

Estonia

Reduction of income tax rate

Starting as of 1st January 2015 the Estonian income tax rate applicable to natural persons, resident legal persons and non-resident legal persons which have permanent establishment in Estonia will be decreased from 21% to 20%. Tax rate change applies on cash basis i.e. the reduced 20% rate will apply to any income physically received (for individuals) or any taxable expense or distribution made (in case of legal persons) in January 2015 or later.

In case of the legal entities the technical tax rate 21/79 will be replaced by 20/80.

Reduction of unemployment insurance contribution rates

The Estonian Government has approved the reduced unemployment insurance rates for 2015. Starting January 2015 the employer's rate will be reduced from 1% to 0,8%. At the same time the employee's rate will be reduced from 2% to 1,6%. According to the Estonian law the Government can review and decide the unemployment insurance rates on an annual basis (or more frequently if necessary).

Changes to the basic exemption deductible from the income of an individual

Starting as of 1st January 2015 the basic income tax exemption (non-taxable minimum) available for all tax resident individuals will be increased from 144 EUR to 154 EUR for a month. That brings annual basic exemption for individual in amount of 1 848 EUR, which is deductible from the taxable income. Subject to conditions also non-resident person may be subject to basic exemption and other deductions.

Changes to the income taxation of a fees paid to non-resident Management Board or Supervisory Board members of Estonian companies

Based on currently effective income tax provisions the taxation of a non-resident member of a management or controlling body fees (which are considered director fees in light of double tax treaty provisions) are taxable in Estonia, if the monetary fees have been paid by a resident or by the Estonian permanent establishment of a non-resident. Such fees will be taxed in Estonia, regardless of where the services have been provided or management activities have been performed. Thus for example in a situation where one of the directors of Estonian company is a non-resident and he receives director's fee which is paid by a non-resident, then no income tax will be due in Estonia until the end of 2014.

Starting as of 1st January 2015 the taxation of directors' fees will be broadened such that income tax will be due even if the payer is not a resident legal entity or Estonian permanent establishment of a non-resident. The idea of this change is that directors' fees should be subject to taxation regardless of who is the payer. From taxation point of view there should be no difference whether such fees are paid by a resident or non-resident person, the determining factor is the fact that the remuneration is obtained for the performance of director duties of Estonian company or permanent establishment (regardless of where director's duties were performed). Using the above example, the director fees paid to a non-resident

would be subject to income tax in Estonia starting as of 2015. In addition to monetary reward also non-monetary income (benefits) would be taxable.

The treatment of directors` fees for social tax purposes will not change. Social tax is due on a non-resident director`s fees regardless of where the management activities have been performed and who is the payer. Social tax exemption would apply in case there is A1 certificate in place which indicates that the person is insured in a country other than Estonia.

The Estonian Tax and Customs Board has suggested that for fulfilling the non-resident`s tax obligations, the non-resident payer should register as non-resident employer in Estonia. It is also possible to authorize the other persons (e.g. the Estonian company) to act on a non-resident`s behalf. In case only income tax would be due on such fees and there is no withholding agent in Estonia (i.e. non-resident is not registered in Estonia as a non-resident employer), then recipient of director fees should fulfill income tax obligation through annual personal income tax return (pay income tax through self-assessment). Deadline for annual personal income tax declaration is March, 31st.

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