



DOING BUSINESS IN ESTONIA 2014

Thank you

for choosing BDO in Estonia
as your source for information
about doing business in Estonia.

This publication has been prepared by BDO Estonia specialists. Its aim is to provide the essential background information of setting up and running a business in this country.

It is of use to anyone who is thinking of establishing a business in this country as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or live permanently in this country.

This publication covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. We have endeavoured to include the most important issues, but it is not feasible to discuss every subject in comprehensive detail within this format.



If you would like to know more,
please contact [BDO Estonia](#).
We will be able to provide
you more information.

This publication is addressed to foreign individuals and companies who are starting business activities in Estonia. This information is based on the legal situation at the beginning of 2014.



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Estonia

IN BRIEF

Official country name
Republic of Estonia



Coat of arms



Capital
Tallinn



Population 430,000



Estonia

Population

1.3 million



Area

45,227 km²



National flag

€ Currency
Euro (adopted in 2011)

Estonia

IN BRIEF

Geographic location
Baltic Sea region



Distances from Tallinn



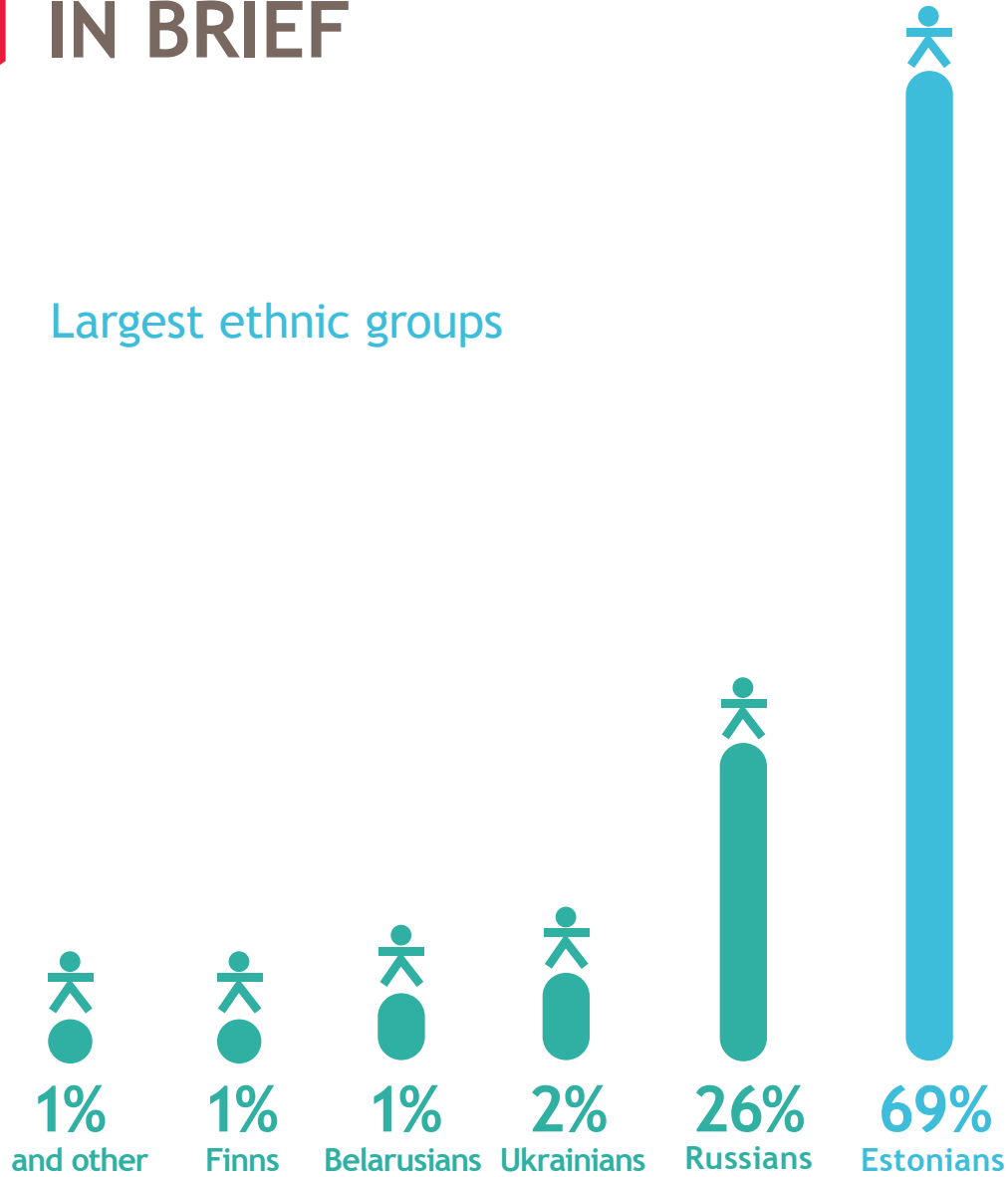
Time zone

Estonia is two hours ahead of Greenwich mean time (GMT +02); and three hours ahead in summer (GMT +03)

Estonia

IN BRIEF

Largest ethnic groups



Estonia

IN BRIEF

Main natural resources

Forest/timber, peat, minerals: kukersite (a form of oil shale) and phosphorite. Estonia is also rich in clay, sand, gravel, carbonaceous minerals (limestone and dolomite), therapeutic mud and mineral water.

Forest

- More than a half of Estonian land (50.6% or about 2.3 million ha) is covered by forest.
- In terms of forest coverage, Estonia holds the 4th place, dropping only behind Finland, Sweden and Slovenia.
- The most widespread tree species in Estonia are the pine, birch and spruce.
- On average, 5,800 ha of forest has been planted a year
- Sowing was carried out on an average of 1,400 ha a year.

Estonia

IN BRIEF

Main natural resources

Mineral resources

In terms of mineral resources, Estonia is a relatively average country in the world.

Energy mineral resources

- oil shale
- graptolite argillite
- peat

Chemical raw materials

- phosphorite
- limestone

Natural building materials

- limestone
- dolomite
- granite
- sand
- gravel

Other mineral resources

- lakemud
- seamud
- lacustrine
- peat

Ores

- iron ore



Some mineral resources found in Estonia such as phosphate rock, granite, and dictyonema argillite that contains a certain amount of uranium are not being currently extracted due to their low efficiency. Intensively used mineral resources include oil shale (kukersite) and peat and demand for natural building materials (sand, gravel, limestone, clay, etc) has been increasing on an annual basis.

Estonia

IN BRIEF Main natural resources

Agricultural land

- Total agricultural land 995,916ha (hectares)
- Arable land 620,483ha
- Fruit and berry plantations 6,808ha
- Permanent pastures 191,529ha

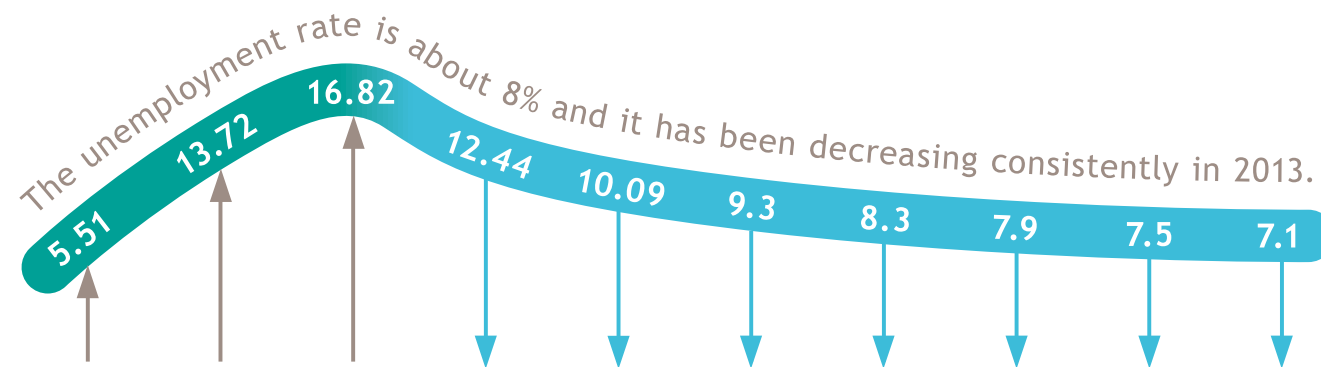


Estonia

IN BRIEF

Working-age population

Estonian labour force (people aged 15-74 in employment) is approximately **695,000**, according to Statistics Estonia.



According to data from Q3 2013, approximately **328,000** people are inactive (people who do not wish to work or are not able to).

Employers might look into hiring the unemployed as special incentives are offered by the [Estonian Unemployment Insurance Fund](#).



Estonia

IN BRIEF

Life expectancy

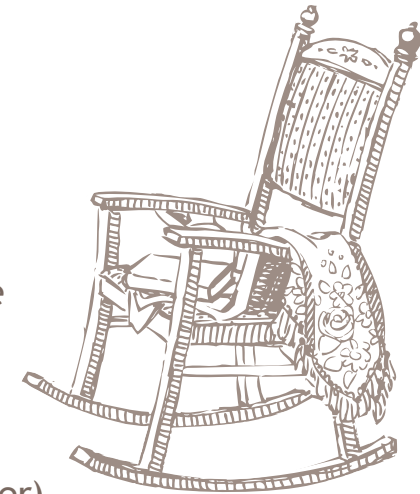


In 2012, men had a life expectancy of 71.09 years; and women, 81.12 years. The goal of the government elected in 2011 was to increase life expectancy to 72.5 years for men and 82.5 years for women by 2015.

Retirement age

Retirement age in Estonia is 63 years (at the moment there are differences as for the women born before 1953 the retirement age is lower).

From 2017 the retirement age will start increasing, reaching 65 years in 2026.



Religion

Lutheranism is the most common faith, followed by Orthodox Christianity.

Estonia IN BRIEF

Membership
of international
organizations



Estonia is a signatory to the Kyoto Protocol linked to the United Nations Framework Convention on Climate Change.



1 May 2004
European Union

21 Dec 2007
**Schengen
area**

17 Sep 1991 **UN** and **OSCE**

29 Mar 2004 **NATO**

13 Nov 1999 **WTO**

9 Dec 2010 **OECD**

1 Jan 2011
Eurozone

Estonia

IN BRIEF

Agreements on avoidance of double taxation

In Force

Albania	Hungary	Portugal
Armenia	Iceland	Romania
Azerbaijan	India	Serbia
Austria	Isle of Man	Singapore
Bahrein	Israel	Protocol
Belarus	Ireland	Slovakia
Belgium	Italy	Slovenia
Bulgaria	Jersey	South-Korea
Canada	Kazakhstan	Spain*
China	Latvia	Sweden
Croatia	Lithuania	Switzerland*
Cyprus	Macedonia	Thailand
Denmark	Malta	Turkey
Finland	Mexico	Turkmenistan
France*	Moldova	Ukraine
Georgia	Netherland	United Arab Emirates
Germany	Norway	United States of America
Great Britain*	Poland	Uzbekistan
Greece	Portugal	

*When the protocol between Estonia and the Netherlands was enforced, also four effective tax treaties (between Estonia and the United Kingdom, Estonia and France, Estonia and Spain and between Estonia and Switzerland) were amended. Treaties were complemented with additional tax exemption to interests, according to which, the interests paid by an enterprise of contracting state to the credit institution of the other state, which are deriving from the loan from that credit institution are taxed in the state of the credit institution. In treaties with the Spain and Switzerland the amendment became effective since 01.01.2005. In treaties with United Kingdom and France the amendment became effective since 21.05.2006.

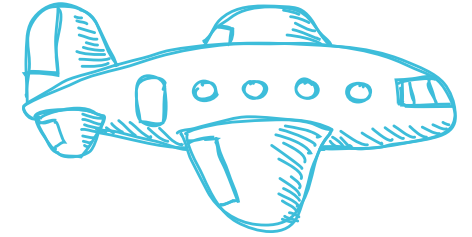
Being prepared

Bosnia and Herzegovina
China
Luxembourg
Morocco
Oman
Russia
South-Africa
Switzerland
Viet Nam

Estonia

IN BRIEF

Visa freedom



In addition to the citizens from EU, EEA and Schengen area following citizens do not need a visa to enter a Schengen area (incl. Estonia) for stays of no more than 90 days in any 180-day period:

- Albania* (only for the biometrical ordinary passports holders)
- Andorra
- Antigua and Barbuda
- Argentina
- Australia
- Bahamas
- Barbados
- Bosnia and Herzegovina* (only for the biometrical ordinary passports holders)
- Brazil
- Brunei Darussalam
- Canada
- Chile
- Costa Rica
- El Salvador
- Guatemala
- Honduras
- Hong Kong Special Administrative Region of China
- Israel
- Japan
- Macao Special Administrative Region of China
- Macedonia* (only for the biometrical ordinary passports holders)
- Malaysia
- Mauritius
- Mexico
- Monaco
- Montenegro* (only for the biometrical ordinary passports holders)
- New Zealand
- Nicaragua
- Panama
- Paraguay
- Réunion
- San Marino
- Serbia* (only for the biometrical ordinary passports holders)
- Seychelles
- Singapore
- South Korea
- St Kitts-Nevis
- Taiwan**
- United States of America, Uruguay
- Vatican City
- Venezuela

* Only for the biometrical passports holders

** Passports issued by Taiwan which include an identity card number

Estonia

IN BRIEF

STATE BUDGET

In the [state budget](#) for 2014, planned revenue is 8.02 EUR bn and planned expenditure is 8.06 EUR bn.



Estonia

IN BRIEF

Form of government
**Democratic
parliamentary
republic**



Kadriorg castle

President of the Republic of Estonia

The current head of state is Toomas Hendrik Ilves
(the next elections will be in August 2016)

Estonia

IN BRIEF

Legislative power

Riigikogu (the Estonian Parliament – 101 members). Members of the Riigikogu are elected for four years (the next elections will be held in March 2015). The Riigikogu elects the President of the Republic every five years.



The Parliament

Executive power

Government of the Republic (up to 15 members)
The government is formed by the prime minister and appointed by the president.

The present prime minister is Taavi Rõivas of the Reform Party.

Judicial power

1st instance: County Court
2nd instance: District Court
3rd instance: Supreme Court



WHY DO *business* IN ESTONIA

It's simple to do
business in Estonia

Two Estonian institutions
of higher education appear
in the world's top 500
universities rankings

Estonia:

- continues to be one of the most wired countries in the world according to [Freedom House](#)
- the educational system is among the world's most successful
- the population's English proficiency is outstandingly high according to [English Proficiency Index](#)



Major universities in Estonia:

[Estonian Business School](#)

[Estonian University of Life Sciences](#)

[Tallinn University of Technology](#) (tied for 441st with 9 others in the QS World University Rankings 2013)

[Tallinn University](#)

[University of Tartu](#) (tied for 461st with 9 others in the QS World University Rankings 2013)

MORE USEFUL INFO:

[Freedom House](#)

[English Proficiency Index](#)

[Economist](#)

[OECD](#)

WHY DO *business* IN ESTONIA

Estonia is a stable
place to do business

25th

place in the [Innovation Union](#) rankings in 2013
(16th among EU countries)

11th

place in the world economic freedom rankings in 2014 compiled by the Wall Street Journal and [Heritage Foundation](#)

22nd

place in the [Doing Business](#) 2014 report - World Bank

19th

in the [Societal Progress Index 2014](#) - by US-based Social Progress Imperative non-profit

28th

place in the Corruption Perceptions Index 2013 rankings - [Transparency International](#)

32nd

place in the 2013-2014 [Global Competitiveness Index](#) - World Economic Forum

Estonia holds high credit ratings

- [Fitch](#) Long Term Issuer Default Rating Dec 2013 **A+**
- [Standard & Poor](#) Long Term Foreign/Domestic Oct 2012 **AA-**
- [Moody's Long](#) Term Foreign/Domestic April 2009 **A1**

ESTONIAN *economy*



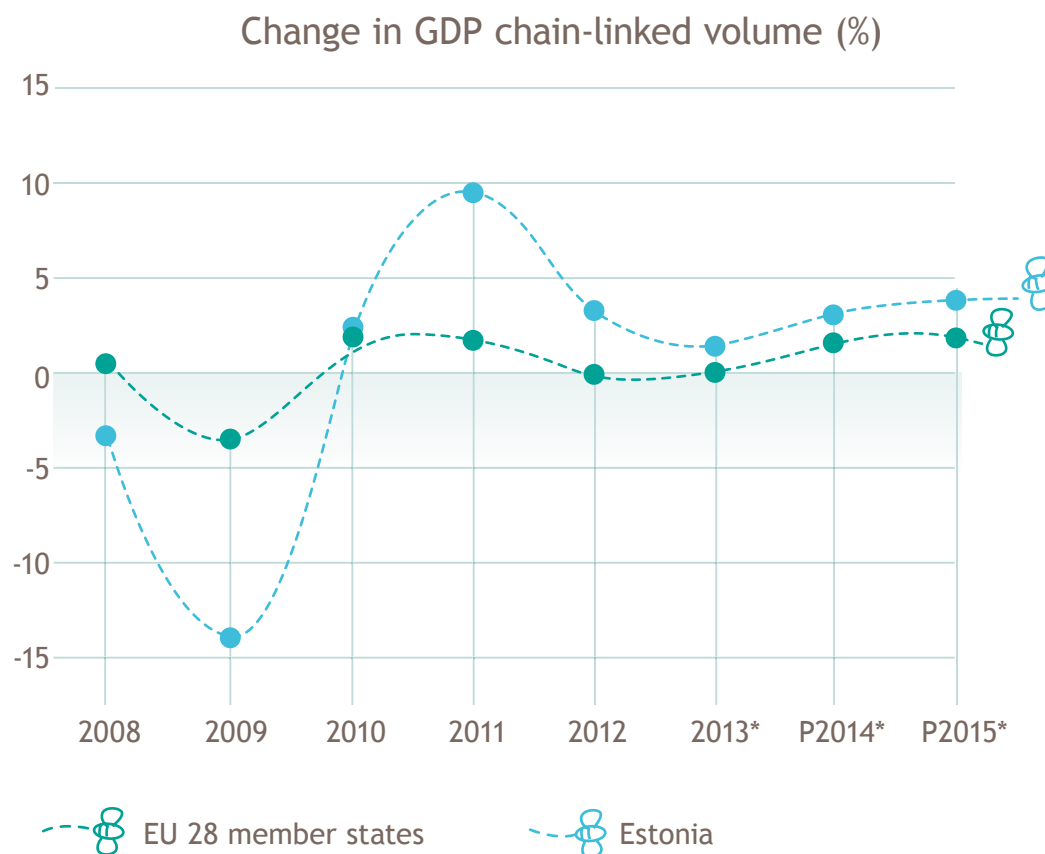
ESTONIAN economy

GDP growth outstrips the EU average

Economic vitals

Estonia's economic growth has exceeded the EU average in the years since the recession and based on forecasts, this will remain the case for at least the next few years.

