



# Tax and Investment Facts

A Glimpse at Taxation and Investment in Estonia  
2022

## SORAINEN Estonia

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## 1. Ways of Doing Business / Legal Forms of Companies

Estonia is renowned for its well-developed e-system and e-governance, which allows for fast and efficient administration and communication with the authorities. The Commercial Register and Tax and Customs Board have online interfaces coupled with an electronic personal identification system, as do all major banks – one can establish a company, submit annual accounts, file tax returns, make money transfers and sign all correspondence electronically from a personal computer.

Foreign companies may conduct business in Estonia through a company or a branch in Estonia or by entering into contractual arrangements with Estonian counterparties (e.g. agency, long-term distribution agreements). Foreign companies may also establish a representative office in Estonia performing such ancillary activities as advertising and preparing market surveys, but these activities shall not amount to carrying out business in Estonia.

The following legal forms of business are available in Estonia:

- limited liability company (osaühing, OÜ)
- joint-stock company (aktsiaselts, AS)
- general partnership (täisühing, TÜ)
- limited liability partnership (usaldusühing, UÜ)
- European Cooperative Society (Societas Cooperativa Europaea, SCE)
- European public limited liability company (Societas Europaea, SE)
- sole proprietor (füüsilisest isikust ettevõtja, FIE)

A private limited liability company (osaühing/OÜ) is a widespread limited liability business form in Estonia that most resembles the German GmbH. The Estonian public limited liability company (aktsiaselts/AS), on the other hand, mostly resembles the German AG.

A private limited liability company is better suited for smaller businesses or a limited number of shareholders, having smaller share capital requirements (minimum of EUR 2,500) and a simpler corporate structure; for example, forming a supervisory board and electing an auditor are optional.

In the case of a public limited liability company, the share capital requirement is higher (minimum of EUR 25,000) and the corporate structure is more complex – forming a supervisory board, auditing the annual accounts and registering the shares at the Estonian Central Register of Securities is compulsory (the latter is not the listing of the company's shares on the local stock exchange).

## 2. Corporate Taxation

Estonia applies a deferred corporate income tax (CIT) system. According to the Estonian Income Tax Act (EITA), all undistributed corporate profits are tax-exempted. Estonia levies CIT only on profits that are distributed as dividends, share buy-backs, capital reductions, liquidation proceeds or deemed to be profit distributions (such as transfer pricing adjustments, expenses and payments not related to business, gifts, donations and entertainment expenses). Fringe benefits are taxable at the employer level with CIT and impersonalised social tax. A special anti-avoidance provision means CIT can be levied on intra-group loans, provided such loans are deemed a profit distribution based on their economic content.

A special regime applies for credit institutions. An Estonian tax resident credit institution and Estonian branch of a non-resident credit institution are required to make advance payments of income tax on the profit earned in the previous quarter. The profit of a quarter may be reduced by the loss of up to 19 previous quarters. A loss of previous quarters can be used to reduce the profit to the extent it has not been used to reduce the profit before.

### 2.1. Applicable Taxes / Tax Rates

Profit distributions of Estonian companies are taxed at a rate of 20% (on the gross amount). When calculating CIT on the basis of a net dividend payment, the amount of tax payable is calculated using the following formula: the net amount of dividends divided by 0.8 and multiplied by 0.2.

When making regular profit distributions, the CIT is due at the reduced rate of 14% (on the gross amount). The taxable amount, before it is multiplied by the tax rate, should be divided by 0.86. No additional taxes apply if the regular profit distributions are made to Estonian tax-resident and non-resident legal entities. However, an additional 7% in personal income tax (may be subject to a smaller withholding rate under the applicable double tax treaty, DTT) must be withheld if such regular profit distributions are made to natural persons (both Estonian tax residents and non-residents). The amount of the profit treated as a regular profit distribution subject to the reduced CIT rate is calculated based on the annual average amount of profit paid within the last 3 years.

The tax rate of 14/86 (14% from the gross amount of the regular profit distribution) applies to the advance tax payments made by Estonian tax-resident credit institutions and Estonian branches of a non-resident credit institution.

