the user of the special scheme**
- **Expiration of the right to use the special scheme**

- **Checking the validity of the registration number of the special scheme for small businesses (EX number)**

- **Special scheme for small businesses – FAQ**

References

The Act Amending the Value-Added Tax Act and the Taxation Act (in Estonian)

Explanatory memorandum of the bill (in Estonian)

Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, VAT directive

Council Directive (EU) 2020/285 of 18 February 2020

Last updated on 04.03.2025

Applying for the special scheme for small businesses in other Member States

The special scheme for small businesses is intended for entrepreneurs who wish to use the VAT exemption for small businesses in other Member States where they do not have a permanent establishment.

An Estonian entrepreneur can use the special scheme in another Member State if:

1. the supply in the calendar year in the other Member State where the person wishes to use the tax exemption does not exceed the threshold for registration as a taxable person in that Member State;
2. the total supply in the calendar year throughout the European Union, including Estonia, does not exceed 100 000 euros.

A small business can submit the application for applying the tax exemption in another Member State in the e-services environment e-MTA. The decision on granting or refusing the tax exemption in the countries of operation is made within 35 working days and the information is communicated to the company by the Estonian tax authorities through the e-services environment e-MTA.

If a person who is exempt from tax in another country under the special scheme exceeds the VAT liability threshold there and is not a user of the OSS special scheme, they will be required to register as a VAT payer in that country. The most accurate information can be obtained from the tax authorities of the

country where the threshold was exceeded.

If the small business tax exemption is applied for from a country where the company is already registered as a VAT payer, the small business must be removed from the VAT register in that country upon receiving permission to use the special scheme.

If the threshold of the special scheme is exceeded, the use of the special scheme in that country is suspended for one or two years, during that period one must continue to operate as a registered VAT payer or by using the OSS special scheme. After the end of this period and if the conditions required for tax exemption are met, the company can reapply for the implementation of the special scheme for small businesses.

If a user of the special scheme for small businesses makes transactions in a currency other than the euro, the exchange rate published by the European Central Bank on the first day of the calendar year will be used as the basis for both the special scheme application and the reports, or if no exchange rate has been published for that day, then the exchange rate of the next publication day.

Some Member States may also have established a gradual transition from exemption to taxation, which allows a company to continue to use the small business exemption for a limited period, provided that its supply does not exceed the Member State's exemption threshold by more than a specified percentage rate.

It is also worth noting that there is no VAT exemption threshold in Spain, and therefore the special scheme for small businesses cannot be used there, and if supply is generated there, one must immediately register as a Spanish VAT payer.

The conditions for implementing the special scheme for small businesses in other countries can be found by country on the European Commission's website **“National VAT rules”**.

Last updated on 04.03.2025

How is the supply of a calendar year calculated

The supply of a calendar year is calculated separately for each Member State according to the place where the supply is created. The total supply of a calendar year in the European Union is the total supply created in the Member States in a calendar year.

The supply of a calendar year consists of:

1. taxable supply of goods and services, including supply taxable at a 0% tax rate, excluding the transfer

of fixed assets;
2. supply from transactions with immovables (clauses 2, 3 and 6 of subsection 2 of § 16 of the Value-Added Tax Act), excluding the transfer of fixed assets and occasional transactions;
3. supply from insurance services (clause 1 of subsection 2 of § 16 of the Value-Added Tax Act) and financial services (subsection 2^1 of § 16 of the Value-Added Tax Act), excluding occasional services.

An occasional transaction is one where the relevant transaction is not connected to the taxpayer's main activity, their daily business, and is not a direct, permanent and necessary extension of the main activity (Judgment of the Court of Justice of the European Union in case C-378/15): for example, if a loan is granted by a company whose daily activity is not to grant loans (**also, if the income earned from an occasional activity exceeds the income earned from the main activity**).