In 2013, economic growth in Estonia continued to be driven by domestic demand, above all propelled by increased household consumer spending, but in years to come, growth is expected to accelerate due to the recovery of export markets.¹



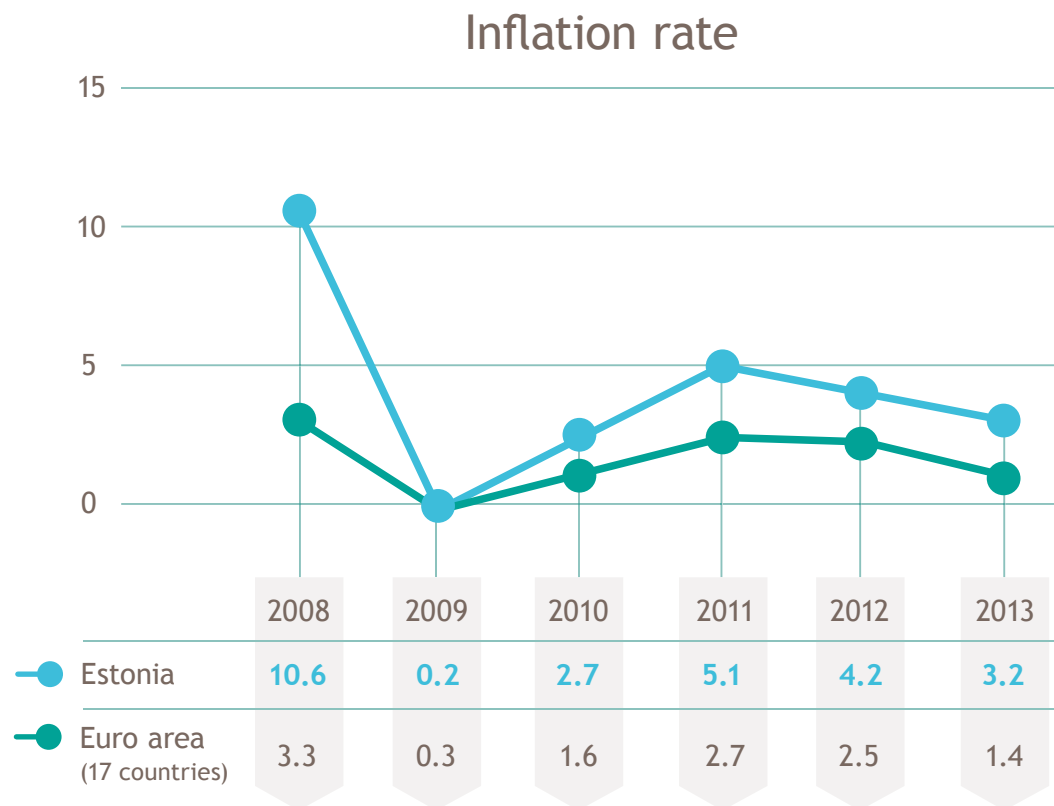
¹ Commentary from the Eesti Pank 12 December 2013

Source: Eurostat (as of 15 January 2014)

ESTONIAN economy

Inflation following EU accession has been slowing down

In 2013, the last years' trend of inflation slowdown continued, but inflation still remained the highest in the Eurozone. Based on a Bank of Estonia analysis, the main factor was the drop in inflationary pressure in the external environment, which was transferred to Estonian prices through imports. Based on the expected increase in economic activity, inflation is expected to continue to drop in the years ahead.²



Source: Eurostat (as of 16. January 2014)

² Estonian Economy and Monetary Policy February 2013

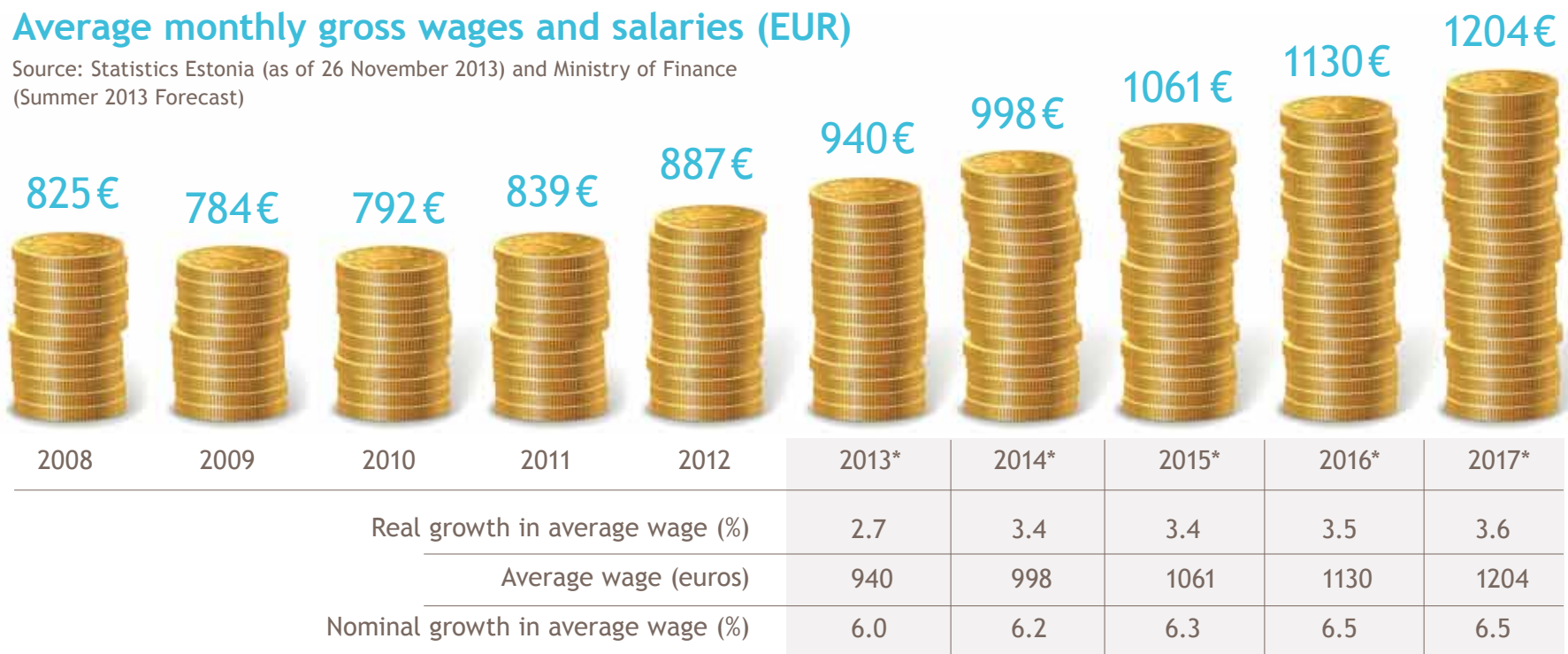
ESTONIAN economy

A dramatic increase in labour productivity is expected in the years to come

According to Bank of Estonia conclusions, the growth in workforce expenses was accelerated above all by the ageing of the population and workforce shortage increasing due to emigration. Wage growth is expected to slow somewhat in 2014, but the increase will remain fast-paced.

Average monthly gross wages and salaries (EUR)

Source: Statistics Estonia (as of 26 November 2013) and Ministry of Finance (Summer 2013 Forecast)



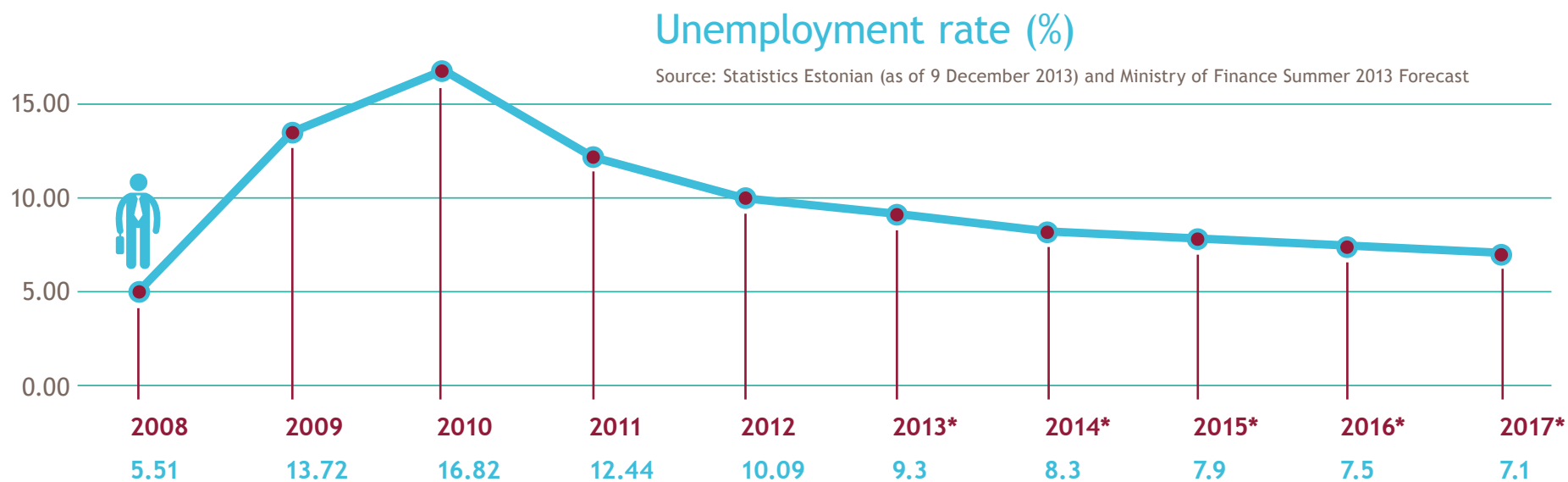
* forecast

[Ministry of Finance Summer 2013 Forecast Summary](#)

ESTONIAN economy

Estonia has staged a strong recovery from the economic crisis of 2008-2009

Unemployment is decreasing slowly, as companies are opting to make more intensive use of existing workforce, increasing the number of work hours, which were cut following the crisis.



* forecast

Labour Market Forecast 2013-2017 (15-74-year-old) (%)

[Ministry of Finance Summer 2013 Forecast Summary](#)

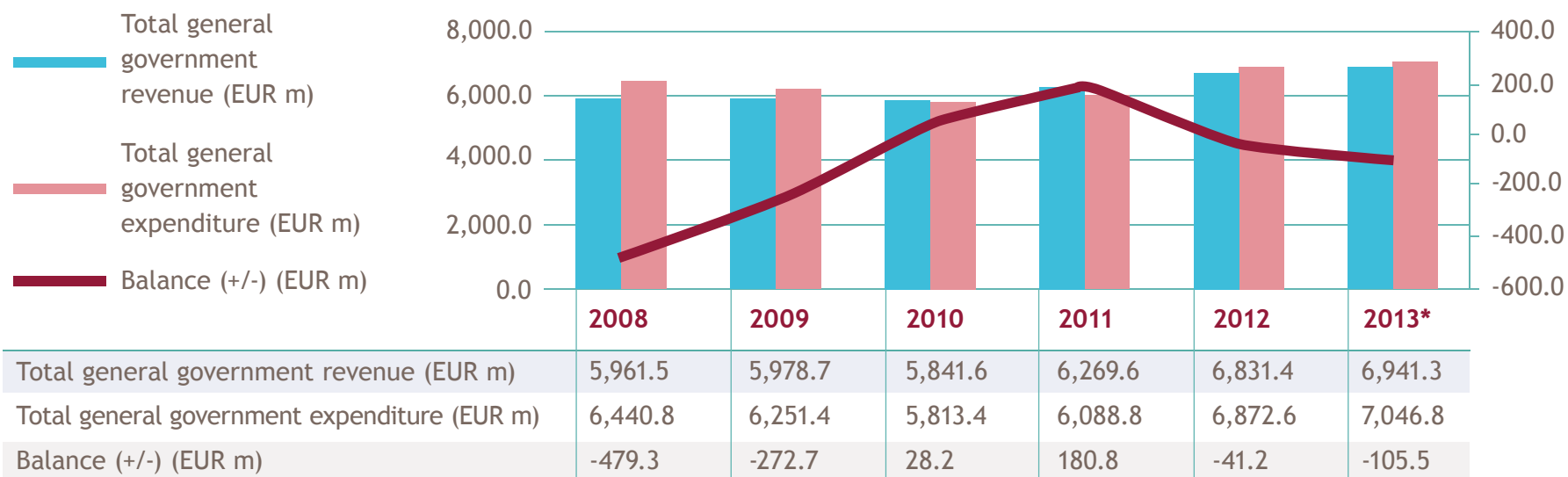
ESTONIAN economy

Leads all OECD members in tax collection effectiveness

The general assessment of the Estonian government sector budget position compared to other European countries is favourable. The budget will be nominally in balance in 2015, largely thanks to the positive effects of the economic cycle on tax receipts.

General government budget

Source: Statistics Estonia (as of 23 December 2013) and BDO's calculations



*forecast

	2012	2013*	2014*	2015*	2016*	2017*
Real GDP growth	3.2	1.5	3.6	3.5	3.6	3.8
GDP at constant prices (EUR bn/ EUR m)	12.6	12.8	13.2	13.7	14.2	14.8
Budgetary position (% of GDP)	-0.3	-0.2	-0.6	-0.8	0.0	0.9
Debt burden (% of GDP)	10.1	10.3	10.0	10.3	10.0	9.4
Tax burden (% of GDP)	33.3	33.3	32.5	32.1	32.0	32.0

*forecast

Source: Ministry of Finance Summer 2013 Forecast

ESTONIAN economy

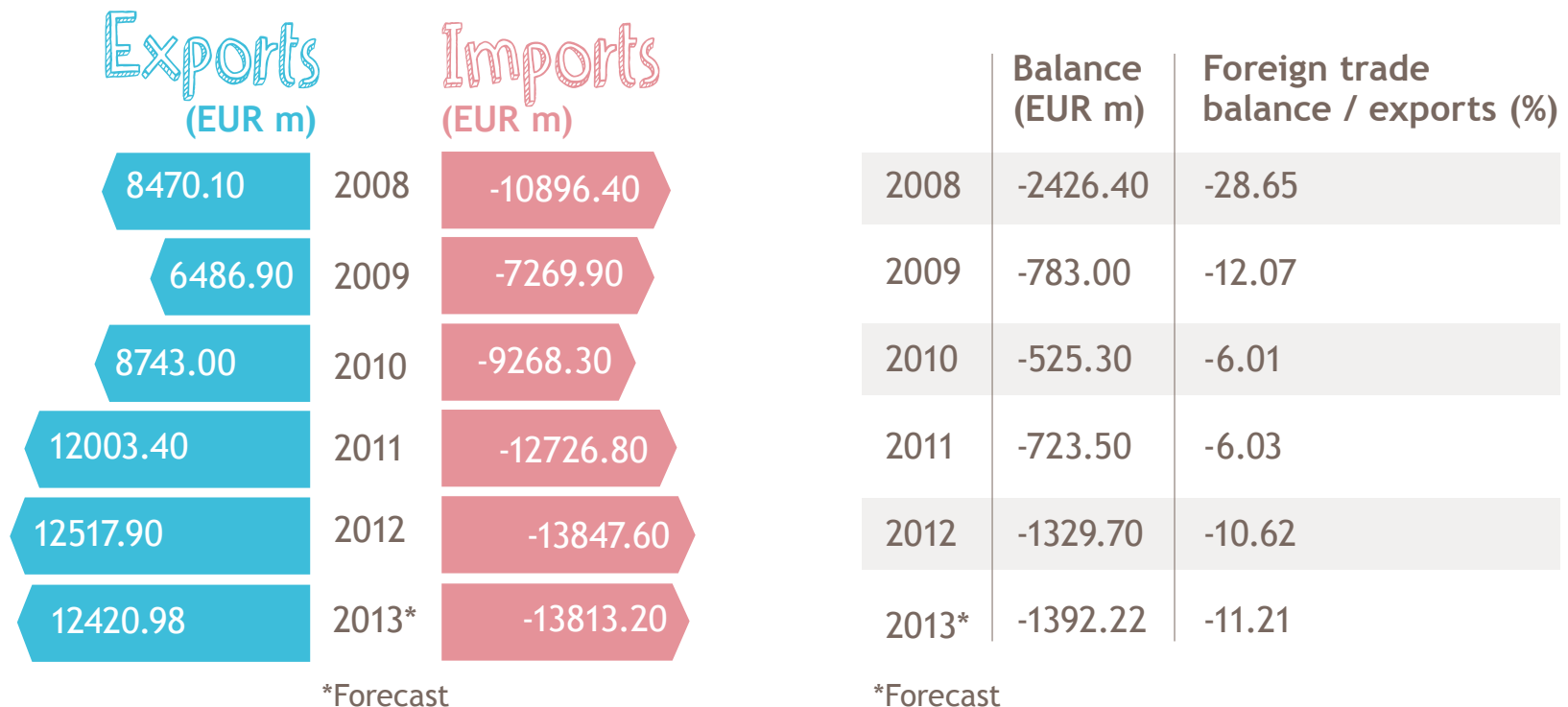
The foreign trade balance is characteristic of a rapidly developing country



The trade balance over recent years has been mildly negative (import outstrips export slightly)

Foreign Trade (special trade system)