### 2.2. Resident Companies

Under the EITA, a legal person is an Estonian tax resident if it is incorporated according to Estonian law. European Companies (SE) and European Cooperative Societies (SCE) are regarded as residents if their place of establishment is registered in Estonia. The place of effective management is not the basis for determining the tax residence of a legal person. In the case of double tax residency in 2 or more states, the double tax treaty prescribes the method for eliminating the double residency.

#### 2.2.1. Computation of Taxable Income

Resident companies are taxed on their worldwide income, except income earned by foreign permanent establishments. The tax is declared and paid as of the distribution of the profit, which constitutes the tax base. The taxable income is calculated based on distributed profits or costs deemed to be profit distributions. The taxpayer is obliged to declare, calculate and submit the applicable tax amount to the tax authorities by the 10<sup>th</sup> of the following month.

#### 2.2.2. Taxation of Dividends

Resident legal persons and non-resident legal persons acting through permanent establishments registered in Estonia and distributing profits have to pay 20/80 CIT on the amount of profits distributed.

There is no withholding income tax from dividends to Estonian tax residents. Dividends paid to non-residents are not subject to withholding tax, irrespective of their participation in the share capital of the distributing Estonian company. As an exception to the above, withholding tax (at the rate of 7%) applies to regular

dividends paid to Estonian tax residents and non-resident natural persons. The Estonian participation exemption rule allows dividends from most foreign subsidiaries to pass through without taxation in Estonia (defined as companies where an Estonian company holds at least 10% of the shares or votes when the dividends are issued). Dividends from a company located in a non-cooperative jurisdiction for tax purposes (tax havens) do not qualify for the exemption.

Transactions between related parties can be taxed similar to profit distributions if arm's-length principles are not met. Estonia follows the OECD Transfer Pricing Guidelines to determine arm's length prices.

### 2.2.3. Capital Gains and Losses (Including Capital Gains and Losses from Sales of Shares)

Capital gains earned by Estonian companies are not taxable in Estonia upon receipt as they are subject to a general deferred CIT regime.

As a general rule, capital gains derived by non-residents from the sale of Estonian company shares are not taxable in Estonia. One exception to this rule is income derived from the sale of shares in a real estate company. A real estate company is a company, investment fund, or any pool of assets where over the past 2 years at least 50% of all assets have comprised real estate located in Estonia, directly or indirectly. The precondition for taxation is at least a 10% participation in the real estate company. The sale of shares by non-residents in a real estate company is taxable at 20% income tax. At the same time, certain tax treaties contain a provision whereby such income cannot be taxed in Estonia. This tax planning opportunity is available depending on the treaty country and subject to an anti-avoidance filter.

### 2.2.4. Depreciation / Capital Allowances

According to the Estonian CIT system there is no need for tax depreciation/amortisation rules as there is no periodical CIT. However, the effective outcome is similar to if there was unlimited depreciation for tax purposes.

Depreciation for accounting purposes does not affect depreciation for tax purposes. For tax purposes the taxpayer can choose the period over which to depreciate the assets.

### 2.2.5. Loss Carry Over (Including Potential Loss of Tax Loss Carry Forward in Case of Restructuring)

Estonia is tax neutral for loss carry overs. Losses may be carried forward indefinitely.

### 2.2.6. Group Taxation

There are no group taxation rules for CIT purposes. Transactions between associated companies that form a group should be adjusted if the transactions are not at arm's length.

### 2.2.7. Relief from Double Taxation (Tax Credit / Tax Exemption)

Double taxation is normally eliminated according to the ordinary credit method. In certain cases, however, the exemption method applies (e.g. participation exemption). DTT provisions on the elimination of double taxation prevail over unilateral relief under domestic tax law, unless unilateral relief is more beneficial for the taxpayer.

