

International Tax Estonia Highlights 2017



Investment basics:

Currency – Euro (EUR)

Foreign exchange control – No limits are imposed on the exchange of currency in Estonia to or from EUR.

Accounting principles/financial statements – IFRS applies, along with the local Accounting Act. Financial statements must be submitted annually.

Principal business entities – These are the private/public limited company, limited partnership, unlimited partnership, commercial association and branch of a foreign corporation.

Corporate taxation:

Residence – A legal person is resident if it is established pursuant to Estonian law. European public limited companies and European associations with their registered seat in Estonia also are deemed to be resident.

Basis – Residents are taxed on worldwide income. Nonresidents are taxed only on income derived from Estonian sources. This rule applies both to Estonian resident companies and to permanent establishments (PEs) of foreign companies.

Taxable income – Estonia levies a corporate income tax on a company's distributed profits (in lieu of an annual corporate tax). Retained earnings are not taxed until profit distributions are made. Profit distributions may be specific (i.e. dividends, share buybacks or profit distributions via capital reductions) or deemed (which include expenditure and payments unrelated to business activities, as well as gifts and donations).

Taxation of dividends – The corporate income tax applies to dividends and is paid by the resident legal person making the distribution. A similar regime applies

to an Estonian PE of a nonresident. There is no separate dividend withholding tax.

Capital gains – Capital gains are treated as ordinary income of Estonian resident companies, but they are taxed only where there is a profit distribution.

Losses – Not applicable (as corporate income tax applies only to distributed profits).

Rate – The corporate income tax is levied at a rate of 20/80 of the net amount (20% of the gross amount) of the profit distribution.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit is available for all types of foreign-source income, unless the Estonian participation exemption applies.

Participation exemption – The corporate income tax will not be charged on a redistribution of dividends if the underlying dividends are received from a subsidiary that is tax resident in a European Economic Area member state or Switzerland and the Estonian parent holds at least 10% of the shares or votes of the payer company. The participation exemption also applies to dividends received from other countries if the Estonian company holds at least 10% of the shares or votes and income tax has been paid on the underlying share of profit, or income tax on the dividends has been withheld in a foreign jurisdiction.

Holding company regime – No

Incentives – No

Withholding tax:

Dividends – Estonia does not levy withholding tax on dividends.

Interest – Estonia does not levy withholding tax on interest other than interest derived by a nonresident investor from an Estonian contractual fund or other pools of assets. This exception applies to contractual funds or other pools of assets if more than 50% of the assets at the time the interest is paid, or at any time during the previous two years, consist, directly or indirectly, of Estonian-situs real property and the nonresident held at least 10% in the fund/pool at the time of payment.

Despite the exemption from withholding tax, interest payments may be subject to corporate taxation at the level of the company making the payments under transfer pricing rules.

Royalties – A 10% withholding tax generally applies to royalties paid to nonresidents, unless the rate is reduced or an exemption applies under an applicable tax treaty. Royalty payments to qualifying EU or Swiss-resident companies may be exempt if they meet the requirements for application of the EU interest and royalties directive. The withholding tax exemption will not apply to any part of the royalties that exceeds the value of similar transactions carried out between unrelated persons.

Technical service fees – A 10% withholding tax applies if technical services are rendered in Estonia. Withholding tax is not applicable if the services are performed outside Estonia or if there is a tax treaty between Estonia and the service provider's country of tax residence that provides for an exemption.

Branch remittance tax – No

Other – Certain other types of payment to a nonresident may be subject to withholding tax.

Other taxes on corporations:

Capital duty – No

Payroll tax – There is no payroll tax, but unemployment insurance contributions must be paid by the employer and the employee on the employee's monetary employment income. The employer's contribution is levied at a rate of 0.8%.

Real property tax – An annual land tax is imposed on the assessed value of land and is paid by the owner or user of the land, at rates ranging from 0.1%-2.5%.

Social security – The combined social and health insurance rate paid by the employer on cash and in-kind (fringe benefits) employee remuneration is 33%.

Stamp duty – Stamp duty in insignificant amounts may apply.

Transfer tax – No

Other – Excise duties are levied, *inter alia*, on fuel, motor vehicles, packaging, alcohol, tobacco and electricity.

Anti-avoidance rules:

Transfer pricing – If the value of a transaction conducted between a resident legal person and a person associated with that person differs from the value of similar transactions conducted between non-associated persons, upon determining the income (i.e. distribution) tax, the tax authorities may use the value of transactions applied by unrelated independent persons under similar conditions. Income tax is charged either on the income the taxpayer would have derived or the expense the taxpayer would not have incurred had the transaction been conducted with unrelated persons under similar conditions.

