

Estonia

Significant change of the VAT return

As from November 2014, an annex shall be added to the Estonian VAT return. For the first time, the annex to the VAT return has to be submitted for November 2014 by the **22th of December 2014**. This annex to the VAT return will reflect invoices in which the transferor of goods or the service provider has reflected the turnover taxable at the 20% and 9% VAT rates (i.e. Estonian local sales and purchase invoices) when the total amount of invoices exclusive of VAT is at least 1 000 euros per transaction partner in the taxable period (calendar month). The threshold based on the transaction partner will be calculated separately for purchase invoices and sales invoices. Invoices issued under a special scheme are not to be reflected in the annex.

The annex to the VAT return will reflect the data of the invoices issued to and received from legal persons, sole proprietors or state, rural municipality or city authorities, and the registry code issued to the transaction partner in Estonia (personal identification code in the case of a notary or bailiff). The invoices issued to natural persons who are not sole proprietors will not be reflected in the annex. The information will be reflected in the annex on a monthly basis.

The following information must be reported in the annex:

- 1) for the sales invoices: registration/ID code of the transaction partner, name of the transaction partner, invoice number, date of the invoice, amount without VAT, tax rate, amount of taxable supply reported in VAT return;
- 2) for the purchase invoices: registration/ID code of the transaction partner, name of the transaction partner, invoice number, date of the invoice, invoice amount with VAT, amount of input VAT reported in the VAT return.

It will be possible to present the totals of invoices across transaction partners in the annex to the VAT return until **20 January 2016**. In order to reflect the lump sums across each transaction partner, tax payer shall tick a special box in the VAT return appendix.

In addition, VAT payers have the right to apply a transition period so that businesses would have sufficient time for IT developments as necessary. The tax authorities may give permission to the VAT payer not to file the annex or part thereof in case the taxable person submits a motivated application. Permission is granted if fulfilling the obligation as of the 1st of November 2014 would increase the administrative burden for performing IT developments unreasonably high. The application must be submitted to the authorities by 31 August 2014. The tax authorities will make a decision whether to grant the permission or not within 30 calendar days as of the receipt of the application. The tax authorities can postpone the new reporting duty for half year maximum, i.e. until 20th of June 2015. This means that in case of receiving maximum transition period, the first VAT return appendix would in such case be due for June 2015 (with submitting deadline **20 July 2015**).

According to the tax authority, they, above all, consider as good reasons the software upgrades or improvements which are extensive and changing the business processes (which most likely concerns large enterprises). Good reasons for granting the transition period are also seen in the situations where, for example, the planning and execution of development activity is directly dependent of other companies which do not allow the developments to be completed by the statutory deadline.

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VAT amendments concerning company cars

As of 1 December 2014 there is a limit to deduction of input VAT upon purchase and operational lease cost of company cars and also to goods and services acquired in relation to the aforementioned cars (fuel, repair, maintenance etc). Namely, as of 1 December only up to **50% of input VAT** can be deducted on all of the said costs. Amendments affect only **passenger cars** (category M-1).

There are exceptions in case of which the input VAT upon the respective costs can be deducted in full: cars obtained for resale or provision of operational lease service, taxis and cars mainly used for driving lesson services, and in case the respective car shall be used fully for business purposes. At the same time, taxpayer needs to use the car for such purposes for at least two years as of start of its use in order to qualify for full deduction (limitation does not apply to cars for resale). Otherwise, deducted input VAT shall be corrected in the taxable period of change of use, taking into account the correction period of 24 months. In case purpose of use changes after 2 years from the start of use, no correction needs to be made based on the abovementioned principle. Nevertheless, since the Estonian VAT Act also foresees 5-year correction period for the input VAT of fixed asset, then the principles of correcting input VAT of a fixed asset shall still be followed after 2 years as well.

In case company car is used fully for business purposes, the company needs to be able to prove that the car shall not be used for any other purposes. There are no concrete conditions provided by law but in the guidelines the examples of proper means for companies are such as setting concrete internal rules for use of car, limits to mileage, using GPS tracker, concluding insurance contract for only trips connected to business etc.

Information on whether the company car is used for only business purposes or not needs to be reflected in the special box in the monthly VAT return.

As a consequence to limitations to the right to deduct input VAT, **the use of company car for purposes other than business will no longer be considered to be a self-supply**. However, self-supply rules still apply to cars which are mainly used for taxi services or mainly for driving lesson services.

Limiting input VAT deduction in case of company cars requires a special permission from EU Council. Estonia has applied for such permission and expects to receive it by October 2014.

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