


Estonia




 **Capital city:**
Tallinn

 **Language:**
Estonian


 **GDP/capita**
2015:
USD 17 119


 **Telephone code:**
+372

 **Superficy:**
45 339 km²

 **Political system:**
Parliamentary
republic

 **Currency:**
Euro

 **National day:**
February 24th

 **Population:**
1'313 M.

 **ISO Code:**
EST

1. Corporate taxation

1.1 Taxes on entities

Estonia provides a unique corporate income tax system as resident companies and permanent establishments of foreign companies do not pay tax on retained earnings. The tax obligation is deferred without any time limitation until the moment of distributing profits. Corporate income tax is levied at a grossed-up rate of 20/80 on any actual or deemed profit distributions.

1.2 Residence and non-residence

Estonian resident company is any company established under the laws of Estonia. Thus, in determining the tax residence of companies Estonia applies the place of registration principle. All other companies are treated as non-resident companies.

1.3 Tax year and filing

The tax period for corporate income tax purposes is a calendar month. The monthly tax returns must be submitted and the taxes paid by the 10th day of the following month, at the latest. There is no annual corporate tax return submission.

1.4 Types of income

The taxable profit distributions include dividends, donations, gifts, representation expenses, fringe benefits, non-business expenditures and excessive capital reductions. Liquidation proceeds, capital reduction payments, and share buy-backs exceeding capital contributions are also taxable at the company level.

1.5 Group income and grouping arrangements

There is no group taxation of companies. Each company must file its own monthly tax returns.

1.6 Capital gains

Capital gains are treated as ordinary income, which is subject to monthly corporate taxation at the moment of profit distribution by the company.

National dividends

Corporate income tax is generally levied at a grossed-up rate of 20/80 upon the payment of dividends (by the 10th day of the month following the payment of dividends). If the Estonian company owned at least 10% shares or voting power in another Estonian company distributing the dividends at the time of the receipt of dividends, then the redistribution of such dividends is exempt from 20/80 corporate taxation upon subsequent redistribution of dividends to its own shareholders.

Foreign dividends

Under the participation exemption rule, no 20/80 corporate tax is payable by the Estonian company on redistribution of foreign dividends to its shareholders, provided that:

- the Estonian company has received these underlying dividends from the company, which is resident in the EU or Switzerland, being subject to corporate tax in its residence country (and is not located in a tax haven country), and the Estonian company owned at least 10% shares or voting power in that foreign company at the time of the receipt of dividends; or
- the Estonian company has received these underlying dividends from any other foreign company (resident in a country not mentioned in the preceding bullet-point section), which is not located in a tax haven country, and the Estonian company owned at least 10% shares or voting power in that foreign company at the time of the receipt of dividends, and the foreign corporate tax has been withheld from dividends or the foreign corporate tax has been paid on underlying corporate profits.

Upon the application of the participation exemption, from 1 November 2016 new restrictions apply to hybrid loans. Thus, Estonia will not apply the participation exemption method to such dividends, the underlying dividends of which have been received from the company which is entitled to deduct these dividends from its taxable income. In addition, under the general anti avoidance rule (GAAR) the application of the participation exemption will be disallowed, if there is an arrangement, which is not genuine, as the only aim of that arrangement is to obtain tax advantages.

Deductible expenses

There are no traditional adjustments or deductions for tax purposes. “Non-deductible” items (e.g. representation expenses above established limits or expenses not related to business) are subject to 20/80 corporate income tax on a monthly basis.

1.7 Losses

There are no corporate tax rules for losses, as the taxation of corporate profits is deferred until the distribution of profits.

1.8 Exemptions

There are no specific corporate tax exemptions, as the general corporate tax regime provides exemption from corporate tax for retained earnings of the company.

1.9 Rates

Generally, 20% corporate tax is applied upon the distribution of dividends. For example, if the company has profits available for distribution of 100, then it can distribute dividends in the amount of 80 and must pay corporate income tax in the amount of 20 upon the payment of dividends.

1.10 Double tax relief

For the avoidance of the double taxation, the ordinary credit method is applicable in Estonia. For participation exemption on dividends, please see section 1.6. above.