Source: Statistics Estonia (as of 10 January 2014) and BDO's calculations

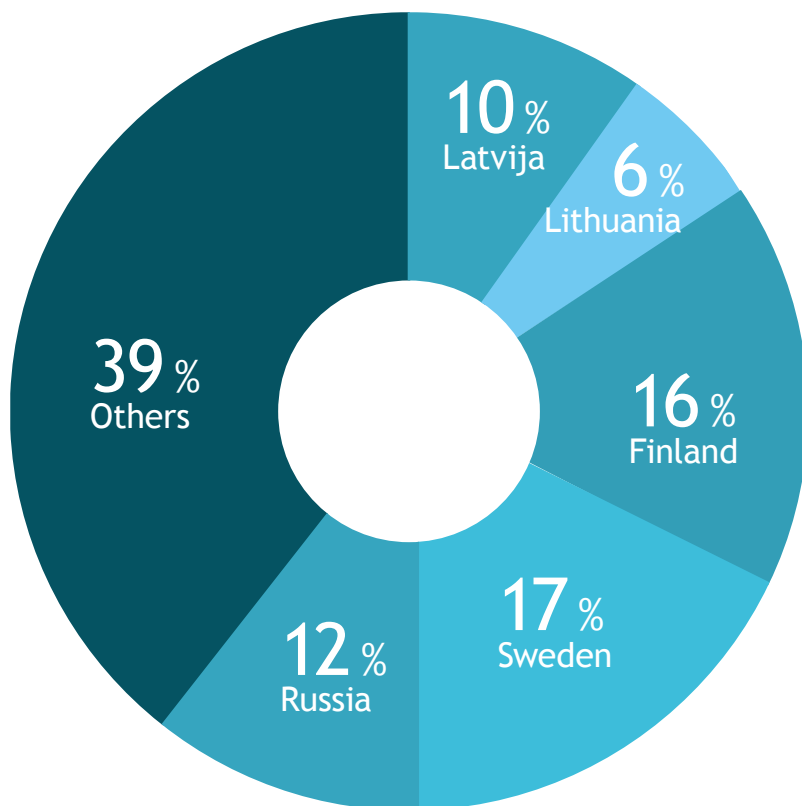


ESTONIAN economy

Foreign Trade (special trade system)

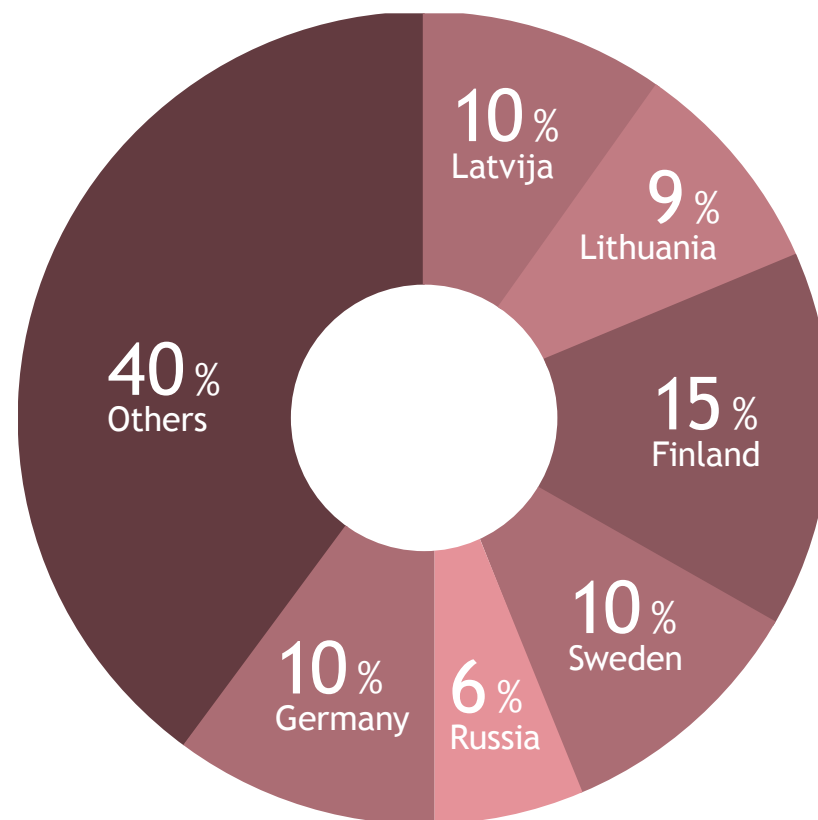
Source: Statistics Estonia (as of 10 January 2014) and BDO's calculations

Exports 2013*



*Forecast

Imports 2013*



*Forecast

ESTONIAN economy

Primary export and import articles



Estonia's primary trade partners are Latvia, Lithuania, Finland, Sweden, Russia and Germany. Primary export articles in 2013 were as follows: machinery and mechanical equipment, electrical equipment and components (28%), mineral products (10%), timber and wood products (9%). The main import articles in 2013 were as follows: machinery and mechanical equipment, electrical equipment and components (28%), mineral products (12%), land vehicles, aircraft, ships and other transport (11%).

Statistics Estonia (as of 10 January 2014)

	Russian Federation		Poland		Latvia		Lithuania		Germany		Finland		Sweden		Estonia		Denmark	
	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)
2007	24	23	17	17	13	12	10	11	8	7	9	8	9	6	6	5	6	5
2008	24	23	17	17	13	12	10	11	8	7	9	8	9	6	6	5	6	5
2009	24	23	17	17	13	12	10	11	8	7	9	8	9	6	6	5	6	5
2010	24	23	17	17	13	12	10	11	8	7	9	8	9	6	6	5	6	5
2011	24	23	17	17	10	11	10	10	8	7	9	8	9	6	6	5	6	5
2012	24	23	17	15	10	11	9	9	9	7	9	8	9	6	6	5	6	5
2013	24	23	17	15	10	11	9	8	9	7	9	7	9	6	6	5	6	5
2014	22	21	17	14	10	11	10	9	9	7	9	7	9	6	6	5	6	5

Source: [Doing Business](#)

Additional notes:

- All Doing Business 2013 rankings have been recalculated to reflect changes to the methodology and revisions of data due to new information. For further details on changes, please refer to the data notes page.
- Please note that the data above may not reflect the full numeric precision of the data point, as the numbers are rounded. For the dataset containing full numeric precision, please download reform simulator file.

ESTONIAN economy

External sector

External sector statistics

	2008	2009	2010	2011	2012	2013, Q1-Q3
Balance of payments						
Current account (EUR m)	-1486,10	382,40	408,50	291,40	-310,00	-165,50
Ratio of current account to GDP (%)	-9,20	2,70	2,80	1,80	-1,80	-1,21
Inflow of direct investments (EUR m)	1181,80	1324,50	1206,80	244,90	1180,50	560,40
Outflow of direct investments (EUR m)	-760,20	-1113,90	-107,30	1044,80	-740,80	-202,80

International investment position

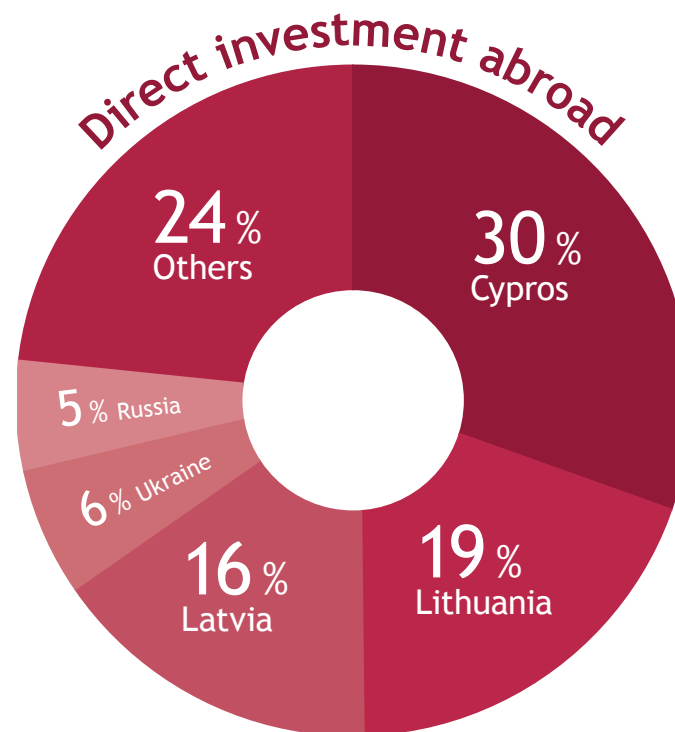
(year-end / Q3 of 2013)	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012	30.09.2013
International net investment position (EUR m)	-12455,50	-11258,10	-10405,00	-9149,30	-9400,20	-9356,70
Direct investments in Estonia (EUR m)	11774,60	11670,20	12495,40	13108,60	14666,70	15498,10
Direct investments abroad (EUR m)	4764,10	4603,70	4322,40	3655,40	4456,30	4728,30
Total foreign debt (millions of EUR)	19025,40	17204,30	16419,80	15249,60	16621,80	16089,90
of which government sector (EUR m)	527,30	746,60	771,90	512,60	1260,40	1466,00
Net foreign debt (EUR m)*	-6122,90	-4762,40	-3324,10	-812,20	332,90	557,50
of which government sector (EUR m)	747,90	444,60	458,20	579,30	218,20	-82,30

*debt receivables minus debt payables

Source: Eesti Pank (as of 9 December 2013)

ESTONIAN economy

External sector



Source: The Eesti Pank (as of 9 December 2013)

ESTONIAN banking sector

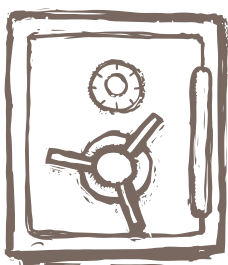
Eesti Pank

The Eesti Pank is the central bank of the Republic of Estonia. The main objective of the Eesti Pank is to contribute to maintaining price stability in the Eurozone, but the bank also performs all of the traditional functions of a central bank. It organizes cash circulation, supports and arranges for monetary transfers between commercial banks, takes part in ensuring financial stability, administers Estonia's foreign reserves, compiles financial sector and balance of payments statistics and advises the cabinet on matters of economic policy in Estonia and the Eurozone.

ESTONIAN banking sector

Nordic banking groups dominate the banking sector, creating an additional sense of security with regard to financial stability in the region.

Nordic banking groups are dominant among Estonia's commercial banks, represented by large companies such as SEB, Swedbank, Nordea, Danske Bank.



The fact that the market participants consider Nordic banking groups more secure than other European banks instils a sense of confidence in this region.



ESTONIAN banking sector

SEPA

In February 2014, Estonia transferred to the Single Euro Payments Area (SEPA) payment system. The goal of the SEPA changeover is to make dealing with money matters more convenient, strengthen the European internal market, increase competition and effectiveness and contribute to the region's economic development.



Internet banking is highly developed

In connection with the widespread Internet penetration in Estonia, online banking has seen rapid development, allowing the vast majority of financial transactions to be executed at a time and place convenient for the customer. No significant distinctions are made between residents and non-residents when opening a bank account and using other bank services.

FACTS ABOUT

e-Estonia

(freedom on the net)

One of the most wired countries in the world

On 24 April 2014 the Estonian government approved the concept of an e-resident's digital ID. The change in legislation is another step in the direction of more extensive and effective involvement entrepreneurs, investors and specialists living in other countries in Estonia's development, economic and research activities. The key targets for e-residency are people that are connected with Estonia through entrepreneurship, work, studying or origin. These people need a digital identity for using public and private e-services but they are not citizens of Estonia or foreigners living in Estonia under a residence permit or right of residence.



World's smallest ID card reader

More info: [Freedom House](#)

FACTS ABOUT

e-Estonia

(freedom on the net)

e-Government

“E-stonia” is certainly no misnomer.

For more than a decade, the Estonian government has operated an acclaimed e-government information system where all operations are done in an electronic environment without paper.



Even police patrol cars are equipped with computers and an internet connection. Due to good state IT infrastructure, it is possible to receive information about a driver and his car without a driving licence or car documents.

More info: [Estonian Information System Authority](#)

FACTS ABOUT

e-Estonia

(freedom on the net)

Cyber defence



In spring 2007, a major cyber attack took place against websites of Estonian government offices and data communication networks. The cyber attack pointed up vulnerabilities in different systems. Ultimately, the incident allowed Estonia to strengthen its national information system and served as a valuable experience for specialists. It also led to a commitment to transform Estonia into the world's most secure information society. This was accompanied by changes to the legal environment that reflected the new situation.

More info:

[Estonian Ministry of Defence](#)

[Estonian Ministry of Defence homepage](#)

FACTS ABOUT

e-Estonia

(freedom on the net)

e-banking

The dramatic progress made by Estonia in its evolution as an “e-country” started largely due to banking. In the beginning of the 1990s, modern banking systems allowed public and investors to manage funds in an electronic environment. The public embraced the new system, and today

99.6% of banking transactions are done electronically.

More info:

[Estonian Information System's Authority](#)



FACTS ABOUT

e-Estonia

(freedom on the net)

X-road and public e-services

- The state is more open and the public is served more efficiently
- Participation in civil society is greater
- Access to information is open and universal, participants are in mutual dependence

Soon after creating the first modern information system, the need for interactivity between information systems arose. In late 1990s, a project called X-Road was launched with the objective of creating a secure and standard environment for data exchange between information systems.

In 2000, a gateway often termed the “state portal” was launched and the first results in this field were produced in 2002. The objective was to create a central website where all public e- and m-services would be available. Today, individuals, companies and civil servants all have their interfaces. **Public e- and m-services of almost 200 organizations have been aggregated, and 68% of Internet users are familiar with the eesti.ee (August 2012).** In 2010, the state portal was visited 2.65 million times.

More info:

[Estonian Information System's Authority](#)

FACTS ABOUT

e-Estonia

(freedom on the net)

ID-card and mobile ID

In 2001 the first nationwide ID card was introduced - the primary identity document for Estonian citizens both in the real and digital world. **Today over 86% of citizens have ID cards.** It is also possible to affix a digital signature that is legally equal to a handwritten signature.

ID cards and a digital signature laid the foundation for the first nationwide elections via the Internet. E-elections allow voters to vote from anywhere with an Internet connection. In 2009, voters at the local elections and European Parliament elections went to the polls electronically. **Over 140,000 e-voters took part in the election of Estonian parliament in 2011.**

A mobile ID card offers an alternative to electronic functions of the smartcard version of the ID card. It was commissioned at the same time as the ID card in spring 2007. Mobile ID allows electronic services to be used in the situations where the ID card is not available. Today there are over **30,000 owners of Mobile ID** in Estonia, and about 80% of them use the service. (October 2012)

More information:

[Areas of using ID-card](#)

[ID Statistics](#)

FACTS ABOUT

e-Estonia

(freedom on the net)

m-parking

Estonia was the first country to move to a mobile phone-based parking system.



FACTS ABOUT

e-Estonia

(freedom on the net)

e-Tax Board

Estonia is notable for the extent to which tax returns are pre-filled. It takes only a few minutes to confirm a tax return.

In 2013, **95%** of people declared their income electronically.

More info: [Estonian Information System's Authority](#)



e-School

e-School (e-Kool) - a system of electronic communication between teacher, student and parent - also has proved worth in Estonian society. More than 80% of Estonian schools have joined the system and it covers 90% of students.

FACTS ABOUT

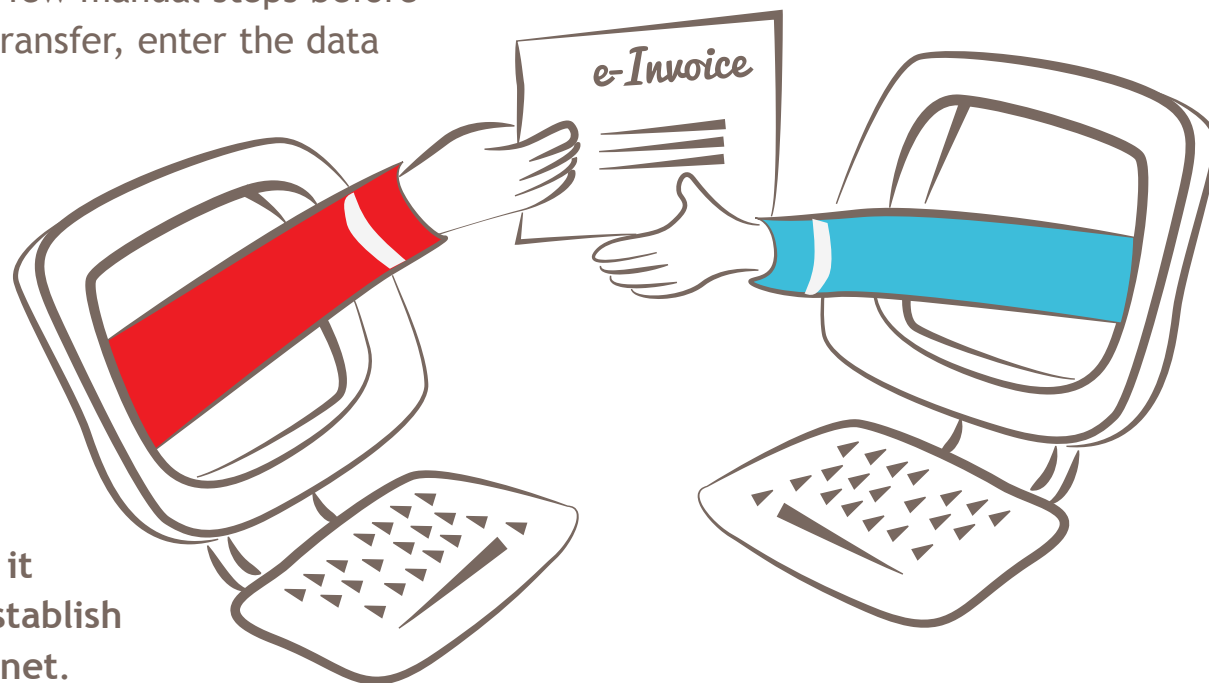
e-Estonia

(freedom on the net)

e-Invoice

e-Invoice (e-Arve) is an XML document that can be sent and used from beginning to the end of the cycle in electronic, machine-readable form. It should be distinguished from a PDF invoice, where a PDF recipient would still have to perform a few manual steps before they can use the information (effect bank transfer, enter the data into the accounting system).

More info: [Estonian Banking Association](#)



e-Commercial Register (Company Registration Portal)



Since the beginning of 2007, it takes only **15 minutes** to establish a company online the Internet. The company has legal status within a few hours and the operator can start business the same day.

