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International Tax
Estonia Highlights 2022

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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 limited company (OÜ), public limited company (AS), general partnership (TÜ), limited partnership (UÜ), and commercial association (ühistu). In addition, any natural person can conduct business as a sole proprietorship (FIE).

Corporate taxation

Rates	
Corporate income tax rate	20%
Branch tax rate	20%
Capital gains tax rate	20%

Residence: A legal person, other than a trust fund, is a resident if it is established pursuant to Estonian law. European public limited companies (SE) and European associations (SCE) 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. In general, branches are taxed in the same way as subsidiaries: reinvested and retained profits are exempt from corporate income tax; distributed profits are subject to corporate income tax.

Taxable income: Estonia levies 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).

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. A reduced rate of 14/86 of the net amount (14% of the gross amount) applies to regular dividend distributions (i.e., distributions that do not exceed the average taxable dividend amount distributed during the prior three years, calculated at the level of the payee).

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Corporate income tax applies to dividends and is paid by the resident legal entity making the distribution. A similar regime applies to an Estonian PE of a nonresident. There is no separate dividend withholding tax on dividend payments to legal entities. Dividends that are subject to the reduced corporate income tax rate (see “Rate” above) also are subject to a 7% withholding tax if distributed to resident or nonresident individuals (subject to tax treaty limitations).

Capital gains: Capital gains are treated as ordinary income of Estonian resident companies and are taxed accordingly, i.e., in the case of a profit distribution

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

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

Participation exemption: 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: Estonia does not have a holding company regime.

Incentives: Estonia does not provide tax incentives.

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 and payment: 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.

Individual taxation

Rates	
Individual income tax rate	20%
Capital gains tax rate	20%

Residence: Individuals are resident if their place of residence is in Estonia or if they stay in Estonia for at least 183 days over 12 consecutive calendar months (and will be deemed to be resident as of the date of their arrival in Estonia). Estonian state public servants who are in the foreign service also are resident.

Basis: Residents are taxed on their worldwide income. Nonresidents are taxed only on income derived from Estonian sources.

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 an employment 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 sportsperson or an artist from activities in Estonia; and pensions and scholarships.

Rates: A flat 20% rate applies to residents, unless exempted by law.

Capital gains: Capital gains are treated as ordinary income and are taxed accordingly.

Deductions and allowances: There is an annual tax exempt amount of up to EUR 6,000, depending on the individual's total qualifying income. 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 adult driving school and hobby school expenses but including those of dependents). Voluntary pension insurance payments may be deducted up to 15% of taxable income, but not exceeding a total of EUR 6,000.

Foreign tax relief: A foreign tax credit is available for all types of foreign-source income.

Compliance for individuals

Tax year: The tax year is the calendar year.

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.

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 30 April and tax paid by 1 October of the following year.

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.

Withholding tax

Rates				
Type of payment	**Residents**		**Nonresidents**	
	Company	**Individual**	**Company**	**Individual**
Dividends	0%	0%/7%	0%	0%/7%
Interest	0%	20%	0%	0%
Royalties	0%	20%	10%	10%
Fees for technical services	0%	0%/10%	0%/10%	0%/10%

Dividends: Estonia generally does not levy withholding tax on dividends. A 7% withholding tax applies to dividends paid to resident and nonresident individuals by companies subject to corporate income tax at the reduced rate of 14%, subject to tax treaty limitations.

Interest: No withholding tax is imposed on interest paid to resident companies but a 20% withholding tax applies to interest paid to resident individuals. Generally, Estonia does not levy withholding tax on interest paid to nonresidents, 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 only 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: No withholding tax is imposed on royalties paid to resident companies but Estonia levies a withholding tax of 20% on royalties paid to resident individuals. 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.

Fees for technical services: 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: There is no branch remittance tax.

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

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.

Estonia has introduced country-by-country reporting requirements for certain multinational groups.

Interest deduction limitations: The EU anti-tax avoidance directive (ATAD 1) interest expense deductibility rules have been transposed into Estonian domestic law as from 1 January 2019. Under these rules, deductions of certain "excess borrowing costs" are restricted. In Estonia, income tax is charged on the residual borrowing costs of a resident company in excess of EUR 3 million and 30% of earnings before interest, tax, depreciation, and amortization (EBITDA), to the extent that the costs exceed the losses of the resident company.

Controlled foreign companies: CFC rules for companies were introduced as from 1 January 2019 based on the ATAD.

The tax obligation under the CFC rules applies where certain conditions are fulfilled.

Hybrids: As from 1 January 2020, Estonia has implemented the hybrid mismatch rules of the ATAD 2 to prevent "double deductions" due to differences in the classification of financial instruments, payments, and entities in different jurisdictions.

Economic substance requirements: See "General anti-avoidance rule," below.

Disclosure requirements: See "Transfer pricing," above.

Exit tax: Income tax is charged on the difference between the market value and the book value of assets taken out of Estonia at the time of exit if a resident company transfers these assets to a permanent establishment in another EU member state or a third country. Note that the exit tax only applies to the movement of assets between the permanent establishment and the head office.

General anti-avoidance rule: A general anti-avoidance rule allows the tax authorities to apply what is, in effect, an economic substance rule.

Other: Local legislation includes anti-avoidance clauses that implement relevant provisions of the ATAD as from 1 January 2019. There also are specific anti-avoidance clauses and reporting requirements with respect to upstream and sideways intragroup loans issued by Estonian entities (which includes participations in cash-pooling arrangements).

Value added tax

Rates	
Standard rate	20%
Reduced rate	0%/9%

Taxable transactions: VAT is levied on the sale of goods and the provision of services within Estonia, intra-Community 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 certain paper or electronic books, newspapers, and periodicals; medicines; and accommodation. Zero-rated items include exports, intra-Community 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 40,000 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.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: 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).

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%.

Capital duty: There is no capital duty.

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% 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.

Transfer tax: There is no transfer tax.

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

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

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

Tax treaties: The OECD multilateral instrument (MLI) entered into force for Estonia on 1 May 2021. For information on Estonia's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Estonian Tax and Customs Board, Ministry of Finance of the Republic of Estonia

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