### 2.2.8. Incentives

The aim of the deferred CIT system is to encourage the reinvestment of profits. Reduced CIT on regular-dividend payments aims to encourage the distribution of profits to corporate shareholders (including non-Estonian corporate shareholders) instead of accumulating profits. Estonia has no other special tax incentives. In particular, there are no special CIT benefits for special territories or economic fields, long-term investments, research or development.

## 2.3. Non-Resident Companies

Non-resident legal persons have a limited tax liability in Estonia, as only the income received from certain Estonian sources is taxed.

### 2.3.1. Concept of Permanent Establishment / Doing Business

A non-resident's permanent establishment is taxed in a manner similar to a resident company. The EITA as well as the OECD Model Tax Convention include an article defining permanent establishments as follows:

- Article 5 (1) OECD Model Tax Convention: "Permanent establishment" means a fixed place of business through which the business of an enterprise is carried out in whole or in part.
- Article 7 (1) EITA: Permanent establishment means a business unit through which the permanent economic activity of a non-resident is carried out in Estonia.

The Estonian concept of permanent establishment is similar to what is regulated under the OECD Model Tax Convention. Regardless of the small divergence between those 2 definitions, in both cases the elements of "permanence" and "physical presence" must be present in the activities of the non-resident.

In general, 6 months is considered to be sufficient to create a PE in Estonia for construction sites. A specific DTT may provide for a different minimum term. While involving a dependent agent creates a permanent establishment, certain activities of "an auxiliary or preparatory nature" do not create a PE, such as auxiliary or preparatory activities involving promotion, advertising, financial and accounting support services, quality control, research and information collection.

Permanent establishments of non-resident legal persons should be registered at the Estonian Tax and Customs Board.

### 2.3.2. Withholding Taxes

Estonia does not apply withholding income tax on dividend and interest payments.

Estonia imposes withholding income tax on the following income of non-residents:

- salaries, wages and other remuneration paid to a non-resident if the place of work is Estonia
- remuneration of the management and controlling bodies of a resident legal person
- interest in connection with a holding in a contractual investment fund or other pool of assets, where, at the time of the interest payment or during a period of 2 years prior to that, more than 50% of the assets was directly or indirectly made up of immovables or structures as movables located in Estonia
- insurance indemnities, pensions, payments from a pension fund, scholarships and grants, gambling winnings and benefits
- rental fees
- royalties (exempt from withholding income tax if the recipient is an associated company resident in another Member State or Switzerland. 2 companies are associated if one of them directly holds at least 25% of the capital of the other or if a third EU or Swiss company directly holds at least 25% of the capital of the 2 companies. In both cases, a minimum holding period of 24 months is required. Exemption is not granted for the amount which exceeds the sum that would be paid to a non-associated party)
- payments made to a non-resident artist or athlete for activities conducted in Estonia
- payments to a non-resident for services provided in Estonia
- payments to a person located in a non-cooperative jurisdiction for tax purposes

The withholding entities for income tax are all resident legal entities, as well as state and local government agencies and employers that are natural persons and non-residents. An income tax withholding entity must withhold income tax on distributions taxed on the basis of the gross principle, transfer the withheld income tax to the tax authority by the 10<sup>th</sup> day of the month following the distribution, and file the tax return (Form TSD).

If a person making a distribution as an income tax withholding entity fails to comply with the obligations and fails to declare and transfer the income tax withheld to the tax authority, the income tax will be recovered from the person making the distribution. If income is received from a person that is not subject to the obligation to withhold income tax (for instance, the renting of an apartment from one private individual to another), the recipient of the income must declare their income and pay income tax.

### 2.3.3. Capital Gains

In Estonia, capital gains are treated as ordinary business income of Estonian-resident companies and are only taxed when forming part of the distributed profits.

## 2.4. Tax Compliance

The taxable period of corporate entities is a calendar month, the income tax shall be returned and paid monthly on the 10<sup>th</sup> day of the following month at the latest. Taxpayers are obliged to calculate and declare their income without a separate tax assessment notice from the tax authorities.