Last updated on 20.11.2024

How can an Estonian entrepreneur become a user of the special scheme for small businesses

A small business who wishes to use the special scheme submits an advance notification (hereinafter *the application*) via an electronic portal on the website of the tax authority. The applicant must, for the use of the special scheme, among other things, indicate in the application in which Member States it operates and obtain consent from these countries to use the special scheme (**the Estonian Tax and Customs Board requests this consent from the tax authority of the other Member State after receiving the application and forwards the response to the entrepreneur**).

Applications, as well as their subsequent amendments, are forwarded to the Member States indicated in the application where the tax exemption is intended to be used.

The right to use the tax exemption is confirmed or rejected by the tax authority of the respective Member State. If the latter confirms the person’s compliance with the conditions for VAT exemption, the tax authority of the country where the tax exemption applicant is located will issue the person a registration number with the suffix “EX” for the use of the special scheme (or, in the case of a change to the advance notification, will confirm the validity of the registration number already issued to the person).

Estonian entrepreneurs are assigned a registration number with the suffix “EX” by the Estonian Tax and Customs Board.

Instructions for applying for the special scheme for small businesses (in Estonian) | 663.55 KB | pdf
For questions regarding the special scheme for small businesses, please contact **ariklient@emta.ee** or

+372 880 0812.

Last updated on 04.03.2025

For non-residents who wish to apply for the special scheme for small business in Estonia

The special scheme for small businesses is intended for entrepreneurs who wish to use the VAT exemption for small businesses in other Member States where they do not have a permanent establishment.

A small business of another Member State can use the special scheme in Estonia if:

1. the supply in the calendar year in Estonia does not exceed 40,000 euros in the current year or did not exceed it in the previous year;
2. the total supply in the calendar year throughout the European Union, including the Member State of its location, does not exceed 100,000 euros.

A small business can submit in its country of location the application for applying the tax exemption in Estonia. The decision on granting or refusing the tax exemption in Estonia, which you will be informed about by the country of location, will be made within 35 working days.

If the company is also registered in Estonia as a VAT payer, then after obtaining the right to use the special scheme for small businesses in Estonia, the company must submit an application to be deleted from the Estonian VAT register. A company cannot be a registered VAT payer and use the VAT exemption under the special scheme for small businesses at the same time. More information on how to **delete the VAT registration**.

If a company reaches the Estonian supply threshold of 40,000 euros and the company is not a user of the OSS special scheme, the company must register as a VAT payer in Estonia. More information on how a non-resident can **register as a VAT payer**.

If a company reaches the VAT exemption threshold of 40,000 euros in Estonia, then, similarly to the European Union threshold of 100,000 euros, the implementation of the special scheme for small businesses will be suspended for one calendar year. This means that if a company exceeds the supply threshold in Estonia on 1 May 2025, the company can again apply for the implementation of the special scheme for small businesses from 1 January 2027.

If a user of the special scheme for small businesses makes transactions in a currency other than the

euro, the exchange rate published by the European Central Bank on the first day of the calendar year will be used as the basis for both the special scheme application and the reports, or if no exchange rate has been published for that day, then the exchange rate of the next publication day.

Last updated on 04.03.2025

Obligations of the user of the special scheme

The user of the special scheme must submit a quarterly supply report for each quarter by the end of the month following the quarter in the Estonian Tax and Customs Board's e-services environment e-MTA, which contains the following information:

1. the total amount of supply generated in Estonia during the quarter in euros or the note "0" if no supply was generated;
2. the total amount of supply generated in another Member State during the quarter in euros or the note "0" if no supply was generated;
3. in the case of a Member State where several thresholds for the registration obligation are applied, the total amount of supply in euros separately for goods and services;
4. the total amount of supply generated during the previous quarter after the submission of the advance notification or the note "0" if no supply was generated if the advance notification was submitted before the quarter in which the application of the special scheme began.

If a user of the special scheme exceeds the European Union supply threshold of 100,000 euros in the current calendar year, they must notify the tax authorities within 15 working days from the day the supply threshold was exceeded in the e-services environment e-MTA and submit the final report on the supply generated from the beginning of the current quarter until the supply threshold for the calendar year was exceeded.

