

ESTONIA TAX CARD 2016



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CORPORATE INCOME TAX

The rate of corporate income tax is 20%.

0% rate of corporate tax is applied when profits are not distributed.

Dividends

Dividends are charged at the rate of 20% on gross dividends. Corporate tax on net dividends is imposed at the rate of 20/80 (25%).

Under certain circumstances, redistributed dividends are not taxed. Corporate tax is not charged on dividends received from a subsidiary domiciled in the Europe Community or Switzerland. The Estonian company shall hold at least 10% of shares or votes of the subsidiary that distributes dividends. This exemption applies to dividends received from a subsidiary domiciled outside of the Europe Community where the Estonian company holds at least 10% of shares or votes of the subsidiary and the subsidiary has paid or withheld income tax before distribution of dividends. The subsidiary's country of domicile shall not be a country with low tax rate.

Loss

Losses incurred by a company are not corporate tax allowable. Losses could be carried forward without any restriction.

Fringe benefits and expenses not related to business

Income tax at the rate of 20/80 (25%) shall be imposed on the fringe benefits. Social tax at the rate of 33% is levied on the amount of fringe benefits, including income tax and VAT charged on the amount of fringe benefits. Indeed, all benefits to employees are taxed as fringe benefits.

All expenses and payments that are not related to business activity of the company are subject to income tax of 20/80 (25%).

Fringe benefits are subject to taxation on the employer's part.

Withholding tax

There are no rules on withholding tax in Estonian. Corporate income tax is imposed on the following payments made to non-residents:

- 1) Interest payable. The interest paid is charged at the rate of 0% or 20%, where the interest amount exceeding the average market interest rate.

- 2) Royalties. The royalties are charged at the rate of 10% or 0%, where the recipient of the royalties payable is an associated company and is resident in another Europe Community country or Switzerland.
- 3) Fees for services rendered in Estonia. Corporate income tax at the rate of 10% is imposed on fees payable.
- 4) Rental payments. Rental payments are taxed at the rate of 20%.

Thin capitalization

No thin capitalization rules are applied in Estonia.

Transfer pricing

If the value of a transaction carried out between related parties differs from the value of similar transactions between non-related parties, the resulting difference is subject of income tax.

Related companies shall prove the price of transactions based on the arm's length principle with regard to the pricing method used, such as uncontrolled price, resale price, cost plus, profit split and transaction net margin.

Gifts, donations and entertainment costs

All expenses of an Estonian company made for gifts and donations are subject to income tax at the rate of 20/80 (25%) with certain exceptions applied on non-profit organisations.

Expenses incurred while entertaining guests, such as expenses related to accommodation, catering and cultural events, are subject to income tax at the rate of 20/80 (25%), where the amounts exceed the tax-exempt thresholds.

Capital gains

Capital gains incurred from sale of real estate in Estonia or shares of an Estonian company possessing real estate in Estonia or liquidation proceeds of the company with real estate in Estonia are subject to income tax at the rate of 20% (for non-resident).

VAT

The standard rate of VAT is 20%. The reduced rate of VAT is 9%.

The threshold for obligatory registration is EUR 16,000 (for taxable transactions taking place in Estonia).

The threshold for obligatory registration for distance sale is

EUR 35,000

0% VAT is applied to the following transactions:

- Export of goods and intra-Community supplies
- Cross-border business-to-business services
- Goods placed into free zone or free warehouses, or certain goods listed in Annex V of the Council Directive 2006/112/EC placed into a VAT warehouse
- Transport services related to export and import, international passenger services
- Supply of aircraft used by an air carrier mostly providing international services
- Supply of sea-going vessels for navigation on high seas
- Provision of services on board of vessels or aircrafts during international transportation
- Supplies of goods under diplomatic and consular arrangements

The following transactions are VAT-exempt:

- Transactions involving securities and financial services
- Transactions involving immovable property or parts thereof (optional taxation)
- Insurance transactions
- Rental transactions involving immovable property or parts thereof (optional taxation)
- Universal postal services
- Lotteries and gambling
- Certain education services
- Transactions involving health and welfare services

AUDIT REQUIREMENTS

Whether an enterprise is obliged to pass **an audit or undergo a review engagement** is established by the law.