### 2.4.1. Employment Register

All natural and legal persons providing work are required to register the people they employ in the employment register. The employment of all natural persons whose work creates a tax liability in Estonia, irrespective of the form of contract, must be recorded in the employment register. The commencement of the employment must be recorded no later than when an employee starts working.

## 2.5. Local Taxes

Estonia has given local municipalities the right to impose 6 local taxes. Local tax is imposed based on local council regulations. The 6 applicable local taxes are:

- advertisement tax
- road and street closure tax
- motor vehicle tax (not in use)
- animal tax
- entertainment tax
- parking charge

### 3. Double Taxation Agreements

As of 1 January 2022 Estonia has 62 bilateral double taxation agreements in force, mainly following the OECD Model Tax Convention. In the context of Estonia the treaties usually include only income tax, as Estonia does not levy other taxes on capital income.

Unilateral relief for double taxation in respect of income derived abroad is available in the form of ordinary tax credits with country limitations. The credit is limited to the Estonian tax computed on the item of income.

### 4. Transfer Pricing

If the price of a transaction concluded between a resident legal person and a person associated with the resident legal person differs from the market value of the transaction, income tax is imposed on the amount which the taxpayer would have received as income or the amount which the taxpayer would not have incurred as expense if the transfer price had conformed to the market value of the transaction (transfer pricing; TP).

Estonia has a non-exhaustive list of related parties. Persons are deemed to be associated if they have common economic interests or if one person has a dominant influence over the other. The following persons shall be regarded as associated:

- companies belonging to one group
- legal persons and natural persons owning at least 10% of the share capital, total number of votes or rights to the profits of the legal person
- legal persons where more than 50% of the share capital, total number of votes or rights to the profits belong to one and the same person or associated persons
- legal persons where all members of the management boards or the bodies substituting for the management boards are the same persons

Applicable transfer pricing methods are:

- comparable price method
- resale price method
- expense method
- distributed profit method
- transaction yield method

If the circumstances related to the transaction do not allow for using the above-mentioned 5 methods, another method may be used to determine the market value of the transfer price. Justification must be given for such use of another method. There is no compulsory hierarchy among these methods and it is up to the taxpayer to choose the method, but the choice needs to be appropriate and justified.



## 5. Anti-Avoidance Measures

All Estonian tax-resident group companies and permanent establishments are obliged to prepare full transfer pricing documentation, including a master file and local file. Exemption applies for small and medium-size enterprises (SME), which are not obliged to prepare a master file and local file, but only for the normal practice of documenting economic transactions. However, exemption does not apply to SMEs if they have conducted transactions with entities located in a non-cooperative jurisdiction for tax purposes, or if they qualify as a resident credit institution, insurance undertaking or a business association registered in a securities market. A company or permanent establishment is considered an SME for TP purposes if its annual sales are less than EUR 50,000,000, the balance sheet is less than EUR 43,000,000 and the number of employees is less than 250. If one of the above criteria is met, the full transfer pricing documentation requirements apply.

To implement transfer pricing rules a resident company is required to submit additional information on transactions with associated persons, activities of companies belonging to the same group, and the structure of the group at the request of a tax authority. The tax authority must grant the company at least 60 days to submit such information.

In Estonia, it is not possible to ask tax authorities for advance pricing agreements (APA) in transfer pricing matters. Binding preliminary rulings are available for other tax matters.

The principle of substance over form is generally applied in Estonian tax law. In addition to this, many income-tax-specific rules apply: general anti abuse rule (GAAR), omitting non-genuine transactions with the purpose of obtaining a tax advantage; controlled foreign company (CFC) rule, enabling the attribution of profits earned by a foreign entity to an Estonian corporate entity; exit tax; interest limitation rule. The law provides a special rule for applying the tax exemption to dividend redistribution and capital reduction, which is not applied to transactions where the main or one of the main reasons is obtaining a tax advantage.

A special rule addresses hidden profit distributions made in the form of a loan. A resident company pays CIT on a loan granted to a shareholder, partner or member of the company if the circumstances of the transaction imply that this may constitute a hidden profit distribution. In the case of a loan repayment term which is longer than 48 months, the taxpayer must prove, at the request of the tax authority, the intent and ability of the borrower to repay the loan. The tax authority shall grant the company at least 30 days to submit such proof.