Instructions for submitting quarterly supply reports under the special scheme for small businesses | 561.41 KB | pdf

Last updated on 04.03.2025

Expiration of the right to use the special scheme

If the supply of a user of the special scheme in the current calendar year exceeds the threshold of 100,000 euros of the European Union, they will lose the right to use the special scheme from the day the threshold is exceeded until the end of the calendar year following the exceeding of the threshold.

For example, if a company exceeded the European Union threshold of 100,000 euros on 1 May 2025, then the company can again apply for the implementation of the special scheme for small businesses from 1 January 2027, provided that the required conditions are met.

A person's right to use the special scheme, either in all Member States or in a specific Member State, also ceases in the following cases:

1. the Member State where the person uses the special scheme has notified that the person can no longer use the tax exemption in that Member State due to exceeding the national threshold. Depending on the Member State, the person cannot use the special scheme in the country where the special scheme was terminated during the calendar year following the threshold being exceeded or during the two following calendar years. After this period, the right to reapply for the special scheme arises if the required conditions are met.
2. the user of the special scheme has notified the tax authority of the cessation of use of the special scheme in the e-services environment;
3. the user of the special scheme has notified the tax authority of the cessation of its activities in the e-services environment or the tax authority may otherwise assume this.

The tax authority will notify the person of the termination of the right to use the special scheme with a decision. If the person wishes to terminate the use of the special scheme, although the conditions for its use continue to be met, the right to use the special scheme will expire on the first day of the quarter following the notification to the tax authority, or if the tax authority has been notified in the last month of the quarter, then on the first day of the second month of the following quarter. In other cases, the right to use the special scheme expires on the day specified in the tax authority's decision.

Last updated on 04.03.2025

Checking the validity of the registration number of the special scheme for small businesses (EX number)

The European Commission's application **SME on-the-Web** (SoW) allows anyone to check, as of the date of the query, whether and in which Member State a specific taxable person is entitled to the tax

exemption under the special scheme for small businesses.

Last updated on 22.01.2025

Special scheme for small businesses – FAQ

1. An Estonian VAT payer uses the OSS special scheme to sell goods to other Member States. Total supply for the calendar year in EU countries is 70,000 euros. Is it possible to use the special scheme for small businesses?

Yes, if a company's total supply in the European Union does not exceed 100,000 euros, it may (but does not have to) use the special scheme for small businesses in those countries where the threshold for VAT registration is not exceeded. In other countries, the OSS special scheme may continue to be used.

2. Does a small business have to cease activities in a country where it exceeds the threshold?

No, if you exceed the threshold, depending on your area of activity, you must either register for VAT in the country of activity or use the OSS special scheme henceforth. In this case, the use of the special scheme is suspended at least until the end of the year following the year in which the supply threshold is reached.

3. An Estonian VAT payer only generates taxable supply in Estonia. Since it meets the conditions, it wants to use the special scheme for small businesses when starting its business in another Member State. The company has general costs that are used for supply in both Estonia and the other Member State. Is there a right to deduct input VAT from these general costs?

In such a situation, the input VAT proportion must be calculated from the general expenses. Input VAT may not be deducted from expenses incurred for operating in another Member State under the special scheme.

4. What should I do if, as a buyer, I receive an invoice without VAT from a company using a registry code with the EX-suffix?

Upon receipt of such an invoice, there is no obligation to register as a taxable person with limited liability or to reverse charge the purchase invoice.

5. Where can I find the thresholds for other Member States?

For information on thresholds and other tax-related information, please visit the European Commission's page **“Taxes in Europe Database v4. Advanced Search”**. To find the threshold, select “Value Added Tax” as the tax, the country of interest, and, after searching, click on the “VAT” link and select “Taxable Persons” on the left.
Last updated on 22.01.2025