More info: [Estonian Information System's Authority](#)

FOUNDING

a company

Forms of business in Estonia

Limited liability companies (LLCs)

As elsewhere in the world, limited liability means that the business owner does not have full liability for the financial insufficiency in a company. LLCs in Estonia have a minimum start-up capital (share capital) contributed at the time of foundation, and this is the extent of the owner's liability. An LLC can be founded by one or more people. The shareholders sign a foundation agreement (if there is only one founder, a signed and notarized foundation resolution substitutes for the latter). Founders may be either individuals

Public limited company (Estonian: aktsiaselts, AS)

A company that has its share capital divided into shares. Public limited companies are required to register their shares with the Central Register of Securities. The general meeting of shareholders is the public limited company's supreme management body

European Company (abbreviated SE, in Latin: Societas Europaea)

An SE is a type of public limited company under European Union law, established for use by companies operating in several EU Member States. The legal rules on SEs can be found in Council Regulation 2157/2001/EC on the statute for a European Company. As of 1 January 2014, the Estonian Commercial Register listed seven SEs, of which one was in the processing industry, one was in construction, and five operated in the financial and insurance services sector.

FOUNDING

a company

Forms of business in Estonia

Private limited company (osaühing, OÜ)

A company that has its capital divided into shares held by partners. Each partner can hold one share. If a partner acquires an additional share, the nominal value of the original one increases. Registration of shares with the Central Register of Securities is optional for an OÜ.

As of 1 January 2011, a private limited company may be established without making a contribution to share capital, if the company's future area of activity does not require capital to be placed. The share capital of such a company is comprised of claims against the shareholders, whose liability for the contributions not actually made by them is equal to the amount they pledge to contribute.

There is an average of one OÜ for every 5 inhabitants of working age.

Forms of business	Number of registered companies at Commercial Register (as of 1 January 2014)
Public limited company	3,851
Private limited company	135,681
General partnership	2,625
Limited partnership	2,128
Commercial association	1,676
Foreign company	516
Sole proprietor (FIE)	32,315
European company	7
European Economic Interest Grouping	3
Total	178,802

2012	
Work force including men and women (15-74)	695,000

Source: Statistics Estonia (as of 4 February 2014)

FOUNDING

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Forms of business in Estonia

Commercial association (tulundusühistu)

A commercial association is an LLC aimed at supporting and promoting the economic interests of its members through common economic activity. Members take part in the association as consumers or suppliers, by contributing labour, using services, or some other similar fashion. A commercial association is bound by a minimum capital requirement of 2,500 euros and there must be at least five founders.

Unlimited companies

Unlimited liability means that the owner(s) (with the exception of a limited partner in the case of a limited partnership) have, jointly and severally, full liability for the obligations taken by the company. Partners in such companies may be either individuals or legal persons.

Limited partnership (usaldusühing, UÜ)

A company in which two or more people operate under a common business name and at least one of them (general partner) has unlimited liability for the partnership's obligations; and at least one is a limited partner who has limited liability in the extent of their contribution. The limited partner is not entitled to manage the partnership unless the articles of association state otherwise, but can take part in making shareholder decisions in the same capacity as the general partner.

FOUNDING

a company

Forms of business in Estonia

General partnership (täisühing, TÜ)

A general partnership must have at least two partners who act under a common business name and, jointly and severally, have unlimited liability for the company's obligations. A general partnership operates on the basis of an association agreement entered into between the partners.

European Economic Interest Grouping

The purpose of the European [Economic Interest Grouping \(EEIG\)](#) is to facilitate or develop the economic activities of its members by a pooling of resources, activities or skills. This will produce better results than the members acting alone. It is not intended that the grouping should make profits for itself. If it does make any profits, they will be apportioned among the members and taxed accordingly. Its activities must be related to the economic activities of its members, but cannot replace them. An EEIG can be formed by companies, firms and other legal entities governed by public or private law which have been formed in accordance with the law of a Member State and which have their registered office in the European Union (EU). It can also be formed by individuals carrying on an industrial, commercial, craft or agricultural activity or providing professional or other services in the EU. An EEIG must have at least two members from different Member States.

FOUNDING

a company

Forms of business in Estonia

Branch of a foreign company

If a foreign company wants to offer goods or services in Estonia on a permanent basis, it must register a branch with the Commercial Register. A branch is not a legal person. That means the company is liable for the obligations arising from the branch's activity. The branch of a foreign company is registered in the Commercial Register on the basis of request by the branch director. The foreign branch must maintain separate accounting.

Sole proprietor (FIE)

Any individual may be a sole proprietor, but before beginning operations, he or she must first apply for registration with the Commercial Register. A FIE has unlimited liability for financial obligations. This is a common form of enterprise among individuals who do smaller amounts of business.

FOUNDING

a company

Forms of business in Estonia

	Private limited company (OÜ)	Public limited company (AS)	Branch of a foreign company
Minimum start-up capital	2,500 euros The contribution may be monetary or non-monetary.	25,000 euros The contribution may be monetary or non-monetary.	N/A
Financial liability	Shareholders are not personally liable for the company's obligations (beyond their own contribution) but the company itself has unlimited liability.	Shareholders are not personally liable for the company's obligations (beyond the shares they themselves hold) but the company itself has unlimited liability.	The foreign company is liable for the obligations arising from the branch's activity.
Management board	The management board may consist of one member (director, CEO) or more members. A management board member does not have to be a shareholder. A management board member may not also be a supervisory board member.		The foreign company must appoint director(s) for the branch.
Supervisory board	The OÜ must have a supervisory board, if the articles of association so specify.	The supervisory board shall have at least three members. A supervisory board member does not have to be a shareholder. Members of the supervisory board may under no circumstance be members of the management board, the procurator or any other person authorized to act on behalf of the public limited company.	Not required

FOUNDING

a company

Forms of business in Estonia

	Private limited company (OÜ)	Public limited company (AS)	Branch of a foreign company
Legal reserve	The legal reserve may not be less than 1/10 of the share capital, if a legal reserve is required in the articles of association. At least 1/20 of the net profit must be transferred to the reserve capital each financial year. Upon reaching the appointed size, the reserve fund shall cease to be increased from net profit.	The size of the legal reserve is specified in the articles of association and it may not be less than 1/10 of the share capital. At least 1/20 of the net profit must be transferred to the reserve capital each financial year. Upon reaching the appointed size, the reserve fund shall cease to be increased from net profit.	Not required
Annual report	An annual report approved by the shareholders must be filed with the Commercial Register.	An annual report approved by the general meeting must be filed with the Commercial Register.	An annual report approved by the general meeting must be filed with the Commercial Register.

FOUNDING a company

Steps in founding a company

[Additional information on founding a company »](#)



FOUNDING

a company

Steps in founding a company

[Decide on the form of business »](#)

Specify the principal areas of activity

In selecting the company's area of activity, you must pick from the areas of activity listed in the Estonian Classification of Areas of Economic Activity (Estonian abbreviation: EMTAK) and report the area of activity to the Commercial Register.

Choose a distinct business name

Choose a business name that is in conformity with the company's area of activity and form of business and which can be distinguished from competitors. The court that maintains the register makes the final decision on the distinguishability and suitability of the business name. A name's availability can be checked through the [Commercial Register information system](#).

Additional information:

[Riigiteataja](#)

[Estonian Central Register of Securities](#)

[Gateway to eEstonia](#)

FOUNDING

a company

Steps in founding a company

Consider registering trademarks

Every company has the right to register trademarks to their name. The most important is that the trademark should be different and distinct from trademarks in other fields and thus it is advisable to check whether protection has not already been filed for the trademarks. This can be done in the [Patent Office's electronic database](#).



Estonian company registration portal is the fastest in the world

There are two options for registering a company in the Commercial Register: Electronic registration in the [e-Commercial Register site](#) (approx. 15 minutes to one day) or through a notary public (2-3 days).

The Company Registration Portal can be used to register private limited companies, general partnerships and limited partnerships and establish a FIE. To register a company electronically, the two following conditions must be met: the contribution of basic capital is monetary and you pay the share capital as well as the state fee electronically via the Company Registration Portal; and all of the persons related to the foundation can digitally sign the foundation documents.

Unlike other forms, the commercial association and public limited company can be founded only at a notary. The company must be founded at a notary in the following cases: the contribution of the company's share capital is not monetary but rather a monetarily appraisable thing or proprietary right to be transferred to the private limited company and/or the founders cannot sign the foundation documents digitally. The contribution of share capital must be paid along with the state fee, and then, the following documents are to be submitted to the Commercial Register: foundation agreement, articles of association, application, telecommunication numbers, bank document certifying that the contribution of capital has been made and certificate regarding payment of state fees.

[Fastest Time To Register A Private Limited Company Via The Internet »](#)



FOUNDING a company

Steps in founding a company



Consider registering trademarks

Every company has the right to register trademarks to their name. The most important is that the trademark should be different and distinct from trademarks in other fields and thus it is advisable to check whether protection has not already been filed for the trademarks. This can be done in the Patent Office's electronic database.

Find out about how the domain name can be used and register a domain

Registering a domain name is an optional step and should be done if your company plans to have a website.



Consider registering as a VAT taxpayer straight away

If the taxable annual turnover of your company exceeds 16,000 euros (not including turnover from transfer of fixed assets and supply taxable at 0% VAT rate), you are required to register the company with the Tax and Customs Board as a VAT payer (file the application within three business days). Even if supply is taxable at 0%, sales within the EU and provision of service to taxpayers in other Member States is counted toward the registration obligation.

Even if turnover is lower, it can still be beneficial to register a company as a VAT taxpayer if the company buys costly PPE or raw materials for producing goods or providing services: registration allows the company, on certain conditions, to get back from the state the input VAT paid on goods and services it buys.

[Estonian Tax and Customs Board](#)

FOUNDING

a company

Steps in founding a company

A graphic consisting of three red footprints of varying sizes and orientations, arranged in a path from the left side of the slide towards the right. Each footprint has a white stripe across the middle.

Register employees with the Estonian Tax and Customs Board

Employers are required to register all employees before starting work. Data can be filed in four different ways: using entering information or uploading special file to e-Tax Board/e-Customs, via X-road, via telephone or SMS.

[Estonian Tax and Customs Board](#)

AREAS OF ACTIVITY THAT REQUIRE AN *activity licence*

[Licences and Registrations »](#)



Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2008

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2008	6.49%	6.58%	7.46%	6.38%	6.7%	6.2%
02.2008	6.23%	6.68%	6.94%	6.03%	6.13%	5.67%
03.2008	6.31%	6.69%	6.92%	6.79%	6.18%	6.08%
04.2008	6.36%	6.24%	6.47%	7.83%	6.27%	6.3%
05.2008	6.25%	6.21%	6.47%	6.8%	5.94%	6.41%
06.2008	6.68%	7.19%	7.49%	7.23%	7.03%	6.11%
07.2008	6.81%	7.46%	6.75%	7.14%	6.65%	6.87%
08.2008	6.61%	7.31%	8.39%	6.46%	6.35%	7.08%
09.2008	6.92%	7.45%	7.18%	6.82%	6.87%	7.12%
10.2008	7.34%	7.37%	7.3%	7.4%	7.36%	7.44%
11.2008	6.18%	7.16%	6.25%	7.23%	6.41%	6.52%
12.2008	6.49%	7.34%	6.79%	6.4%	6.85%	6.13%

Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2009

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2009	6.17%	6.81%	7.63%	6.08%	6.44%	5.66%
02.2009	5.8%	5.43%	6.99%	5.56%	6.09%	5.57%
03.2009	5.72%	6.33%	6.62%	5.38%	6.26%	5.62%
04.2009	5.49%	5.75%	5.95%	6.11%	5.25%	4.8%
05.2009	5.3%	6.17%	6.46%	5.32%	5.34%	5.75%
06.2009	5.01%	7.52%	6.17%	5.26%	4.93%	4.45%
07.2009	5.19%	6.62%	4.69%	4.99%	4.71%	5.56%
08.2009	3.98%	4.73%	5.39%	5.41%	4.34%	2.42%
09.2009	4.32%	6.36%	5.9%	5.48%	4.27%	5.22%
10.2009	4.5%	5.53%	6.25%	4.43%	4.07%	4.32%
11.2009	4.37%	7.36%	6.31%	5.29%	4.5%	4.04%
12.2009	3.93%	4.9%	3.05%	5.49%	3.77%	3.45%

Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2010

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2010	4.61%	5.29%	5.48%	4.59%	5.32%	6.12%
02.2010	4.77%	4.77%	4.37%	4.92%	2.83%	5%
03.2010	4.93%	4.69%	5.16%	5.57%	4.44%	5.51%
04.2010	3.77%	5.81%	5.2%	3.98%	2.6%	3.29%
05.2010	4.22%	6.01%	4.94%	4.13%	3.05%	4.07%
06.2010	4.34%	4.62%	5.11%	4.08%	4.11%	4.24%
07.2010	4.26%	5.44%	6%	4.67%	4.22%	4.28%
08.2010	4.67%	4.57%	5.47%	5.01%	4.82%	4.33%
09.2010	4.24%	5.44%	6.32%	4.5%	3.27%	4.05%
10.2010	4.53%	4.15%	6.71%	5.48%	4.26%	3.96%
11.2010	5.4%	5.56%	5.33%	5.83%	4.79%	5.6%
12.2010	4.48%	5.22%	7.31%	3.57%	4.55%	5.28%

Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2011

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2011	4.67%	5.36%	5.5%	4.46%	4.84%	4.25%
02.2011	4.71%	4.44%	4.86%	5.46%	5.08%	5.44%
03.2011	4.53%	4.64%	5.4%	5.03%	4.5%	3.77%
04.2011	4.99%	4.65%	5.37%	4.92%	4.6%	5.74%
05.2011	4.19%	4.53%	5.33%	4.44%	3.6%	4.97%
06.2011	4%	3.81%	5.5%	4.65%	4.6%	4.18%
07.2011	4.7%	4.15%	5.24%	4.91%	4.02%	5.38%
08.2011	4.09%	4.83%	6.8%	4.2%	4.66%	3.72%
09.2011	4.14%	4.9%	5.26%	4.67%	3.66%	4.18%
10.2011	4.29%	4.63%	4.65%	3.93%	4.23%	4.43%
11.2011	4.48%	5.04%	4.35%	4.9%	4.39%	4.34%
12.2011	4.35%	4.38%	5.04%	4.61%	4.38%	3.73%

Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2012

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2012	3.76%	4.12%	5.02%	3.46%	3.97%	3.86%
02.2012	4.53%	4.58%	5.3%	4.28%	4.35%	4.57%
03.2012	4.17%	4.63%	4.65%	3.62%	3.98%	4.1%
04.2012	3.79%	3.98%	3.72%	3.79%	3.57%	3.99%
05.2012	3.69%	3.35%	5.13%	3.44%	3.49%	3.98%
06.2012	3.95%	3.46%	4.69%	3.93%	4.93%	3.99%
07.2012	3.45%	3.74%	4.43%	4.81%	2.87%	3.19%
08.2012	3.53%	4.16%	4.6%	3.7%	3.75%	2.55%
09.2012	3.23%	3.31%	4.42%	2.97%	3.19%	2.61%
10.2012	3.21%	3.44%	2.82%	3.89%	3.02%	3.48%
11.2012	3.11%	3.76%	3.93%	4.03%	2.87%	2.91%
12.2012	3.21%	3.25%	4.24%	4.05%	3.34%	3.28%

Financing

Interest rates of loans granted to non-financial corporations by borrower's main economic

EUR

2013

	Total	Agriculture, forestry and fishing	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Real estate activities	Manufacturing
01.2013	3.08%	3.21%	3.47%	3.02%	2.89%	3.45%
02.2013	3.09%	3.35%	4.39%	3.43%	2.75%	3.49%
03.2013	3.1%	3.69%	4.28%	2.77%	2.8%	2.97%
04.2013	3.22%	3.41%	3.92%	3.08%	3.14%	2.95%
05.2013	3.32%	3.06%	3.69%	2.83%	3.24%	3.06%
06.2013	2.98%	3.03%	3.51%	3.07%	2.38%	3.39%
07.2013	3%	3.02%	4.18%	3.27%	2.65%	2.86%
08.2013	2.89%	3.17%	3.79%	2.93%	2.73%	2.93%
09.2013	3.04%	3.25%	4.08%	3.14%	2.75%	3.35%
10.2013	3.28%	2.98%	4.02%	2.93%	3.25%	2.44%
11.2013	3.27%	3.59%	4.3%	3.16%	2.9%	3.65%
12.2013	3.12%	2.68%	3.58%	2.81%	3.01%	3.34%

Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies

Baltic Innovation Fund

The Baltic Innovation Fund offers capital investments into rapidly developing companies with high growth potential. The BIF is a fund of funds established by Estonia, Latvia, and Lithuania and the European Investment Fund (EIF), designed to increase capital investments into Baltic enterprises. EIF has a stake of 40 million euros in the fund, plus 20 million euros from the state agencies in the Baltics - [Estonia's KredEx](#), Latvia's LGA and Lithuania's Invega.

Estonian Development Fund

[The Estonian Development Fund](#) invests in innovative, ambitious, high-potential Estonian enterprises. The goal of the Development Fund's investing activity is to contribute to such companies and the development of the venture capital market in Estonia.



Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies

Estonian Association of Small and Medium Enterprises

[EVEA](#) is Estonia's only organization representing SMEs and is aimed at representing and defending the interests of SMEs and strengthening the competitiveness of its members. EVEA has been in the service of Estonian companies since 1988.



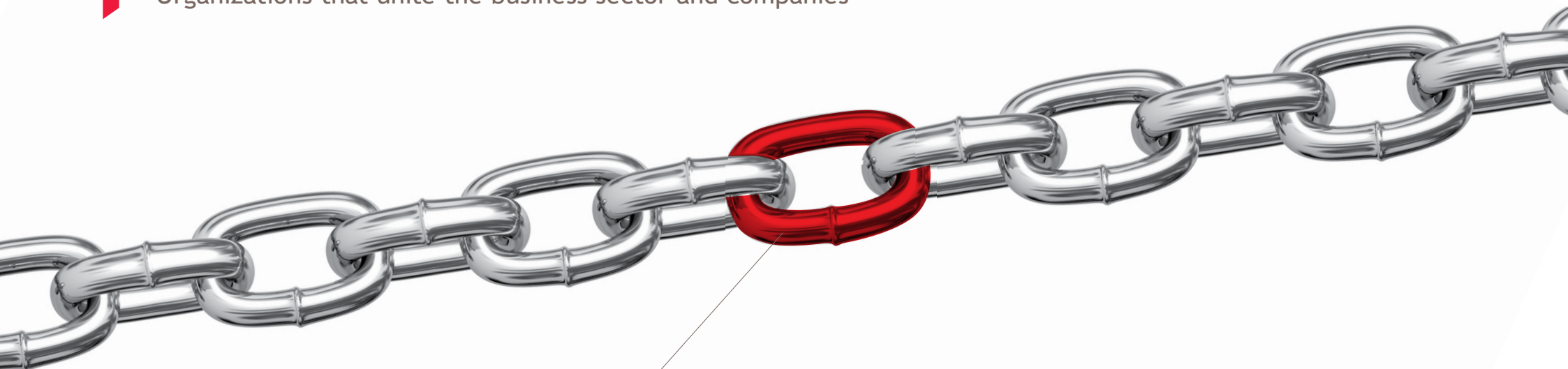
Estonian Private Equity and Venture Capital Association

Founded in spring 2009 in an initiative led by the Estonian Development Fund, the [Estonian Private Equity and Venture Capital Association \(EstVCA\)](#) is an umbrella organization uniting venture capitalists, private funds, business angels and providers of support services in the sector. The main goal of EstVCA is to develop the private equity and venture capital sector and to increase the culture of ambitious enterprise in Estonia.

Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies



Enterprise Estonia

[Enterprise Estonia](#), the state entrepreneurship agency, has launched a programme for developing high-potential, innovative enterprises, called Start-up Estonia. The goal is to develop the Estonian start-up ecosystem through supporting their development and use of business angel culture. It is funded by the European Regional Development Fund.

Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies

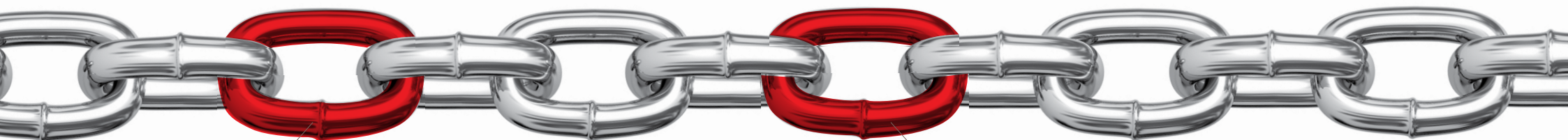
Estonian Chamber of Commerce and Industry

[The Chamber of Commerce and Industry](#) is Estonia's oldest and largest business community organization representing companies and organizations registered in Estonia. The Chamber of Commerce and Industry is a non-profit association under private law, and its members are companies and organizations registered in Estonia. The members of the Estonian Chamber of Commerce and Industry comprise nearly 3,200 companies operating in Estonia, which generate 41% of the net turnover and 42% of net profit of all Estonian companies combined (*Krediidiinfo data for FY 2010*). The aim of the Chamber of Commerce and Industry is to promote Estonian enterprise and to contribute to and maintain an entrepreneur-friendly economic environment.

Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies



KredEx

[KredEx](#) helps to improve financing options for Estonian companies, hedges credit risks and allows people to build or renovate a home.

Estonian Taxpayers Association

[The Estonian Taxpayers Association \(ETA\)](#) protects interests of all taxpayers and provides advice and education. The organization is a watchdog keeping tax laws fair and understandable, the tax burden optimal, ensuring that the actions of tax administrators are just and professional, and that taxpayers' money is used in accordance with its aim. The Estonian Taxpayers Association has more than 2,400 members.

Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies

German-Baltic Chamber of Commerce

[The German-Baltic Chamber of Commerce](#) in Estonia, Latvia and Lithuania has been contributing to development of German-Baltic economic ties for over 19 years - in the early years as a German economic agency and delegation and later as a chamber of commerce.

The chamber is represented in all three Baltic states. The German-Baltic Chamber of Commerce is the first contact for companies that wish to find and establish business contacts in the Baltics and Germany.



Start-up

VENTURE CAPITAL IN ESTONIA

Organizations that unite the business sector and companies

Estonian Service Industry Association

[The Estonian Service Industry Association](#) is a voluntary professional membership organisation representing more than 130 service industry companies. ESIA's purpose is to drive and support the development of information, creative and professional services sector, emphasize the importance of highly competitive higher education system and improve the local business environment to attract foreign capital.

Estonian Employers' Confederation

[The Estonian Employers' Confederation](#) represents the largest number of employers among local employers' organisations and covers all economic sectors of Estonia. Within the European social model, the Confederation represents the joint interests of all economic sectors at both state and international levels and in dealings with state authorities and employee organisations.

The aim of the Confederation is to represent its members' interests in communications with legislative and executive powers and employee organisations, as well as to represent its member organisations at international, state and regional levels.



LABOUR MARKET RULES & social security

Employment contracts

Throughout the period of employment, the employee works individually and receives a monthly fee for the whole working period. Employment contract is regulated mainly by the [Employment Contracts Act](#) and the Law of Obligations Act, but also by other regulations. For example, a motor vehicle driver's work and rest time are regulated by the Road Traffic Act and aboard ships, crew members' working time is governed by the Seafarers Act.



Employer's responsibilities

An employer's primary responsibility in labour relations is to provide employees with the specified work and pay wages in exchange for it, while an employee's primary responsibility is to perform work for the employer, while the employee is under the employer's management and control.

LABOUR MARKET RULES & social security

Employment relationships over 2 weeks in duration require a written employment contract.

The employment contract is generally concluded in writing and contains certain mandatory terms, such as information about the parties, the employee's job title, the nature of assignments, working time, length of annual vacation, work location, wage condition.

Oral employment contracts

An oral employment contract may be entered into only for employment for a term of less than two weeks.

Terms of employment contracts

Usually employment contracts are entered into for an unspecified period. With the agreement of both parties, such contracts can be entered into for a specified period (but no longer than five years). However, the employer must be able to justify the temporary nature of the work (short-term increase in workload or seasonal work for example).

LABOUR MARKET RULES & social security

Probationary period. A period of up to 4 months may be specified.

An employment contract prescribes a probationary period in order to confirm that the employee has the necessary health, abilities, suitable social skills and professional skills to perform the work agreed on in the employment contract.

Every working relationship is subject to a 4-month probationary period, which could be shortened or skipped when agreed so between parties (in writing). If no such agreement exists, the 4-month probationary period is automatically implemented. In the case of an employment contract entered into for a specified period of up to 8 months, the probationary period cannot be longer than half of the duration of the contract. For example, in the case of a 6-month contract the probationary period cannot exceed 3 months.

Alternative contracts:



Basic principles

OF THE LAW OF OBLIGATIONS ACT IN REGARD TO ENTERING INTO CONTRACTS



One person undertakes to provide services to another person according to an agreement for remuneration if so agreed.



One person undertakes to manufacture or modify a thing or to achieve any other agreed result by providing a service (work) to the other person for remuneration if so agreed.



One person undertakes, in the interests of and for the benefit of another person, to negotiate or enter into contracts in the name and on account of another person independently and on a permanent basis for remuneration if so agreed.

All of the contracts are regulated by the [Law of Obligations Act \(Võlaõigusseadus\)](#). Compared to the employment contract these contracts do not give as much protection to the employee. However, the person has more freedom to organize their own time as they are not under management and control of the employer. Additional incentives could be agreed in writing as well.

[Find out more about employment income taxes](#)

WAGE, payslips

Payment of wages once a month

Wages are the amount of money employees are paid for doing work as agreed between employees and employers. Employers must pay their employees' wages at least once a month. If the pay day falls on a public holiday or day off, the wages must be paid on the preceding working day. Wages are paid as a net amount, with the employer deducting the employee's taxes from the agreed wages. Upon request the employer is obligated to provide the employee with information about the wages calculated and paid or payable to the employee (payslips).



WAGE, payslips

Average wage

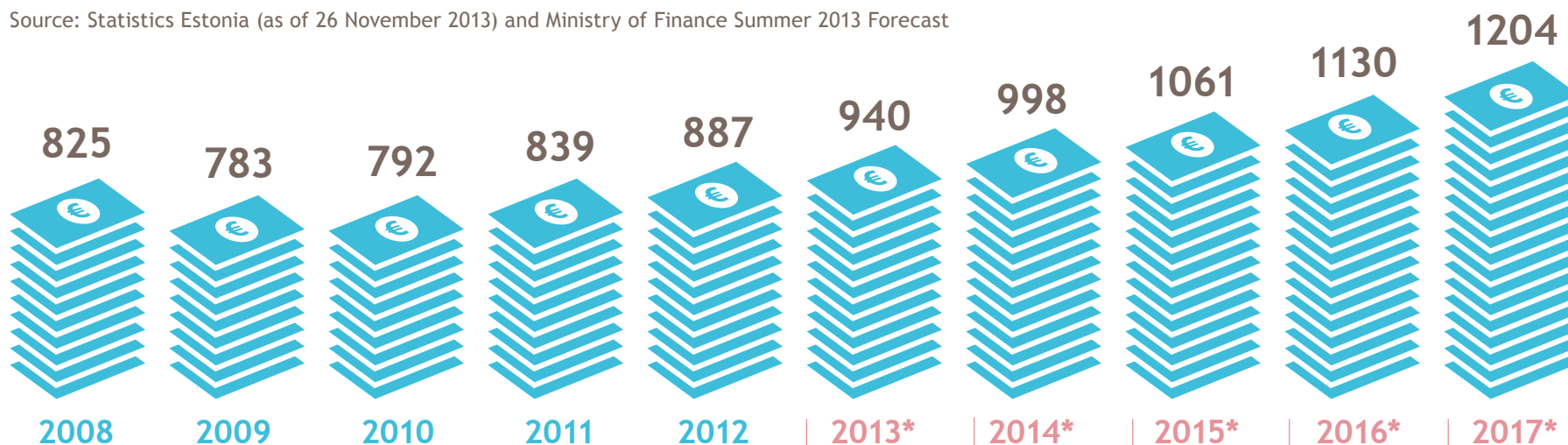
Varies according to sector. According to the Statistics Estonia the average wage is approximately 930 EUR (data: Q3 2013).

Minimum wage

Employees cannot be paid less than the minimum wage stipulated by the Government of the Republic. For 2014, the legally established minimum wage is 355 EUR (gross amount).

Average monthly gross wages and salaries (EUR)

Source: Statistics Estonia (as of 26 November 2013) and Ministry of Finance Summer 2013 Forecast



[Ministry of Finance Summer 2013 Forecast Summary](#)

Real growth in average wage	2.7	3.4	3.4	3.5	3.6
Nominal growth in average wage	6.0	6.2	6.3	6.5	6.5

* Labour Market Forecast 2013-2017 (15-74-year-olds) (%)

Taxes on workforce

See Section 6 for more about taxes on employers and employees.

WORKING TIME, public holidays, holidays

Working time

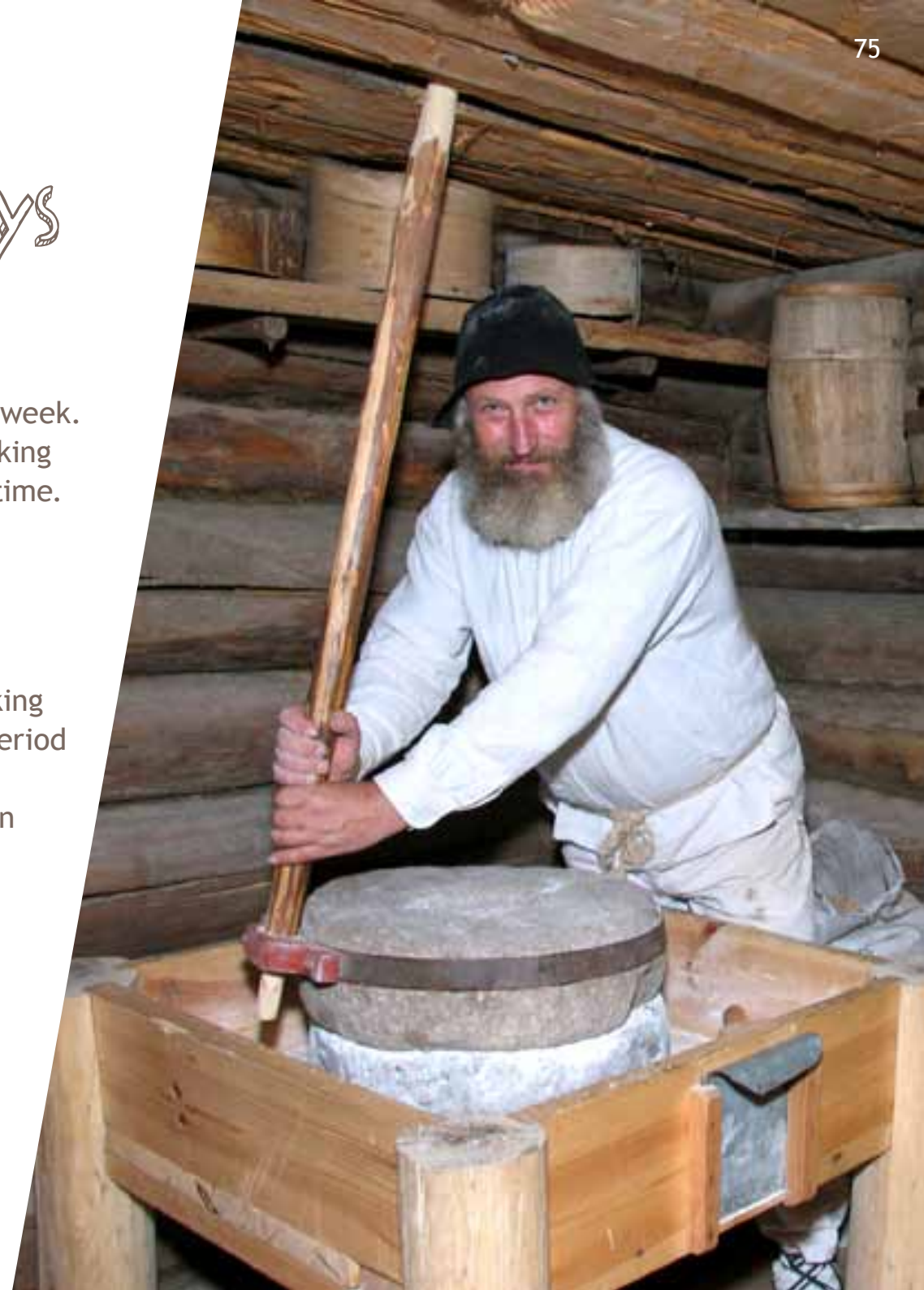
Full-time working time is 8 hours per day, 5 days per week. An employer and employee can agree on shorter working hours (part-time work). Minors have shorter working time.

Overtime

Overtime is usually permitted by agreement between the employer and employee. However, the total working time shall not exceed on average 48 hours within a period of seven days over a calculation period of up to four months, unless a different calculation period has been provided by law.

Night work

Between 10 pm and 6 am



WORKING TIME, public holidays, holidays

Public holidays / There are 12 of them.

There are twelve national and public holidays in Estonia with days off.

These are:

1 January - New Year's Day;

24 February - Independence Day; Good Friday; Easter Sunday;

1 May - May Day; Pentecost;

23 June - Victory Day;

24 June - Midsummer Day;

20 August - Re-Independence Day;

24 December - Christmas Eve;

25 December - Christmas Day;

26 December - Boxing Day.

Work on public holidays has to be compensated at a double rate.

[Compared to Latvia](#)

[Compared to Lithuania](#)

[Compared to Finland](#)

WORKING TIME, public holidays, holidays

Shortened work days

The working days before New Year's Day (1 January), the anniversary of the Republic of Estonia (24 February), Victory Day (23 June) and Christmas Eve (24 December) are three hours shorter.

Leave and holiday / Annual holiday is 28 days

The duration of an annual holiday shall be specified in an employment contract and it is presumed that an employees' annual holiday is 28 calendar days unless the employee and the employer have agreed on a longer annual holiday or unless otherwise provided by law (minors, pedagogical specialists, etc.). The annual holiday of an employee who works part-time shall be of the same duration as the annual holiday of a full-time employee. Employers shall pay employees holiday pay for annual holiday.

Additional holiday

According to the Employment Contracts Act there are also different additional holidays possible in specific circumstances: pregnancy and maternity leave, paternity leave, adoptive parent leave, child care leave, child leave, child leave without pay and study leave.

WORKING TIME, public holidays, holidays



Payment of wages for overtime

FREE TIME or 1.5 times the rate of employee normal wage

Payment of wages for night work

FREE TIME or 1.25 times the rate of employee normal wage

The parties may agree that the employee's wages will include a fee for working at night.

If the employee receives the minimum wage, it does not include a fee for working at night.

Payment of wages for work done on public holidays

FREE TIME or 2 times the rate of employee normal wage

TERMINATION OF employment contract



Employment Contracts Act

Bases for the termination of an employment contract are provided in the [Employment Contract Act](#).

Termination of employment contract by mutual agreement

An employment contract may be terminated upon agreement between the parties at any time.

Cancellation of employment contract on ordinary grounds The grounds for cancellation of employment contract are clearly defined.

An employee may ordinarily cancel an employment contract entered into for an unspecified term at any time. An employer may not cancel an employment contract ordinarily.

Term for advance notice

An employment contract may be cancelled during a probationary period by giving no less than 15 calendar days' advance notice thereof. An employee shall notify the employer of ordinary cancellation no less than 30 calendar days in advance. An employer shall give an employee advance notice of extraordinary cancellation if the employee's employment relationship with the employer has lasted:

- 1) less than one year of employment - no less than 15 calendar days;
- 2) one to five years of employment - no less than 30 calendar days;
- 3) five to ten years of employment - no less than 60 calendar days;
- 4) ten and more years of employment - no less than 90 calendar days

TERMINATION OF employment contract



Extraordinary cancellation of employment contract

An employer may extraordinarily cancel an employment contract if the continuance of the employment relationship on the agreed conditions becomes impossible due to a decrease in the work volume or reorganisation of work or other cessation of work (layoff for economic reasons).

More info:

[Employment Contracts Act \(§79, §85, §96-98, § 89 p.1, § 89 p.2, 100\)](#)

Layoffs

Layoff is also extraordinary cancellation of an employment contract:

- 1) upon cessation of the activities of employer;
- 2) upon declaration of bankruptcy of employer or termination of bankruptcy proceedings, without declaring bankruptcy, by abatement.