### 5.1. General Anti-Avoidance Rule

The general anti-avoidance rule in Estonian taxation is the substance over form principle, according to which if it is evident from the content of a transaction or act that the transaction or act is performed for the purposes of tax avoidance, conditions that correspond to the actual economic content of the transaction or act shall apply for taxation. Also, ostensible transactions shall not be taken into account upon taxation. If an ostensible transaction is entered into in order to conceal another transaction, the provisions concerning the concealed transaction shall apply for taxation.

The EITA provides for an income-tax-specific GAAR, which is in line with the regulation provided by the Anti-Tax Avoidance Directive (ATAD). Namely, no account shall be taken of a transaction or chain of transactions where the main purpose or one of the main purposes is to obtain a tax advantage contrary to the content or purpose

of the applicable tax law or international agreement, and which does not take account of all the relevant circumstances. A chain of transactions may consist of more than one intermediate stage or part. A transaction or chain of transactions shall not be considered genuine unless performed for real, vital or commercial reasons that reflect the actual economic substance of the transaction.

## 5.2. Thin Capitalisation Rules

Estonia has ATAD-based interest limitation rules, which due to the Estonian deferred CIT system function as CIT on surplus borrowing costs. CIT is levied on the residual borrowing costs of a resident company, other than a financial undertaking, in excess of EUR 3,000,000 and 30% of the interest, tax and profit before depreciation of a resident company, at the amount exceeding the losses of the resident company.

Regardless of the above, CIT is not levied if:

- the resident company is not part of a consolidated group for the purposes of financial reporting and has no affiliated company or permanent establishment, or
- the loan is used to finance long-term infrastructure projects of the public sector involving both the project promoter, borrowing costs, assets and income in the European Union, or
- the resident company that is a member of a consolidated group for financial reporting purposes is able to demonstrate that its equity to total assets ratio is equal to or greater than that of the group, except the ratio of financial undertakings belonging to the group, owner's equity and total assets and if some specific conditions are met.

## 5.3. Controlled Foreign Company Provisions

The portion of profits of a foreign controlled company resulting from the use of such assets and the assumption of risks associated with key employees of the controlling company and attributable to ostensible transactions where the main purpose was to obtain a tax advantage shall be attributed to the resident company and taxed as distributed profits. The profits of a foreign controlled company attributable to a resident company are calculated in accordance with the market value principle.

The CFC rule does not apply to a resident company provided the profits of the controlled company for the previous financial year do not exceed EUR 750,000 and whose other operating income, profits from subsidiaries, related companies and financial investments, interest income and other financial income do not exceed EUR 75,000 in the same period.

Additionally, all the payments to a person registered in a low-tax territory are subject to withholding income tax.

Resident natural-person taxpayers are obliged to declare and pay income tax from their participations in persons in a low-tax territory.

## 6. Taxation of Individuals / Social Security Contributions

Individuals are subject to personal income tax (PIT) and mandatory state social security contributions (SSC).

### 6.1. Residency Rules

A natural person is an Estonian resident if at least one of the following requirements is met:

- the person's place of residence is in Estonia
- the person stays in Estonia for at least 183 days over the course of 12 consecutive calendar months
- the person is an Estonian state public servant who is serving abroad

A person shall be deemed a resident as of the date of his or her arrival in Estonia.

### 6.2. Income Liable to Tax

Estonian tax residents are liable for tax on their worldwide income. Non-residents are liable for tax on their income derived from sources in Estonia. Taxable income includes both active and passive income. Most personal income is taxed on a gross basis (withholding at source), but capital gains and business income are taxed on a net basis.

