VIRTUAL OFFICE IN ESTONIA

Your business with a prestigious address, a central Tallinn, Estonia

Estonian tax system and administration

Considerations for the investor:

Main principles of Estonian tax policy: simple tax system, broad tax base and low rates.

The aim of the current Estonian tax policy is to shift the tax burden from labour to consumption.

Flat income tax rate since 1994 (flat income tax rate at 20% applies to both individuals and companies).

Unique corporate tax system since 2000: all undistributed corporate profits are tax-exempt.

Local taxes play an insignificant role in the Estonian tax system.

Estonia operates a self-assessment system.

The government's intention is to improve tax administration (electronic tax administration is well established).

Vast majority (of yearly personal income tax declarations are submitted electronically.

Estonia has no thin capitalisation or CFC rules for corporate taxpayers.

Estonian VAT legislation is based on the EC VAT Directive (2006/112/EEC).

The standard VAT rate is 20% and the reduced rate is 9%.

Estonia applies an extended reverse charge mechanism.

An option to tax is available in respect of certain exempt supplies.

Estonia has relatively low taxes and a simple tax system. Currently there is no corporation tax (tax is not imposed on reinvested profit) but income tax on dividends forms 20/80 of the dividends received. Value added tax is 20 percent with just a few exceptions.

Estonian principal taxes

The structure and basis of the tax system are set out in the Taxation Act.

The existing state taxes are:

- income tax (corporate & personal): flat 20% rate for individuals;
- social tax: 33% (20% for social security contributions - state pension and 13% for health insurance);
- land tax;
- gambling tax;
- value added tax (VAT): 20% (some goods and services 9%);
- unemployment insurance tax: 0.8% employer + 1.6% employee;
- excise duties (tobacco, alcoholic beverages, motor fuel, some packing materials and electricity);
- heavy load vehicles tax.

Estonian corporate income tax

Estonian resident companies and permanent establishments of foreign entities (including branches) are subject to income tax only in respect to all distributed profits (both actual and deemed), including:

- corporate profits distributed in the tax period;
- gifts, donations and representation expenses;
- expenses and payments not related to business.

Fringe benefits are taxable at the level of employer. The employer pays income tax and social tax on fringe benefits.

All distributions are subject to income tax at the rate of 20% of the amount of taxable payment. The transfer of assets of the permanent establishment to its head office or to other companies is also treated like a distribution.

As the tax period of corporate entities is a month, the income tax is returned and paid monthly by the 10th day of the following month.

The Taxation Act is a basic act for all other tax acts. It specifies the Estonian tax system, requirements for tax acts, rights, duties and liability of taxpayers, withholding agents, guarantors and tax authorities, and procedure for resolution of tax disputes and main definitions used in all tax acts. The Taxation Act provides precise regulation of carrying out administrative procedures of tax authorities and creates stronger sense of reliability for taxpayers.

The tax authority for state taxes is the Tax and Customs Board. It is a government agency which operates within the area of government of the Ministry of Finance. Tax administrators are required to verify the correctness of tax payments, assess amounts of tax and interest due in the cases provided by law, collect tax arrears and implement sanctions against persons who violate tax acts.