Upon cancellation of an employment contract due to layoff, an employer shall pay the employee compensation to the extent of one month's average wages of the employee and other compensations set by the law. (If needed by the employee, the employer should issue two certificates for the employee - employer's certificate for the insured person (tööandja lõend kindlustatule) and employer's application for redundancy benefit (tööandja avaldus koondamishüvitise saamiseks).)

TERMINATION OF employment contract

Labour Dispute Committee

The labour dispute committee is a pre-judicial, independent body that resolves individual labour disputes. Either the employer or employee can turn to the committee without the need to pay a state fee. The committee is empowered to resolve all disputes arising from employment relationships. When contacting the committee, it should be considered that the committee resolves monetary claims up to 10,000 euros. Courts are empowered to resolve disputes involving more than that sum.



Unions

[The Estonian Trade Union Confederation \(EAKL\)](#) is comprised of 20 branch unions that represent

- ✓ state and municipal government officials,
- ✓ education workers,
- ✓ health care workers,
- ✓ transport workers (including road, railway, sea and air transport),
- ✓ industrial workers (including energy, light industry, food industry, timber and metal industry)
- ✓ and people employed in the service sector (postal, communication, trade, hotel and cleaning sector workers, etc.).

The EAKL operates to ensure that the principle of social justice is respected in society.

FOREIGN employees

Legislation on employment of foreigners - last update 2013/12

Estonia is taking steps to ease rules on hiring foreign nationals.

Free movement of labour

Citizens of the European Union, European Economic Area and the Swiss Confederation (hereafter referred to as citizens of the European Union) do not need a separate permit to work in Estonia. In order to obtain a residence permit they must register their place of residence with the appropriate local government agency within three months of arriving in Estonia. Temporary residence permits are issued for periods of up to five years.

[More info](#)

Work permits

All people who are not citizens of the European Union (hereafter referred to as foreigners) need a work permit to work in Estonia with the exception of:

- foreigners who have a long-term resident's permit;
- foreigners who have a residence permit for the purpose of employment;
- foreigners who applied for a residence permit prior to 12 July 1995 and who were issued with a residence permit;
- prisoners while in prison;
- members of locomotive crews;
- members of staff serving locomotives or trains;
- drivers transporting passengers or goods across the national border;
- foreigners who have a residence permit for the purpose of taking up residency with a family member who lives in Estonia permanently;
- foreigners who have a residence permit for the purpose of taking up residency with a spouse; and
- foreigners issued with a residence permit on the basis of an international agreement.

FOREIGN employees

Citizenship and Migration Board

Applications for work permits must generally be submitted to the regional departments of the [Citizenship and Migration Board](#).

Proof of residency

Residence permits for the purpose of employment are issued to foreigners for work with an employer registered in Estonia.

In certain cases foreigners may work in Estonia for short periods of time (up to 6 months) without a work permit. Such employment must still be registered with the Police and Border Guard Board.

Members of management and supervisory bodies

A foreigner may work in Estonia as a member of the management body of a legal entity registered in Estonia in order to fulfil management and supervision functions for up to six months in a year without a work permit or a residence permit and without being registered with the Police and Border Guard Board if they have a legal basis for residing in Estonia.

FOREIGN employees



Non-residents

Resident and non-resident concept and taxation:

A natural person is a resident if one of the following conditions is met:

- his or her place of residence is in Estonia;
- he or she stays in Estonia for at least 183 days over the course of a period of 12 consecutive calendar months. A person shall be deemed to be a resident as of the date of his or her arrival in Estonia;
- Estonian diplomats who are in foreign service are also Estonian residents.

If these are not met, a natural person is non-resident. [More info](#)

Taxation of non-residents

Non-residents have a limited tax liability in Estonia; their taxable income consists only of income from Estonian sources. Non-residents may not claim the same deductions and allowances as available to residents.

[Look for examples of tax calculations for wages of a resident and non-resident employee.](#)

MANAGEMENT BOARD MEMBERS

differences in labour relations

Management board member contracts

A number of conventional Employment Contracts Act provisions do not apply to management board members.

Management Board member agreement is a legal agreement regulated by the Law of Obligations Act (authorisation agreement). The authorisation agreement does not regulate annual holiday, but it is possible to add it in written if agreed.

Health insurance for management board members

There are also differences in the health insurance as for the member of the management it will start not until three months after registration and only then when the minimum rate of the social security tax is paid from the remuneration. According to that in 2014 the minimum remuneration for the member of the management should be at least 320 EUR in order to ensure the health insurance.

Unemployment insurance for management board members

From the remuneration of member of the management unemployment insurance taxes are not withheld (neither employer's nor employee's contribution).

Sickness benefit paid by employer,

REGISTRATION IN ESTONIAN HEALTH INSURANCE FUND

Social and health insurance

An insured person is a permanent resident of the Republic of Estonia or a person living in Estonia by virtue of a temporary residence permit or by the right of permanent residence, who pays the social tax for himself/herself or for whom the payer of social tax is required to pay social tax.

The payment of illness benefits is shared between state and employer.

Registration with the Health Insurance Fund

It is the employer's obligation to register new employee in health insurance database as soon as possible after concluding the contract. It is also the employer's obligation to send employees' sick-leave documents to the Health Insurance Fund. An employee who is entitled to health insurance must be registered with the portal eesti.ee. The portal can also be sent via electronic sick notes.

Sickness benefits

Sickness benefit:

In case of an illness, quarantine, household or traffic injury and complications and illnesses caused by traffic injuries, no sickness benefit is received for the first three days. For days 4 to 8, benefit is paid by the employer, starting from day 9, the Health Insurance Fund. The benefit rate is 70% of day wages, calculated by the employer based on the average wage in the last six months and by the Health Insurance Fund based on social tax payments made during the last calendar year.



Sickness benefit paid by employer,

REGISTRATION IN ESTONIAN HEALTH INSURANCE FUND

Other benefits

There are also different other sickness benefits which are paid directly by Health Insurance Fund.

[More info](#)

(Private insurance)

Health insurance ensures primary medical care, but health insurance policies from a private insurer can provide coverage for expenses related to unforeseen illness abroad, accident or other unanticipated circumstances, such as:

- emergency medical care and hospital expenses (state and private), medications
- expenses on transporting and repatriating patients
- lodging and living expenses for persons accompanying the insured
- in the case of a fatality, repatriation of the deceased to Estonia or funeral expenses abroad

Use of the Health Insurance Fund card in Europe

Those insured by the Estonian Health Insurance Fund who are temporarily staying in a European Union Member State receive the medical care they need on equal footing with insured persons who reside in that country. The need for medical care must have arisen at the time that the person was present on foreign soil. To receive medical care, you must present, at a health care institution, the European health insurance card or relevant certificate and an identity document.

BUSINESS

trip

Business trips

An employer may send an employee outside the place of performance of work prescribed by the employment contract in order to perform duties. An employee may not be sent on a business trip for longer than 30 consecutive calendar days, unless the employer and the employee have agreed on a longer term.

Special circumstances with regard to business trips

A pregnant woman and an employee raising a child under three years of age or a disabled child may be sent on a business trip only with his or her consent. An employee who is a minor may be sent on a business trip only with the prior consent of the minor and his or her legal representative.



BUSINESS

trip

Per diems

It is possible to send to the business trip and pay the tax free daily allowance to: employees (business trip), public servants (official travel), members of the supervisory and management board (official journey), creative persons (creative person posting), athletes, coaches, judges, etc. (sports assignments).

Per diems for domestic business trips

There is no option for paying tax-free daily allowances on business trips within Estonia.

Per diems for foreign business trips

The regulations on foreign business trips are flexible.

According to the law during the business trip outside Estonia, minimum daily allowance rate is 22.37 EUR. Maximum daily allowance rate is 32 EUR (tax-free, might be higher but then it is taxed as a fringe benefit). Daily allowance is paid when the destination of the job is at least 50 km from the settlement where the usual employment location is. The employer may reduce the rate of subsistence allowance of up to 70% when free meals are ensured during the business trip.

BUSINESS

trip

Special circumstances regarding payment of daily allowances

Tax-free daily allowance cannot be paid to self-employed persons and "employees" working with the contracts regulated by Law of Obligations Act (except the members of the management and supervisory board).



Accommodation expenses on business trips

No limit on accommodation expenses during business trips.

Other expenses on business trips

Other expenses related to business trips are tax-deductible if it can be substantiated that they were business expenses.

ACCOUNTING

Requirement to maintain accounting

All companies and branches of foreign companies operating in Estonia are subject to accounting requirements. The general principles of accounting are set out in the Estonian Accounting Act that provides legal bases and establishes requirements for organizing accounting and financial reporting pursuant to internationally recognized principles. The management board shall organize the accounting of the companies.



ACCOUNTING

Financial reporting obligations

At the end of each financial year, an accounting entity is required to prepare an annual report consisting of the financial statements (balance sheet, income statement, cash flow statement and statement of changes in owner's equity and notes on the accounts), the management report, the auditor's report (if an audit is required) and the profit distribution proposal or proposal on covering of loss for the financial year.

Commercial Register

Every company must prepare and submit an annual report to the Commercial Register.

Annual reports must be filed with the register even if the company had no transactions in the financial year. A penalty can be charged if an annual report is filed late.

Deadline for filing

The approved annual report must be submitted to the Commercial Register within six months of the end of the financial year.

ACCOUNTING

Reporting format

Unconsolidated annual reports prepared under Estonian GAAP are to be submitted electronically in XBRL format through [Company Registration Portal](#)

Other annual reports are to be submitted in pdf format. Since 2011, consolidated annual reports prepared under Estonian GAAP and annual reports prepared under IFRS can voluntarily be submitted in XBRL format.

The environment for submission of annual reports of the company registration portal of the Commercial Register enables persons to prepare reports according to forms provided by offering summarizing and controlling rules, to assign persons who can make entries, allows an auditor to create an electronic auditor's report, and all authorized persons to sign a digital report.

Entries in the Commercial Register are public.



ACCOUNTING

Reporting currency

The Annual financial statements shall be prepared using the currency officially applicable in Estonia.

Language of the annual report

Annual financial statements should be prepared in the Estonian language. However, the Accounting Act does not specifically limit the language in which everyday bookkeeping should be arranged.

Exceptions for branches of foreign companies

Branches of foreign companies need not prepare annual reports. Instead, an unattested copy of the audited and approved annual report of the company is submitted to the Commercial Register of the location of the branch no later than one month after approval of the annual report or seven months after the end of the financial year.

ACCOUNTING



Financial year

A company's financial year is 12 months long.

Financial years varying from the calendar year

A financial year generally coincides with the calendar year (1 January-31 December), but a company's articles of association may specify a different financial year.

Exceptions to financial year concerning foundation and dissolution

When a company is established, dissolved, or the beginning date of the financial year changed, the financial year may in these exceptional cases be shorter or longer than 12 months, but not longer than 18 months.

ACCOUNTING

Accounting principles

According to the Act, commercial undertakings may choose whether to prepare their annual financial statements according to Estonian Accounting Standards (Estonian GAAP) or IFRS. Listed companies, credit institutions and insurance companies are required to follow IFRS.

The Estonian Accounting Standards are issued by the Accounting Standards Board which acts under the supervision of the Ministry of Finance.

Estonian GAAP

Estonian GAAP effective from 2013 is based on IFRS for Small and Medium- sized Entities (IFRS for SMEs) with limited differences from IFRS for SMEs with regard to accounting policies as well as disclosure requirements.

Differences in accounting policies

Differences in accounting policies arise mainly due to the fact that in some areas Estonian GAAP allows a choice of accounting policy, one of the alternatives being the only policy accepted under IFRS for SMEs. In areas not specifically covered by Estonian GAAP, the treatment in IFRS for SMEs is recommended, but not mandatory. Each Estonian GAAP standard contains a brief comparison with the respective section of IFRS for SMEs. Translation of the guidelines is available [here](#)

ACCOUNTING

Accrual-based accounting

Accounting for Estonian companies is based on the accrual method. In the case of accrual method, economic transactions will have to be recognized as they accrue, regardless of whether funds have been received or paid.

Chart of accounts and accounting policies and procedures

There is no compulsory chart of accounts under the current legislation. Each entity has to prepare its internal chart of accounts.

An accounting entity is required to set up accounting policies and procedures establishing the charting of accounts as well as a description of the contents of the accounts and which regulate, among other things, the documentation and recording of business transactions, the flow and preservation of source documents, the maintenance of accounting journals and ledgers, the presenting of revenue and expenditure under income statement items, and the physical inventory of assets and liabilities.

In addition, it regulates the accounting policy and presentation format used by the accounting entity, the procedure for preparing financial statements, the usage of accounting software, and the circumstances relating to the organization of accounting and the implementation of related internal audit measures.

ACCOUNTING

Source documents

All economic transactions must be documented.

The Accounting Act sets a number of formal requirements to accounting source documents.

Options for issuing invoices

Invoices may be divided into four types:



a **paper invoice** handed over or sent by post by the seller to the buyer;



e-mailed invoice (as an email attachment, e.g. a document in .pdf format, with or without a digital signature);



an invoice exchanged by systems (e.g. a document in .xml format based on the standard of Estonian e-invoice).



An e-invoice is thus one of the possible forms of invoices. An e-invoice is an electronic document, which is created, transmitted, recorded and stored in an electronic environment, i.e. a document which is handled electronically from the beginning till the end. Requirements for the content of the invoice are independent from the form of the invoice, i.e. requirements for paper invoices also apply to electronic invoices.

ACCOUNTING

Consolidated financial statements

Accounting will become simpler for most companies in EU in the light of EU directive

Consolidated group parent companies have the responsibility to prepare consolidated financial statements.

The reports of the consolidation group's parent company are filed as notes to the consolidated financial statements.

Thus consolidation means joining of the financial statements of different accounting entities in order to provide a united annual report as if companies in question were one single entity.

Consolidation group

Estonian legislation defines consolidating entity as a parent undertaking or any other accounting entity exercising dominant influence over another accounting entity (consolidated entity).

Following are examples of often occurring dominant influence:

- A holding of more than 50% of the voting rights belonging to the consolidated entity;
- A right arising from law or a contract to appoint or remove a majority of the members of the management or the highest supervisory body (usually on account rights of general meeting or a founder).

ACCOUNTING

Differences in the consolidation obligation

The accounting of consolidation groups generally follows the traditional accounting lead as the provisions of the legislation have only a few minor differences. Yet what should be mentioned are situations where consolidating entities are not required to prepare an annual report of the consolidation group:

- A company where at least 90% of the votes represented by shares belong to a consolidating entity which is registered in Estonia and has the obligation to prepare and disclose the audited annual report of the consolidation group;
- A company where at least 90% of the votes represented by shares belong to a consolidating entity which is registered in a Contracting State and has the obligation to prepare and disclose the audited annual report of the consolidation group under the law of its home state;
- A consolidating entity if at the balance sheet date of the accounting year, the entity does not exceed the limits of two of the three following consolidated criteria:
 - > Sales revenue or income 1,000,000 EUR;
 - > Total assets as of the balance sheet date 500,000 EUR;
 - > Average number of employees 15 people.
- A consolidating entity if the total amount of the balance sheet totals of each of the consolidated entities added together does not exceed 5% of the balance sheet total of the consolidating entity and if its net turnover does not exceed 5% of the net turnover of the consolidating entity.



AUDIT

Authorized Public Accountants Act

Auditing activities - including the work of the Board of Auditors - is regulated in Estonia by the Authorized Public Accountants Act.

Auditing standards

The professional and ethics requirements for auditors are set forth in the IFAC standards. Adherence to audit and professional ethics requirements is mandatory for all members of the Board of Auditors.



AUDIT

Audit obligation

Following is the list of important criteria for an accounting entity to be audited or reviewed:

	Revenue (or income)	Total assets	Average number of employees
Audit At least 2 indicators exceed	2.0 EUR m	1.0 EUR m	30
	6.0 EUR m	2.0 EUR m	90
Revenue At least 2 indicators exceed	1.0 EUR m	3.0 EUR m	15
	0.5 EUR m	1.5 EUR m	45

AUDIT



Certified public accountants

The Minister of Finance awards certification in the profession of Certified public accountants following a successful examination.

Audit firm

Certified public accountants can provide professional services only through an audit firm or as sole proprietor (FIE).

Register of auditors

The list of Certified public accountants and audit companies is available in the [register of auditors](#), the maintenance of which is organized by the Ministry of Finance.

Board of Auditors

[The Board of Auditors](#) is a professional and advocacy association for auditors in Estonia. All of the auditors operating as natural persons entered on the list of auditors are members of the Board of Auditors. There are currently 578 members. The Board of Auditors is managed by a seven-member board selected from among members of the Board of Auditors.

OBLIGATION TO RETAIN accounting documents

Obligation to retain documents

All accounting documents must be kept on file.



Method of retention

Accounting documents can be maintained either as hard copies or in electronic form. Must be in reproducible form

Place of retention

Not regulated

Retention period

- accounting source documents - for seven years from the end of the financial year during which the source document was recorded in the accounts;
- accounting ledgers, journals, contracts, financial statements, reports and other business documents which are necessary for reconstructing business transactions during audits - for seven years as of the end of the corresponding financial year;
- business documents relating to long-term rights or obligations - for seven years after the expiry of their term of validity;
- accounting rules and procedures - for seven years after the amendment or replacement thereof;
- accounting registers created electronically should be preserved electronically. The legibility of the data should be ensured within the preservation period.

TAX SYSTEM

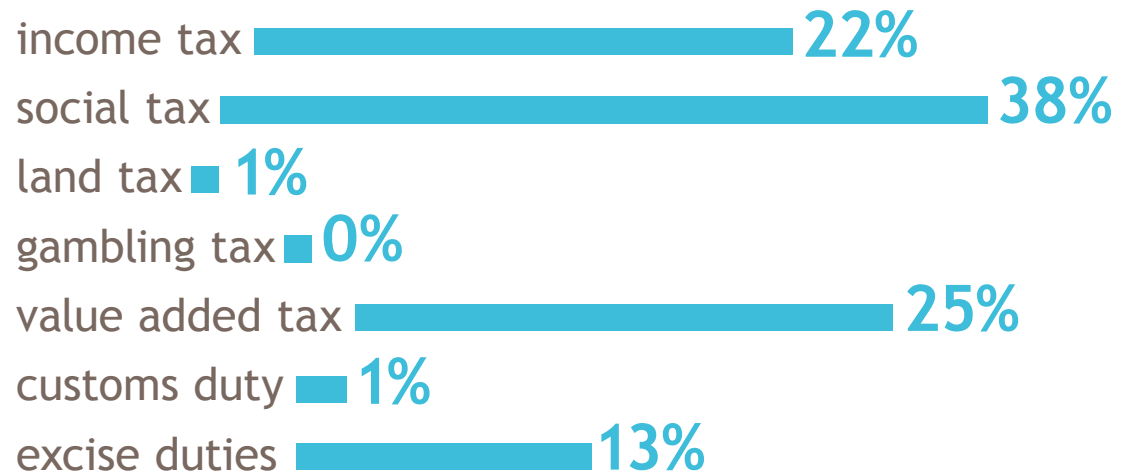
General information

The tax system in Estonia consists of state taxes provided for in and imposed by Acts concerning taxes and local taxes imposed by a rural municipality or city council in its administrative territory pursuant to law.