Under simplified business income taxation rules, a natural person may open a business account with a credit institution with amounts received where tax is paid on the basis of the Simplified Business Income Taxation Act. The taxpayer may not be a person liable to value added tax or act as a sole proprietor in the same or similar area of activity. The rate of such business income is as follows:

- 20% of the amount received on the business account if the amount does not exceed EUR 25,000 in a calendar year
- 40% if the amount received on the business account exceeds EUR 25,000 in a calendar year. As the taxpayers may not be subject to VAT and the liability to register for VAT starts from annual turnover of EUR 40,000, it limits the taxpayers who can use such a simplified regime to small entrepreneurs only

### 6.3. Allowable Deductions

The law provides a general annual income tax allowance and specific allowances.

The general annual income tax allowance applies as follows (one of the alternatives below applies to a taxpayer):

- annual PIT allowance of EUR 6,000 applies if the annual income does not exceed EUR 14,400
- the regressive annual PIT allowance applies if the annual income is from EUR 6,000 to EUR 25,200
- annual PIT allowance is zero if the annual income exceeds EUR 25,200

As a specific allowance, taxpayers can deduct their mortgage interest, educational expenses and certain charitable gifts and donations up to EUR 1,200 per year, but no more than 50% of their taxable income.

Contributions to supplementary funded pension systems are deductible up to EUR 6,000 or 15% of annual taxable income. Mandatory SSCs are fully deductible (unemployment insurance payments and mandatory funded pension payments).

A resident natural person of an EU/EEA Member State who has received his or her taxable income in Estonia can make deductions from his or her income taxable in Estonia in proportion to its share in his or her taxable income during the period of taxation.

### 6.4. Tax Rates

Income is subject to personal income tax at a general rate of 20%. Certain funded pension payouts are subject to 10% income tax. Special tax rates apply to income earned under the simplified business income taxation rules (see Section 6.2.).

## 6.5. Tax Compliance

Individuals have to file a personal income tax return by 31 March of the year after the income was received. Resident individuals receive an income tax assessment based on their returns, filed at least 30 days before the tax payment is due. Based on the tax assessment received from the tax authorities, resident individuals must pay the final amount of income tax due by 1 July of the year following the period of taxation. Resident taxpayers reporting business income or capital gains in their tax returns must pay the final amount of income tax due by 1 October of the year following the period of taxation.

Non-residents have to file personal tax returns by 31 March of the year after the income was received. When transferring immovables, the income tax return shall be submitted after receiving the gains. If payments for a transferred immovable are made by instalment, a tax return concerning the agreed transaction price is also submitted within one month of receiving the first instalment.

## 6.6. Social Security Contributions

SSC consists of social tax, employer's unemployment insurance premiums, employee's unemployment insurance payments and mandatory funded pension insurance payments

In Estonia, social tax is an employers' obligation only. Employers pay social tax on payments in cash and in kind made to natural persons. Sole proprietors pay tax on their business income. Employers and sole proprietors are both obliged to pay social tax amounting to no less than the sum calculated from the monthly rate (in 2022, the minimum monthly basis for social tax is EUR 584). Sole proprietors also have an upper limit for social tax – calculated from the basis of 15 times the minimum wage.

The social tax rate is 33% (comprising a 20% social security contribution and a 13% health insurance contribution) and is paid by employers on top of gross salaries.

Social security contributions are declared and paid by the 10<sup>th</sup> of the following month together with CIT (in the same return, Form TSD). The taxable period for business income of sole proprietors is a calendar year, whereas quarterly advance payments of tax are due.

### 6.6.1. Unemployment Insurance

Estonia also applies an obligatory insurance system for unemployment. The aim of the unemployment insurance premium is to insure employees against unemployment, the collective termination of employment contracts or the insolvency of the employer.

The obligation to pay insurance payments is divided between employees and employers. Pensioners, due to their age, and members of the company's management or supervisory body and sole proprietors are not subject to unemployment insurance premiums.

Employers calculate and pay unemployment insurance premiums at a rate of 0.8% (employer's unemployment insurance premium) of the employee's gross earnings. In addition, employers are required to withhold and pay the employee's unemployment insurance premium at a rate of 1.6% of gross earnings from the employee's salary.