2. Personal income taxation

2.1 Taxes on income

Flat rate of 20% income tax applicable to most types of income derived by the resident individual. There are no local income taxes.

Resident individuals are taxed in respect of their worldwide income. Non-residents are taxed in respect of listed taxable income derived from Estonian sources.

2.2 Residence and non-residence

Individual is considered tax resident of Estonia if the individual has a permanent residence in Estonia or if the individual stays in Estonia for at least 183 days during any 12 consecutive calendar months. Any other individual is considered a non-resident.

If under the double tax treaty rules the individual is resident of the other country, then the individual will be taxed as a non-resident regardless of the Estonian domestic residence criteria.

2.3 Tax year and filing

The tax year is a calendar year.

The payroll taxes on employment income are withheld by the employer and remitted to the tax authorities on a monthly basis.

The non-resident individual is required to submit Estonian tax return in respect of such Estonian source taxable income, which has not been subject to withholding tax at source.

The annual tax return must be submitted by the individual to the Tax and Customs Board by 31 March of the following year, at the latest. In case of gains derived from the sale of Estonian real estate, the non-resident must submit the tax return within one month from the receipt of gains.

Generally, the due date of final income tax for residents is 1 July of the following year. In case of certain types of income (e.g. gains from the sale of assets, foreign income, income derived by the individual engaged in business), the due date of final income tax is 1 October of the following year. However, non-residents must settle their final income tax within three months from the due date of their income tax return.

2.4 Types of income

Resident individuals are subject to tax in respect of worldwide income, including inter alia employment income, gains from the sale of securities and certain property, as well as rent and royalties. Dividends received from resident companies are tax exempt income. Certain qualifying foreign employment income and dividends from foreign companies is also exempt from income tax.

Fringe benefits are subject to taxation at the level of the employer and are deemed to be tax exempt income for employees. The employer is required to pay on such benefits on a monthly basis both 20/80 income tax and 33% social tax (on a grossed-up basis). For example, when the taxable value of the benefit is EUR 100, then the income tax due by the employer is EUR 25 ($20/80 \times 100$) and the social tax due is EUR 41.25 ($33\% \times (100+25)$). Therefore, the total fringe benefit tax burden is approximately 66% of the value of the taxable benefit.

Income from agriculture and forestry

Income from agriculture and forestry may be taxed either as an ordinary income derived by the individual or as a business income derived by the individual engaged in business. In the last mentioned case, the documented business expenses incurred are allowed to be deducted from the income.

In case of income derived by the individual from forestry, under certain conditions the income taxation may be deferred to three subsequent tax years.

In case of an individual engaged in business, there is additional annual deduction up to EUR 2877 from the net business income derived from the sale of unprocessed self-produced agricultural products or timber received from an immovable belonging to that individual.

Industrial and commercial income

Industrial and commercial income may be taxed either as an ordinary income derived by the individual or as a business income derived by the individual engaged in business. In the last mentioned case, the documented business expenses incurred are allowed to be deducted from the income.

Non-commercial income

Non-commercial income must be declared as ordinary or other income derived by the individual. No deductions of expenses can be made from such income.

Wage income

The wage income is subject to flat 20% income tax by monthly withholding by the employer.

Apart from basic tax exempt allowance (in 2017, EUR 180 per month applied by one employer), 1,6% unemployment insurance and 2% or 3% accumulative pension contributions, no deductions can be made from monthly salary income of the resident individual.

Investment income

Dividends from resident companies are tax exempt income. Certain deposit interest income received from qualifying credit institutions is also tax exempt income. Under certain conditions, also foreign dividends received by individuals are tax exempt. Royalties are taxed as ordinary income.

Other income

Other taxable income is subject to flat 20% income tax, unless specifically tax exempt (e.g. certain pensions, scholarships, awards and lottery prizes, income from gambling, insurance indemnities, etc.).

2.5 Capital gains

Capital gains are generally taxed as ordinary income.

Individuals may also use investment accounts, with which they can defer the income taxation of gains derived from the sale of qualified securities without any time limitation. The income tax is charged on the amount by which the payments made out from all investment accounts exceed the balance of the contributions made to all investment accounts.