The following are the state taxes:

- 1) income tax
- 2) social tax
- 3) land tax
- 4) gambling tax
- 5) value added tax
- 6) customs duty
- 7) excise duties
- 8) heavy goods vehicle tax

State budget tax revenue 2013



TAX SYSTEM

Tax authorities

The tax authority for state taxes is the [Tax and Customs Board](#)



Tax authorities

The following are taxable persons:

- taxpayers
- withholding agents
- other persons responsible for the tax liability of a taxpayer or withholding agent pursuant to law or a contract

Registration requirement (non-exhaustive list)

The following persons are required to register themselves in the Tax and Customs Board prior to the commencement of activities:

- legal persons who are not to be entered in the commercial register, the non-profit associations and foundations register or the register of religious associations;
- non-resident legal persons, sole proprietors, associations of persons or pools of assets which are commencing economic activities in Estonia through a permanent establishment which is not entered in the commercial register as a branch.

The following persons are required to register themselves in the Tax and Customs Board within 10 days as of the date on which the tax liability arises in Estonia:

- non-resident employers, including sole proprietors, foreign missions, other foreign agencies, international organisations and their representatives if not earlier registered in the register of taxable persons
- partnerships, communities and other associations of persons not having the status of a legal person. activities in Estonia through a permanent establishment which is not entered in the commercial register as a branch.

TAX SYSTEM

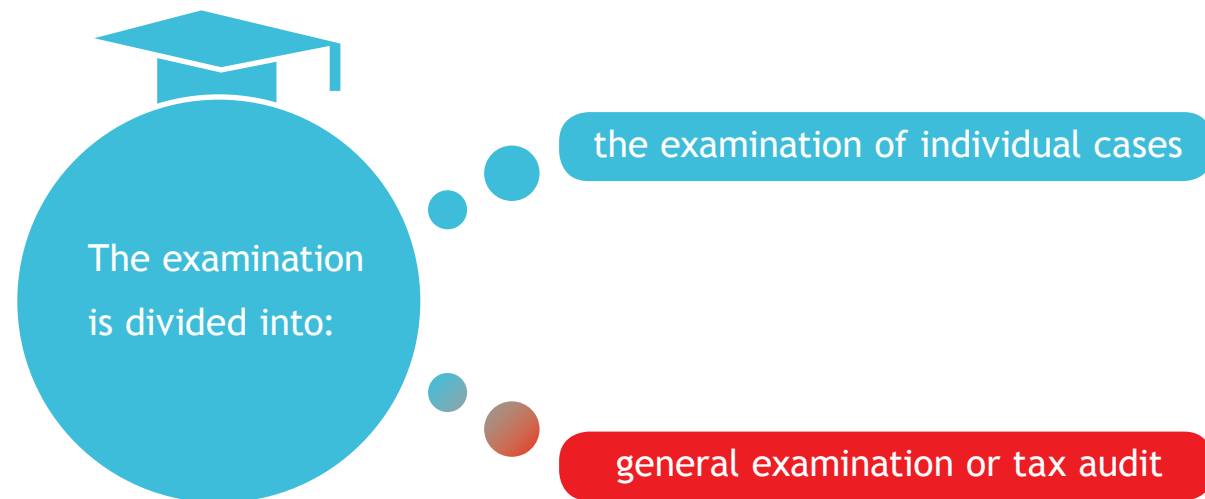
Liability of third party for tax liability of other person (non-exhaustive list)

A person who transfers an enterprise or a part thereof and the transferee are jointly liable for the payment of tax arrears pursuant to the provisions of the Law of Obligations Act.

If a legal representative, manager or administrator of assets violates the obligations specified in Taxation Act intentionally or due to gross negligence, the legal representative, manager or administrator of assets and the taxable person shall be jointly liable for the tax arrears incurred as a result thereof.

Tax examination

A tax authority has the right to examine any documents relating to the economic or professional activities of a taxable person or to the payment of taxes by a taxable person, and to take inventory or control measurements of goods, materials, other assets, work performed and services provided.



TAX SYSTEM

General anti-avoidance rule

If it is evident from the content of a transaction or act that the transaction or act is performed for the purposes of tax evasion, conditions that correspond to the actual economic content of the transaction or act apply upon taxation.

Binding preliminary decision (advance ruling)

By an advance ruling, the Tax and Customs Board provides, on the application of a taxable person, a binding assessment of taxation of an act or set of acts to be performed in the future.

The procedure does not apply to determination of the value of transactions concluded between the associated persons (transfer pricing). A tax authority shall make an advance ruling within 60 calendar days as of the date of receipt of an application. A state fee of 766.93 euros shall be paid for the review of an application for a binding preliminary decision.

Limitation period for making assessment of tax

The limitation period for making an assessment of tax is 3 years. In the event of intentional failure to pay or withhold a tax, the limitation period for making an assessment of tax is 5 years. A limitation period begins to run on the due date for the submission of the tax return which was not submitted or which contained information which caused the amount of tax to be calculated incorrectly.

TAX SYSTEM



Interest payable by taxable person and to taxable person

If a taxable person fails to pay tax by the due date or the tax authority has collected from a taxable person the amount of tax which exceeds the amount of tax due according to a law, the party at fault is required to calculate interest for the benefit of the other party at the rate of 0.06% per day.

Right to file challenge (extrajudicial)

If a taxable person finds that his rights have been violated by a tax notice or notice of assessment, the person has the right to demand the repeal or amendment of the administrative act. A challenge against an administrative act shall be filed within 30 days as of the date of notification of or delivery of the administrative act.

TAX SYSTEM

Legal punishments for tax evasion and for hindrance of activities of tax authority

Failure to submit information to a tax authority or submission of false information or violation of the obligation to withhold which results in the amount of tax payable being less than the amount of tax to be paid pursuant to a law or the amount to be refunded, compensated for or set off being greater than the amount to be refunded, compensated for or set off pursuant to a law (tax evasion)



is punishable

by a fine of up to 300 fine units (1 fine unit = 4 euros).

The same act, if committed by a legal person, is punishable by a fine of up to 13,000 euros.

Failure to submit a tax return, documents, things or other information by the due date, failure to register with a tax authority, submission of false information or knowing submission of incorrect documents to a tax authority, failure to comply with the requirements for the keeping of records, failure to comply with an order of a tax authority or obstruction of the activities of a tax authority in another manner



is punishable

by a fine of up to 300 fine units (1 fine unit = 4 euros).

The same act, if committed by a legal person, is punishable by a fine of up to 3,200 euros.

CORPORATE taxation

CIT (Distribution tax)	21% (21/79 on the net amount)	Date of submitting the return
Social security contributions	33%	10th day of the month following taxable distribution or payment
Unemployment insurance contributions	1%	
Value added tax	20% (9% reduced rate)	20th day of the following month
The base of minimum obligation of social security tax (2014)	320 euros	Per month
Minimum obligation of social security tax (2014)	105,6 euros	Per month

Tax rates from the homepage of [Tax and Customs Board](#)

CORPORATE taxation

General Information

Corporate profits are subject to income tax upon distribution, the most common form of which is dividend. Certain payments as fringe benefits, gifts, donations, costs of entertaining guests, expenses and payments not related to business are also identified as profit distributions for income tax purposes. Retained profits therefore enjoy deferred taxation which is considered most attractive tax incentive for companies to invest in Estonia.

Examples:

Price of fringe benefit (for example housing expenses): **800 euros**

Income tax: **212,66 euros** ($800 \times 21/79$)

Social tax: **334,18 euros** ($(800 + 212,66) \times 33\%$)

A total cost to employer: **1346,84 euros** = $800 + 212,66 + 334,18$

Price of a gift or a donation: **400 euros**

Income tax: **106,33** ($400 \times 21/79$)



CORPORATE taxation

Taxable persons

Resident legal persons and non-resident legal persons which have a permanent establishment in Estonia pay income tax on dividends and other profit distributions. In case of fringe benefits the list of taxable persons also comprises employers who are natural persons and non-residents operating as employers in Estonia.



Residence

A legal person is a resident if it is established pursuant to Estonian law. European public limited companies (SE) and European associations (SCE) whose seat is registered in Estonia are also residents.

Taxable income

Resident companies are taxable on their worldwide income. Given the way of how corporate profits are taxed the categorization of income is not important for income tax purposes.

CORPORATE taxation



Deductions

All certified expenses incurred by a taxpayer in relation to business during a period of taxation may be deducted from the taxpayer's business income. Expenses are related to business if they have been incurred for the purposes of deriving income from taxable business or are necessary or appropriate for maintaining or developing such business and the relationship of the expenses with business is clearly justified.

Income tax is not charged on business gifts, gifts and donations to specified non-profit associations and costs of entertaining guests not exceeding limits set by law.

Losses

There are no rules regulating of how losses can be carried forward because only distributed profits are subject to income tax.

Tax rate

Flat tax rate 21%. Given that income tax is imposed on net distributions tax rate of 21/79 is applied (net distribution is grossed up first and then subject to tax rate of 21%).

CORPORATE taxation

Withholding taxes

There are no withholding taxes on payments to resident companies. Tax treatment of payments to non-residents will be dealt with further in the publication.

Tax incentives

There are no other noteworthy tax incentives introduced in Estonia except deferred taxation of corporate profits.

Taxable period

Resident legal person and non-resident legal person which has a permanent establishment in Estonia are required to submit a tax return regarding the taxable distributions concerning the previous calendar month to the Tax and Customs Board by the 10th day of the calendar month following the period of taxation.

Payment of tax

A taxpayer is required to transfer the income tax to the bank account of the Tax and Customs Board not later than by the 10th day of the calendar month following the period of taxation.

Advance rulings

For an advance ruling, see section [Tax administration](#).

Group treatment

Neither consolidation for tax purposes nor group contributions between affiliated companies are allowed in Estonia.

CORPORATE taxation

Intra-group dividends

A resident company shall pay income tax on profit distributed as dividends or other profit distributions upon payment thereof in monetary or non-monetary form. Income tax is not charged on profit distributed by way of a bonus issue.

The income tax is not charged on dividends if:

1 the resident company paying the dividend has derived the dividend which is the basis for the payment from a resident company of a Contracting State or the Swiss Confederation subject to income tax (except for companies located within a low tax rate territory) and at least 10 per cent of such company's shares or votes belonged to the company at the time of deriving the dividend;

2 the dividend is paid out of profit attributed to a resident company's permanent establishment located in a Contracting State or Swiss Confederation;

3 the company paying the dividend has derived the dividend which is the basis for payment from a company of a foreign state not specified in clause (1) (except for a company located within a low tax rate territory) and at the time of deriving the dividend, the company owned at least 10 per cent of the shares or votes of such company, and income tax has been withheld from the dividend or income tax has been charged on the share of profit which is the basis thereof;

4 the dividend is paid out of the profit attributed to foreign permanent establishment of a resident company and income tax has been charged on such profit.

A resident company shall pay income tax on the portion of payments made from the equity upon reduction of the share capital or contributions, upon redemption or return of shares or contributions (hereinafter holding) or in other cases, and on the portion of the paid liquidation distributions which exceed the monetary and non-monetary contributions paid into the equity of the company.

CORPORATE taxation

Other taxes on income

No other corporate income taxes are levied.

Social security contributions

Social tax at the rate of 33% shall be paid:

1 on wages and other remuneration paid to employees in money;

2 on remuneration paid to members of the management or controlling bodies of legal persons;

3 on the business income of sole proprietors, after deductions relating to enterprise and permitted in the Income Tax Act have been made, but annually on an amount not more than 15 times the sum of the minimum monthly wages for the taxable period;

4 on remuneration paid to natural persons on the basis of contracts for services, authorisation agreements or contracts under the law of obligations entered into for the provision of other services unless the recipient is the sole proprietor and the income is the business income;

5 on fringe benefits within the meaning of the Income Tax Act, expressed in monetary terms, and on income tax payable on fringe benefits.

The upper ceiling of social tax is set only for sole proprietors.

Social tax shall be paid on the remuneration paid to employees for a particular month, but on an amount not less than 320 euros (the amount applies to the year 2014).

The taxable period for social tax is one calendar month.

The taxable period for social tax on the business income of a sole proprietor is one calendar year.

CORPORATE taxation




Unemployment insurance premium

An unemployment insurance premium shall be paid:

1) on wages, salaries and other remuneration paid to insured persons according to the rate of unemployment insurance premium established for the insured persons and employers. The rate of unemployment insurance premium for employers is 1%.

Following persons are excluded from the list of insured persons:

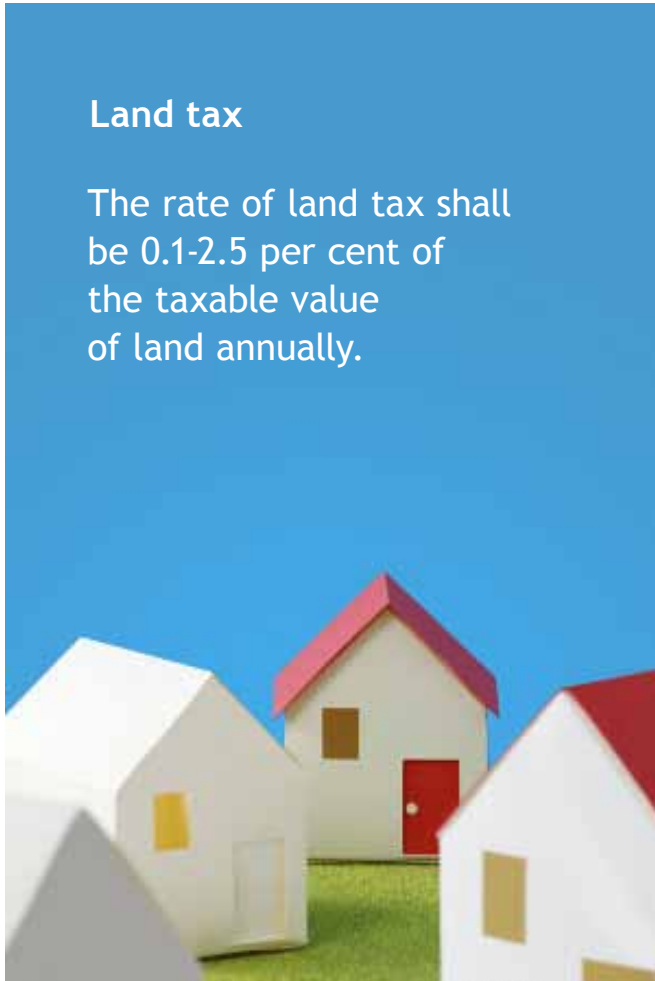
 a sole proprietor;

 a member of the management or controlling body of a legal person. The taxable period for unemployment insurance premium is one calendar month

CORPORATE taxation

Land tax

The rate of land tax shall be 0.1-2.5 per cent of the taxable value of land annually.



Unilateral double taxation relief

Relief from double taxation is ordinarily given in the form of a foreign tax credit. The income tax of a foreign state may be deducted only in the amount which it is mandatory to pay pursuant to the law of the state or an international agreement. Income tax paid in each state shall be recorded separately. Income tax paid in a foreign state on the income which is exempt in Estonia shall not be taken into account. No limitation period for carry-forward of unused tax credits has been set.

Tax treaty relief

Under most tax treaties concluded by Estonia, double taxation is eliminated by way of credit method. Sometimes different methods (exemption versus credit) are applied to different types of income.

CORPORATE taxation

Non-resident

A non-resident is a natural or legal person not considered resident (negative definition). A non-resident shall pay income tax only on income derived from Estonian sources (limited tax liability). Unless otherwise prescribed, the income of a non-resident legal person shall be declared and income tax shall be imposed, withheld and paid pursuant to the same conditions and procedure as in the case of a non-resident natural person. The income of foreign associations of persons or pools of assets without the status of a legal person is subject to taxation as the income of the shareholders or members of such association or pool in proportion to the sizes of their holdings.



CORPORATE taxation



Permanent establishment (definition by domestic law)

Permanent establishment means a business entity through which the permanent economic activity of a non-resident is carried out in Estonia. A permanent establishment is created as a result of economic activity which is geographically enclosed or has mobile nature, or as a result of economic activity conducted in Estonia through a representative authorised to enter into contracts on behalf of the non-resident.

When a non-resident carries on business in Estonia through a permanent establishment situated in Estonia, the income which the permanent establishment might be expected to derive if it were a distinct and separate taxpayer engaged in the same or similar activities under the same or similar conditions and dealing wholly independently of the non-resident of which it is a permanent establishment shall be attributed to the permanent establishment.

CORPORATE taxation



Estonian sourced income

Income tax is charged on business income derived by a non-resident in Estonia. If the non-resident is a legal person located in a low tax rate territory, income tax is charged on all income derived by the non-resident from the provision of services to Estonian residents, irrespective of where the services were provided or used.

Capital gains

Income tax is charged on gains derived by a non-resident from a transfer of property if:

the sold or exchanged immovable is located in Estonia,

or

the movable subject to entry in a register was in an Estonian register prior to the transfer,

or

the transferred real right or right of claim is related to an immovable or a structure as a movable, which is located in Estonia,

or

the transferred holding is a holding in a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or during a period within two years before transfer, more than 50 per cent was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10 per cent at the time of transfer.

CORPORATE taxation

Withholding taxes on payments to non-residents

Income tax is withheld from:

- ① interest payment subject to income tax paid to a non-resident in relation to his share in a contractual investment fund of whose property, at the time of the transfer or during a period within two years before transfer, more than 50 per cent was directly or indirectly made up of immovables or structures as movables located in Estonia and in which the non-resident had a holding of at least 10 per cent at the time of transfer;
- ② rent from a commercial or residential lease or payment for encumbering a thing with limited real rights paid to a non-resident;
- ③ royalties paid to a non-resident;
- ④ payments to a non-resident for services provided in Estonia;
- ⑤ payments to a legal person located in a low tax rate territory for services provided to an Estonian resident.