The tax is declared and transferred by the employer to the tax authority by the 10<sup>th</sup> of the following month (declared in the same return form as CIT and SSC).

### 6.6.2. Mandatory Funded Pension Payments

The mandatory funded pension payment is a payment calculated from employees' gross income, which is used to fund the second pension pillar. Employers must withhold a funded pension payment from the employee's salary, declare and transfer it to the tax authority. Since not all employees have joined the funded pension scheme, employers need to check with the Pension Centre to be sure that a funded pension agreement exists.

The mandatory funded pension payment rate is 2% of an employee's gross salary. Withheld payments must be paid to an employee by the 10<sup>th</sup> of the following month (declared in the same return form as CIT and SSC).

## 7. Indirect Taxes

Estonia levies the following indirect taxes: VAT, excise duties and customs duty.

### 7.1. Value Added Tax / Goods and Services Tax

The European Union (EU) VAT Directive is implemented in Estonia through the Value Added Tax Act (VATA, in Estonian: käibemaksuseadus).

Value added tax is charged on all supplies of goods and services in the course of business activities and self-supply of goods and services. Goods are things, livestock, gas, electric power, heat and refrigeration. Services mean the provision, in the course of business activities, of benefits or transfer of rights, including securities, which are not goods. An obligation to refrain from economic activity, to waive the exercise of rights or to tolerate a situation for a charge are also regarded as services.

If the total value of taxable supplies exceeds EUR 40,000 as calculated from the beginning of a calendar year, the person is obliged to register as a taxable person for VAT purposes from the date the supply reaches that amount. The application should be presented to the tax authority within 3 business days.

There is no registration threshold for foreign persons. If a foreign business with no fixed establishment in Estonia makes a taxable supply in Estonia, and such supply VAT is not payable by the customer (by applying the reverse charge mechanism), the foreign person is obliged to register as a taxable person for VAT purposes as of the date the taxable supply was made.

A taxable person of another EU country may appoint a fiscal representative, but this is not obligatory. A taxable person of a non-EU country, which has no fixed establishment in Estonia, must appoint a fiscal representative when registering for VAT.

The standard VAT rate in Estonia is 20%. The reduced rate of 9% is applicable to the supply of books and workbooks used as learning materials, medicinal products, contraceptive preparations, sanitary and toiletry products, and medical equipment

or medical devices intended for the personal use of disabled persons, periodic publications, excluding publications mainly containing advertisements or personal announcements, or publications whose content is mainly erotic or pornographic; and accommodation services or accommodation services with breakfast.

VAT returns must be filed monthly. VAT returns should be submitted to the tax authority and VAT must be paid by the 20<sup>th</sup> day of the month following the period of taxation. VAT returns must be submitted electronically, if the person has been a taxable person for at least 12 months.

## 7.2. Transfer Taxes

There is no transfer tax in Estonia. State fees and notary fees may apply to certain transactions. Exit tax applies to certain corporate entities when transferring their assets to their permanent establishments located outside of Estonia.

## 7.3. Others – Excises

Estonia applies excise duties on alcohol, tobacco, fuel, electricity and packages.

### Alcohol

Excise duty shall be imposed on alcohol produced in Estonia, delivered from other Member States into Estonia or imported for release for free circulation in Estonia.

The excise duty is imposed on wine, beer, fermented beverages, intermediate products and other alcohol produced in Estonia or brought into Estonia. Certain alcoholic beverages with an ethanol content above 22% by volume and which are bottled in packages with a content of 0.05 litres or more must be revenue stamped. Revenue stamping means a special marking which conforms to special security requirements and is attached to excise goods or the sales packaging thereof indicating the payment of excise duty. Revenue stamps can be ordered from the Estonian Tax and Customs Board.

### Tobacco

Excise duty is imposed on tobacco products produced in Estonia, transported to Estonia from another Member State or imported for free circulation.

Excise duty is imposed on smoking tobacco, cigarettes, cigars, cigarillos and chewing tobacco. Tobacco products must be revenue stamped before distributing. Revenue stamps can be ordered and excise duty is collected by the Tax and Customs Board.