Thin capitalization – No

Controlled foreign companies – Given the nature of the corporate income tax, the CFC regime applies only to individuals.

Disclosure requirements – No

Other – A general anti-avoidance rule allows the tax authorities to apply what is, in effect, an economic substance rule, and special scrutiny is given to payments and fees to low-tax jurisdictions. Local legislation includes anti-avoidance clauses that implement relevant provisions from the EU parent-subsidiary directive (on hybrid instruments, etc.).

Compliance for corporations:

Tax year – Given the nature of the corporate income tax, the relevant taxable period is the calendar month.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Filing and payment must be made on a monthly basis by the 10th day of the calendar month following the month of taxation. For non-VAT registered taxpayers, filing is required only if taxes on profit distributions and payroll are due for the period.

Penalties – A penalty is levied on late tax payments, at a rate of 0.06% per day.

Rulings – Advance rulings are available and are binding on the tax authorities for non-transfer pricing issues.

Personal taxation:

Basis – Residents are taxed on their worldwide income. Nonresidents are taxed only on income received from Estonian sources.

Residence – An individual is resident if his/her place of residence is in Estonia or if he/she stays in Estonia for at least 183 days over 12 consecutive calendar months (and will be deemed to be resident as of the date of his/her arrival in Estonia). Estonian state public servants who are in the foreign service also are resident.

Filing status – Joint filing is permitted if both spouses are residents or, subject to certain conditions, if at least one spouse is a resident of another EU member state.

Taxable income – Residents are subject to tax on items, including: employment income; business income; gains from the transfer of property; dividends, interest, rent and royalties; pensions, scholarships, grants, benefits, certain awards and lottery prizes; insurance indemnities and payments from pension funds; and income of a legal person located in a low-tax jurisdiction (i.e. income inclusions from CFCs). A limited list of taxable items applies to nonresidents: income from work under a labor contract or contractor's agreement in Estonia; income from a business carried on in Estonia; royalties; income from the lease of assets located in Estonia; gains from the disposal of assets located in Estonia; directors' fees paid by Estonian enterprises or nonresidents; income of a sports person or an artist from activities in Estonia; and pensions and scholarships.

Capital gains – Capital gains are treated as ordinary income.

Deductions and allowances – The first EUR 2,160 annually is exempt. Deductions (up to 50% of taxable income and limited to EUR 1,200) include mortgage interest on a residence (maximum EUR 300); donations to qualified nonprofit associations; and training expenses (except for adults' driving school and hobby school expenses, but including those of dependents). Voluntary pension insurance payments may be deducted up to 15% of taxable income and not exceeding the total of EUR 6,000.

Rates – A flat 20% rate applies.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty in insignificant amounts may apply on certain transactions (e.g. real estate transactions).

Capital acquisitions tax – No

Real property tax – An annual land tax is imposed on the assessed value of land and is paid by the owner or user of land at rates ranging from 0.1% to 2.5%. Local municipalities may grant certain exemptions to individuals. In addition, individuals are exempt from the

land tax on residential land, subject to certain limits and conditions.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Social security is an employer-borne cost, except for the self-employed. The combined social and health insurance rate paid by the employer on cash and in kind (fringe benefits) employee remuneration is 33%. Employees, however, must make unemployment insurance contributions at 1.6% of taxable remuneration (i.e. any monetary employment income).

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. The tax return must be submitted by 31 March and tax paid by 1 July of the following year. If a person has declared capital gains, the deadline for any additional income tax payable is 1 October instead of 1 July.

Penalties – A penalty is levied on late tax payments at a rate of 0.06% per day.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services within Estonia, intracommunity acquisitions of goods, the import of goods and the provision of services that are taxable in Estonia and supplied by a foreign taxable person.

Rates – The standard VAT rate is 20%. A reduced rate of 9% is available on items such as books, newspapers, medicines and accommodation. Zero-rated items include exports, intracommunity supplies of goods, the sale of certain services to foreign persons and goods supplied on vessels and aircraft. Exemptions are provided for postal, health, social and insurance services, as well as services for the protection of children and young persons; the supply, letting and leasing of immovable property; and transportation of sick, injured or disabled persons.

Registration – A person whose taxable supplies (excluding imports) exceed EUR 16,000 (increasing to 40,000 in 2018) in a calendar year is required to register for VAT. For a foreign person engaged in business in Estonia, the obligation to register arises from the date the first taxable supply occurs.

Filing and payment – Filing and payment is made on a monthly basis by the 20th day of the following month. "EC sales lists" also must be submitted on a monthly basis by the 20th day of the following month.

Source of tax law: Taxation Act

Tax treaties: Estonia has 57 tax treaties in force.

Tax authorities: Tax and Customs Board, Ministry of Finance

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