An audit is conducted without exceptions if the following requirements are met:

- I. If at least 2 (two) out of 3 (three) figures in the annual financial statement exceed:
 1. Income from sales or revenue – 2.0 million EUR;
 2. Assets as of 31 December - 1.0 million EUR;
 3. The average number of workers - 30.
- II. If at least 1 (one) out of 3 (three) figures in the annual financial statement exceed:
 1. Income from sales or revenue - 6.0 million EUR;
 2. Assets as of 31 December - 3.0 million EUR;
 3. The average number of workers - 90.

A review engagement is carried out without exceptions, if the following requirements are met:

- I. If at least 2 (two) out of 3 (three) figures in the annual financial statement exceed:
 1. Income from sales or revenue - 1.0 million EUR;
 2. Assets as of 31 December - 0.5 million EUR
 3. The average number of workers - 15.
- II. If at least 1 (one) out of 3 (three) figures in the annual financial statement exceed:
 1. Income from sales or revenue - 3.0 million EUR;
 2. Assets as of 31 December - 1.5 million EUR;
 3. The average number of workers – 45.

PERSONAL TAXATION

Income tax

20% flat income tax rate applies to personal income.

Estonian residents pay income tax on personal income derived from sources in Estonia and abroad.

The following types of personal income are taxed:

- Employment income
- Business income
- Gains from property/investments: rental income, royalties, interest, transfer of property or business, dividends
- Other sources: pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds
- Income of legal persons located in low-tax jurisdictions (under CFCs)

The following tax exemptions and deductions are available with regard to personal income:

- Basic annual tax exemption of EUR 1,848
- Deductions include mortgage interest on a residence, training expenses, donations to non-profit organizations (not exceeding 50% of taxable income and limited to EUR 1,920)
- Voluntary pension insurance payments can be deducted up to 15% of taxable income and not exceeding the total of EUR 6,000
- Additional allowance of up to EUR 1,848 is granted to a parent, starting from the second child aged 17 or less.

Social security

Employer pays social security contributions of 33%.

Employer pays unemployment insurance contribution of 0.8%. Employees pay the unemployment insurance contribution of 1.6%.

The minimum monthly social security obligation of EUR 128,70 is to be paid by employer.

OTHER PERSONAL TAXES

Real property tax

The only tax imposed in Estonia on real property is the annual land tax. The owner of the land shall pay the land tax at the rate of 0.1% to 2.5 % of the assessed value of the land. Taxpayers are exempt from tax on residential land.

Inheritance tax

No

Net wealth/net worth tax

No

Capital acquisition tax

No

Capital duty

No

COMPLIANCE

For companies

Fiscal year

Fiscal year begins on 1 January and ends on 31 December.

Annual financial statement

A company shall prepare and submit the annual financial statement for the past year before the end of June of the next year.

Annual tax return

Consolidated annual tax returns are not submitted.

Filing requirements

Filing and payment are to be made on a monthly basis by the 10th day of a calendar month for the past month by way of self-assessment. For VAT registered companies VAT returns must be submitted on a monthly basis by the 20th day of a calendar month for the past month.

Penalties

A penalty on the outstanding tax payments is levied at the rate of 0.06% per day.

PERSONAL COMPLIANCE

Tax year

Calendar year.

Filing and payments

The employer is obliged to withhold income tax on the employee's salary and remit them to tax authorities. The employer is also obliged to withhold and pay social security contribution.

The annual tax return shall be submitted by 31 March and the taxes due shall be paid by 1 July (on the basis of the tax assessment for the past year). The deadline for payment of taxes on any additional income is 1 October.

Penalties

A penalty on the outstanding tax payments is levied at the rate of 0.06% per day.

FM Capital Consulting provides services in cross-border taxation and company establishment:

- Establishing European companies
- Issuing legal opinions upon client's request
- Cross-border mergers
- Advanced expertise in European VAT
- Bookkeeping and auditing

Please note that this card was prepared for providing general information on the Estonian tax system based on the publicly available information and the law in force. The Tax Card should not be applied to specific issues and the information it contains has to be adjusted accordingly. A professional advisor should be involved in addressing specific situations.