### Fuel

Excise is imposed on different kinds of liquid fuel, solid fuel and natural gas. In certain fields it is permitted to use fuel marked with a fiscal marker with a lower excise duty than usual.

Fuel means unleaded petrol, leaded petrol, aviation spirit, kerosene, diesel fuel, diesel fuel for specific purposes, light heating oil, heavy fuel oil, shale-derived fuel oil, motor liquid petroleum gas and motor natural gas, coal, lignite, coke and oil shale, liquid petroleum gas, natural gas as well as specialty and unconventional fuel-like mineral oil.

As a rule, a tax liability arises when importing excise goods outside an excise suspension arrangement, releasing them for consumption from an excise warehouse, and delivering excise goods subject to excise duty in another Member State of the EU to Estonia. Excise duty should be paid and declared generally by the 20<sup>th</sup> day of the month following the month when the tax liability arises.

As a rule, entities must be registered at the Register of Economic Activities for handling the fuel released for consumption, and when selling such fuel, it is also required to provide a security deposit to the tax authority.

### Electricity

Duty on electricity is paid by the companies that control the power networks, make transactions with, or produce the electric energy. Liability to pay excise duty on electricity arises when the electric power trader distributes electricity to the consumer.

### Packages

Sales packaging, grouped packaging and also transport packaging are subject to excise duty. Excise duty shall be imposed on packaging upon the sale, exchange, transfer without charge, or use for self-consumption of packaging in Estonia. Excise duty is not imposed on packaging brought and exported into another Member State from Estonia.

Excise is paid by the importer of packages, by the user of packages, or by the person who acquired packaging from another Member State upon the sale, exchange, free transfer or use for self-consumption of packaging.

There is a possibility for payers of excise duty to transfer their obligations to the recovery organisation established by the packaging undertakers and accredited by the Minister of the Environment.

## 8. Inheritance and Gift Tax

There is no inheritance or gift tax in Estonia. Transfers of title upon inheritance and donations, however, are subject to state duty and notary fees. The acquisition cost of inherited estate in the context of calculating capital gains tax is zero.

## 9. Wealth Tax

There is no wealth tax in Estonia.

## 10. Land Tax

Estonia applies a land tax. The taxation object is land without any buildings etc. and the taxable value is determined by the potential profitability. Land tax is paid by the owner of the land, in certain cases also by the user of the land.

The land tax rate is 0.1 – 2.5% of the taxable value of the land. The applicable tax rate is set by municipalities by 31 January each year. Land where economic activity is restricted by law is either exempt from tax completely or it is levied at 50% of the standard tax rate, depending on the nature of the restriction. Tax is paid once or twice a year on 31 March and 1 October.

## 11. Other Taxes / Reporting Obligation

There are no relevant other taxes in Estonia.

| Reporting obligation                           | Deadline for submission  |
|--|--|
| Income and social tax declaration and annexes  | By 10 <sup>th</sup> of following month   |
| Income tax return for resident natural persons | Resident natural persons submit income tax returns on their income received during the previous calendar year. Income tax returns are submitted from the middle of February (usually 15 <sup>th</sup> ) to the beginning of May.   |
| Income tax return for non-resident persons     | Income tax returns have to be submitted to the Tax and Customs Board by 30 April of the year following the year when the income was received, and income tax is paid into the bank account of the Estonian Tax and Customs Board by 1 October of the year the income tax return is submitted.  |
| VAT declaration and annexes                    | By 20 <sup>th</sup> of following month   |
| FACTA  | Reporting Estonian financial institutions must submit a declaration to the tax authority electronically with the data collected for the calendar year by 30 June of the following year.  |
| CbCR   | Reporting entities that are tax residents of Estonia must collect the information necessary for submitting the country-by-country report and submit the country-by-country report to the tax authority by 31 December of the calendar year following the reporting financial year.<br><br>The notification obligation shall be met within 6 months of the end of the financial year that is the reporting year of the group. |



## Disclaimer

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