Certain gains are specifically tax exempt for the resident individual, including gains derived from the sale of apartment or house which was used as a place of residence until selling (such exemption may be used for one sale within two-year period).

2.6 Losses

Losses derived from the sale of securities may be carried forward for future tax periods without any time limitation. Such losses may be set off against gains derived from the sale of securities in future. However, losses incurred from such transactions with related persons are disallowed for income tax purposes.

2.7 Exemptions

From 2017, the basic tax exempt allowance of the resident individual is EUR 180 per month (EUR 2160 per annum). One of the resident parents is entitled to the additional tax exempt child allowance of EUR 1848 per each child up to 17 years, starting from the second child. In case of one child, no additional allowance is granted.

In addition, deductions of qualifying housing interest, education expenses, donations, voluntary pension contributions to the third pillar of the pension scheme from taxable income within established limits can be made in the annual tax return of the resident individual.

The above deductions and allowances are under certain conditions available also to qualifying EU resident individuals.

2.8 Social security

Employer pays 33% social tax on the gross salary.

Employer's unemployment contribution is 0,8% and employee's unemployment contribution (withheld from salary) is 1,6% from the gross salary.

Accumulative pension contributions (at 2% or 3% rate) are compulsory for resident employees born after 31 December 1982. For other individuals joining this pension scheme was voluntary. Since 2010, however, individuals born before year 1983 cannot join this pension scheme on a voluntary basis.

2.9 Expatriates

There are no special tax rules for expatriates.

2.10 Options

Generally the fringe benefits include also the income received by employees from their employer or other group company in form of stock option plans, share units or RSUs.

As an exception, the income from options is not subject to fringe benefit taxation, if the time period between the grant and the exercise of the option is at least three years.

Partnerships

General and limited partnerships are treated as companies for Estonian income tax purposes. Their undistributed income is exempt from corporate tax until the distribution of profits to their partners. Such income received by resident partners is tax exempt income for individual tax purposes.

2.11 Pensions

In principle, pensions are subject to 20% flat income tax. However, in most cases the public pension received by retired individuals will be less than the total amount of allowances (EUR 4992 per annum) applicable to public pensions (i.e. less than annual basic allowance of EUR 2160 plus additional pension allowance of EUR 2832). Therefore, within these limits no income tax will be applicable to public and accumulative pensions received from Estonia or other EEA countries.

Certain pensions received from the voluntary pension plans may be also exempt from income tax or subject to reduced 10% income tax (subject to the order of payment of such pension).

3. Inheritance and gift tax

There are no inheritance or gift taxes in Estonia. However, certain transactions with inherited assets and gifts may be subject to state and notary fees.

In addition, for income tax purposes, generally the acquisition cost of inherited assets and gifts received is deemed to be zero. Thus, the total sales price of such assets may be subject to income tax by the seller of these assets.

4. Wealth Tax

There is no wealth tax in Estonia.

5. Value Added Tax

5.1 Rates

Standard VAT rate is 20%. Reduced VAT rate is 9% (applicable to accommodation, medicines, books and newspapers). General registration threshold is EUR 16,000 (from 2018 – EUR 40,000).

6. Other taxes

Registration duties

Stamp duty and notary fees may apply to certain transactions (e.g. in case of registration entries made in Commercial Register or real estate transactions in Land Register). In most cases, these amounts (depending from the value of the transaction) are insignificant.

Church tax

There is no church tax in Estonia.

Solidarity Tax

There is no solidarity tax in Estonia.

Trade tax

There is no trade tax in Estonia.

Other taxes and duties

An annual land tax is applicable to owners or users of land. The rate of land tax ranges from 0.1% to 2.5% of cadastral value of land excluding buildings. Rate is set by municipalities by 31 January each year. Under certain conditions, the individuals are exempt from land tax on their residential land.

Excise duties are levied on alcohol, tobacco, electricity, fuel and packages. Estonia applies also a charge on heavy goods vehicles.

Insignificant local taxes, such as advertisement tax and tax for closure of roads and streets apply.

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