Be noted that withholding of tax at source ordinarily replaces the corporate income tax on income received by a non-resident. The deductions from income are not allowed and this is sometimes compensated by a lower withholding tax rate (e.g. 10%).

No withholding tax is imposed on dividends paid to non-residents.

CORPORATE taxation

General anti-avoidance rule

For a general anti-avoidance, see section Tax administration.

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 above transaction, income tax shall be imposed on the amount which the taxpayer would have received as income or the amount which the taxpayer would not have incurred as expenses if the transfer price had conformed to the market value of the transaction.

Deductibility of interest expenses

No thin capitalisation rules or other limitations on deductibility of interests have been introduced in Estonia. Only general transfer pricing principles are applied.

Controlled foreign companies (CFC)

Estonia has not introduced CFC rules for corporate taxpayers.

VAT

General information

Estonian VAT legislation in its current form became effective from 1 May 2004 when Estonia became a member of European Union.



VAT

Taxable persons

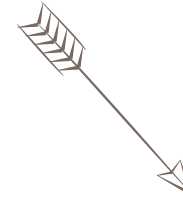
A taxable person is a person who is engaged in business and is registered or required to register as a taxable person. If the taxable supply of the transactions specified in Vat Act, except the transfer of fixed assets and distance selling to a person of Estonia, carried out by a person exceeds 16,000 euros as calculated from the beginning of a calendar year, an obligation to register as a taxable person arises for the person as of the date on which the supply reaches that amount.

Taxable transactions

The following shall be taken into account to determine whether the obligation to register as a taxable person has arisen:



supply (goods and services) effected in Estonia, except supply which is exempt from tax;



provision of certain services the place of supply of which is not Estonia, except supply exempt from tax, to a taxable person registered in another Member State or to a third country person engaged in business.



VAT

Transactions not deemed supplies

The transfer of an enterprise or a part thereof within the meaning of the Law of Obligations Act, handing over the assets of a company to another company upon the merger, division or transformation of the company and handing over, in business interests, goods as product samples not for sale or advertising gifts of low value (up to 10 euros).

Distance selling

If a taxable person of another Member State is engaged in distance selling to a person of Estonia (excluding distance selling of excise goods) and the taxable value of the supply of the distance selling exceeds 35,000 euros as calculated from the beginning of a calendar year, the registration obligation arises for the person as of the date on which the supply reaches the specified amount.

Registration procedure

A person is required to submit an application for registration as a taxable person to the tax authority within 3 working days as of the date on which the registration obligation arises. The tax authority shall register a person as a taxable person as on the date on which the registration obligation arose, within 3 working days as of the receipt of the application. A person may submit an application for registration even if the registration obligation has not yet arisen.

VAT

Taxable amount (general rule)

The taxable value of supply or the taxable value of the intra-Community acquisition of goods and services received is comprised of the sales price of the goods or services and anything else which is deemed to be fee that the transferor of the goods or the provider of the services receives from the purchaser of the goods, the recipient of the services or a third party for the goods or services.



VAT

Exemptions (without a right of deduction)

VAT is not imposed on certain goods and services of social nature. Other VAT exempt goods and services include insurance services, leasing or letting of immovables, sale of immovables or parts thereof before their first use, securities and financial services.

Optional taxation

A taxable person has an option to add VAT to the taxable value of certain goods and services if the person has notified tax authorities thereof in writing before the supply is effected. The option is mainly exercised in respect of leasing or letting immovables and sale of immovables.

Rates

The standard VAT rate is 20% on the price excluding the tax itself. A reduced 9% rate applies to books and workbooks used as learning materials, particular medicinal products, particular periodic publications, accommodation services or accommodation services with breakfast. Exportation is zero rated.

Taxable period

The taxable period is one calendar month. Value added tax returns shall be submitted to the tax authority by the 20th day of the month following the taxable period. On the basis of a reasoned request made by a taxable person, the head of the tax authority may establish a taxable period longer than one calendar month for the taxable person.

VAT



VAT return

A value added tax return is submitted electronically if the person has been a taxable person for at least 12 months. On the basis of a reasoned request made by a taxable person, the tax authority may allow the submission of a value added tax return on paper.

Payment of VAT

A taxable person shall pay the amount of value added tax due by the date of submission of the value added tax return.






Refund of input VAT

If value added tax calculated during a taxable period is less than the amount of input value added tax deductible by the taxable person during the same period, the overpaid amount of value added tax shall be refunded to the taxable person pursuant to the procedure provided for in the Taxation Act (normally within 30 days).

VAT

Refund of input VAT to a taxable person of another Member State

VAT paid by a taxable person of another Member State in Estonia upon the acquisition of goods or services used for the purpose of business being carried out in the country of location of the person shall be refunded to the taxable person of another Member State if:

-  the taxable person is required to pay VAT as an undertaking in the country of location of the person;
-  in its country of location the taxable person has the right to deduct input VAT paid upon the import or acquisition of goods or services under the same conditions from its calculated VAT;
-  taxable persons of Estonia have the right to deduct input VAT paid upon the import or acquisition of goods or services under the same conditions from their calculated VAT;
-  the amount of VAT to be refunded is at least 50 euros per calendar year or at least 400 euros in the case where the application is submitted concerning a period shorter than a calendar year but covering at least three months;
-  the application has been submitted electronically to the Estonian tax authority through the tax authority of the country of location of the taxable person of another Member State not later than by 30 September of the calendar year following the period of refund.

VAT

Refund of input VAT to a third country taxable person

Value added tax paid by a third country taxable person in Estonia upon the import or acquisition of goods, except immovables, or receipt of services used for business purposes shall be refunded to the third country taxable person on the basis of a written application from the taxable person and pursuant to the procedure established by a regulation of the Minister of Finance if:



- the taxable person is required to pay value added tax as an undertaking in the country of location the person;
- the amount of value added tax to be refunded per calendar year is at least 320 euros;
- taxable persons of Estonia have the right to deduct, pursuant to this Act, input value added tax paid upon the import or acquisition of goods or receipt of services under the same conditions from their calculated value added tax;
- in the country of location of the third country taxable person, Estonian residents have the right to the refund of value added tax.

VAT

Restrictions on deduction of VAT

Input VAT on goods or services relating to the entertainment of guests or the provision of meals or accommodation for employees shall not be deducted from calculated value added tax. Draft legislation has been submitted to the Parliament of Estonia limiting the deduction of VAT on passenger cars to 50% of VAT paid on acquisition.



Domestic reverse charge

If a taxable person transfers the immovable or part thereof, scrap metal or gold material, including semi-finished products, to another taxable person, the acquirer of the goods shall pay the sales price exclusive of value added tax to the transferor. The acquirer of the goods shall calculate the amount of the value added tax mentioned on the invoice issued for the transaction as the amount of value added tax to be paid by the acquirer instead of the transferor.

VAT

VAT grouping



The tax authority shall register a parent undertaking and its subsidiaries within the meaning of the Commercial Code as a single taxable person on the basis of a joint application by such taxable persons. Taxable persons who are economically and organisationally related shall also be registered as a value added tax group on the basis of a joint application if more than 50 per cent of the shares, holding or votes of each company to be registered within the composition of a value added tax group are owned by one and the same person or if the persons are related on the basis of a franchise contract. Estonian taxable persons engaged in business in Estonia shall be registered as a value added tax group.

Non-residents

If a foreign person engaged in business with no permanent establishment in Estonia carries out taxable supply in Estonia and such supply is not taxed in Estonia upon the acquisition of goods or receipt of services by a taxable person, the registration obligation shall arise for the person as of the date on which the taxable supply is performed. The registration obligation does not arise upon distance selling to a person of Estonia (threshold of 35,000 euros applies), or if all the taxable supply of the person is supply taxable at the 0% VAT, unless it is intra-Community supply of goods.



Examples of tax calculations for wages of a resident and non-resident employee:

 Resident employee	 Non-resident employee
A gross payment of 1000 EUR is agreed upon	
<ul style="list-style-type: none"> • an unemployment insurance premium of 10 EUR is to be paid by the employer (1%) • the amount of social tax of 330 EUR (33%) is to be paid by employer • a total cost to employer is 1340 EUR 	
<ul style="list-style-type: none"> • an unemployment insurance premium of 20 EUR (2%) is withheld • the amount of a funded pension payment withheld 20 EUR (2% of 1000 EUR) • an income tax of 171.36 EUR is withheld, calculated as $21\% \times (1000 - 144 - 20 - 20)$ • 144 EUR is 1/12 of the annual basic exemption 1728 EUR of income tax • a total net result received by the employee is 788.64 EUR <p>$(1000 - 171.36 - 20 - 20 = 788.64)$</p>	<ul style="list-style-type: none"> • an unemployment insurance premium of 20 EUR (2%) is withheld • an income tax of 205.80 EUR is withheld, calculated as $21\% \times (1000 - 20) = 205.80$ • a total net result received by the employee is 774.20 EUR $(1000 - 20 - 205.80 = 774.20)$ <p>$(1000 - 20 - 205.80 = 774.20)$</p>

INDIVIDUAL taxation

Income tax	21%	31 March of the following year
Unemployment insurance contribution	2%	10th day of the month following the payment; withheld by the employer
Obligatory funded pension	2%	
The basic tax exemption	1728 EUR	per year



INDIVIDUAL taxation

General Information

Income tax is charged on income derived by a resident natural person during a period of taxation from all sources of income in Estonia and outside Estonia. The taxable income of a natural person does not include fringe benefits, gifts and donations, dividends or other profit distributions subject to taxation at the level of a company.



INDIVIDUAL taxation

Taxable persons

A natural person is a resident if his or her place of residence is in Estonia or if he or she stays in Estonia for at least 183 days over the course of a period of 12 consecutive calendar months. A person shall be deemed to be a resident as of the date of his or her arrival in Estonia.



INDIVIDUAL taxation

Residence

If the residency prescribed on the basis of a tax treaty differs from the residency prescribed pursuant to law or if the tax treaty prescribes more favourable conditions for taxation of income than those provided by law, the provisions of the tax treaty apply. A natural person shall notify the tax authority of any circumstances related to changing his or her residency for tax purposes and complete the form for determining residency for tax purposes.



Taxable income

There is no exhaustive list of items of income. Therefore, all income received by a resident is subject to income tax. Any compensation for certified expenses incurred for the benefit of another person and any compensation for direct proprietary damage shall not be deemed to be income of a natural person, except for compensation paid in connection with business. Categorisation of income as earned income or income from capital has no substantive meaning for income tax purposes given the flat tax rate.

INDIVIDUAL taxation

Exempt income

Most important types of exempt earned income are:

scholarships and grants paid pursuant to law or from the state budget, and benefits paid pursuant to law;

maintenance support and maintenance allowance received pursuant to the law;

compensation for expenses related to business travel and daily allowances during assignments abroad;

compensation for employment related use of a personal car.

INDIVIDUAL taxation

Exempt income from capital

Income tax is not charged on:

- accepted estate;
- income from the transfer of movable in personal use;
- income from the exchange of a holding in the course of a merger, division or transformation of companies;
- gains from the transfer of immovable property if an essential part of the immovable is a dwelling which was used by the taxpayer as his or her place of residence until transfer (tax exemption is not applied to more than one transfer within two years).



INDIVIDUAL taxation

Employment income

Income tax is charged on all amounts paid to an employee, including wages and salaries, additional remuneration, additional payments. Income tax is charged on all fees paid to a natural person on the basis of a contract for services, authorisation agreement or any other contract under the law of obligations. Directors' fees and other remuneration are taxed analogously.

	Employment contract	Contract for services	Authorisation agreement
Income tax	yes	yes	yes
Social tax	yes	yes	yes
- incl minimum obligation of social security tax	yes	N/A	N/A
Unemployment insurance premium	yes	yes	yes
Obligatory funded pension	yes	yes	yes

Professional (business) income

Business is a person's independent economic or professional, the aim of which is to derive income from the production, sale or intermediation of goods, the provision of services, or other activities, including creative or scientific activity. Transfer of securities owned by a natural person does not constitute business. Sole proprietors entered in the commercial register may make the deductions from their business income in accordance with Income Tax Act. Deductions relating to enterprise shall be made from the business income of the period of taxation of a sole proprietor and the received amount shall be divided by 1.33 (social security tax) before it is multiplied by the tax rate.

INDIVIDUAL taxation

Dividends

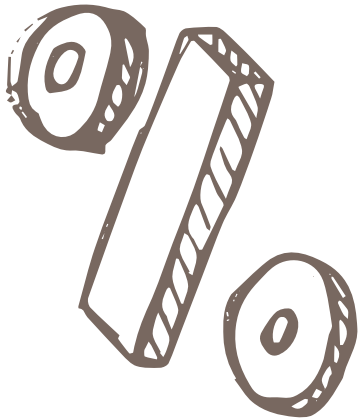
Income tax is charged on all dividends and other profit distributions received by a resident natural person from a foreign legal person in monetary or non-monetary form. Income tax shall not be charged on dividends if income tax has been paid on the share of profit on the basis of which the dividends are paid or if income tax on the dividends has been withheld in a foreign state.

Investment account

Income tax liability arising from gains or income received on particular financial assets can be postponed upon compliance with the conditions provided for in Income Tax Act. In order to defer income tax liability financial assets must be acquired exclusively for the funds on a cash (investment) account opened for such purpose with a credit institution or and any income received on financial assets shall be immediately transferred to the investment account.



INDIVIDUAL taxation



Interest

Income tax is charged on all interest accrued from loans, securities, leases, deposits and other debt obligations, including such amount calculated on the basis of the debt obligations by which the initial debt obligations are increased. The fine for delay (late interest) payable in the event of delay in performance of a monetary obligation is not deemed to be interest. Income tax is not charged on interest received from deposits with a credit institution which is a resident of a Contracting State or through or on account of a permanent establishment of a credit institution located in a Contracting State.

Capital gains

Income tax is charged on gains from the sale or exchange of any transferable and monetarily appraisable objects, including real or movable property, securities, registered shares, contributions made to a general or limited partnership or an association, units of investment funds, rights of claim, rights of pre-emption, rights of superficies, usufructs, personal rights of use, rights of commercial lessees, redemption obligations, mortgages, commercial pledges, registered securities over movables, or other restricted real rights, or the ranking thereof, or other proprietary rights. A resident natural person has the right to deduct any loss suffered upon the transfer of securities during a period of taxation from the gains derived from the transfer of securities during the same period of taxation. As regards exempt income from capital, see above.

INDIVIDUAL taxation

Basic exemption

The basic exemption deductible from the income of a resident natural person during a period of taxation is 1728 euros (1/12 per calendar month).



Housing loan interests

A resident natural person has the right to deduct interest payments made during a period of taxation to a credit institution which is a resident of a Contracting State, a financial institution belonging to the same group with such company or branch of a non-resident credit institution registered in a Contracting State for a loan or finance lease taken in order to acquire a house or apartment for himself or herself from the income which he or she receives during the period of taxation. Interest payments for a loan or lease taken in order to acquire a plot of land in order to build a house may be deducted from income under the same conditions.

INDIVIDUAL taxation

Training expenses

A resident natural person has the right to deduct the training expenses of himself or herself or a relative in descending line, sister or brother of less than 26 years of age or, if no such training expenses are incurred, the training expenses of one permanent resident of Estonia of less than 26 years of age, from the income which the resident natural person receives during the period of taxation.

Gifts and donations

A resident natural person has the right to deduct certified gifts and donations which are made during a period of taxation to specified non-profit associations from the income for the period of taxation.



INDIVIDUAL taxation

Limitations on deductions

Deductible amount of housing loan interests, training expenses, gifts and donations altogether is set to 1920 euros per taxpayer during a period of taxation, and to not more than 50 per cent of the taxpayer's income taxable in Estonia for the same period of taxation.

Income from foreign states

If a resident natural person received at least 75 per cent of taxable income in a foreign state during a period of taxation and part of the income received in the foreign state is exempt from income tax in Estonia, the person can make the deductions from income taxable in Estonia in proportion to its share in his or her taxable income for the period of taxation.

Losses

If the total amount of the expenses allowed exceeds the business income derived by a taxpayer (sole proprietor) during a period of taxation, the amount by which expenses exceed business income may be deducted from business income during up to seven subsequent periods of taxation. Expenses which have been carried forward for more than seven years shall not be carried forward to subsequent periods of taxation. As for carry forward of losses on securities, see above.

INDIVIDUAL taxation

Taxable period

The period of taxation for a natural person is one calendar year.

Withholding taxes

Income tax is withheld from:

- salaries, wages and other remuneration subject to income tax paid to a resident natural person and remuneration paid to members of the management and controlling bodies of a legal person;
- remuneration or service fees paid to a natural person on the basis of a contract for services, authorisation agreement or any other contract under the law of obligations;
- interest payment subject to income tax paid to a resident natural person;
- rent from a commercial or residential lease or payment for encumbering a thing with limited real rights, paid to a resident natural person, and royalties paid to a resident natural person;
- other payments of taxable income made to a resident natural person, except capital gains which are subject to taxation by way of self-assessment.



INDIVIDUAL taxation

Tax return

A resident natural person is required to submit an income tax return to the Tax and Customs Board concerning the income of a period of taxation not later than by 31 March of the year following the period of taxation. It is possible to submit an income tax return through the e-service of the Tax and Customs Board as of 15 February of the year following the period of taxation.

Interesting fact:

As of year 2000 it is possible to file the income tax return electronically. 95,4% of individual income tax returns for the year 2013 were submitted through the e-service.



INDIVIDUAL taxation

Pre-completed data

The Tax and Customs Board shall complete the income tax return concerning the income of a resident natural person during a period of taxation and the deductions and concerning the transfer of the particular securities on the basis of the data at the disposal of the Tax and Customs Board and make the pre-completed tax return available to the taxpayer through the e-service of the Tax and Customs Board and at the service point of the Tax and Customs Board as of 15 February of the year following the period of taxation.



Payment of tax

The Tax and Customs Board shall calculate any additional amount of tax due (additional amount due) and issue a written tax notice to this effect to the taxpayer. A taxpayer is required to pay any additional amount due which is specified in the tax notice into the bank account of the Tax and Customs Board not later than by 1 July of the calendar year following the period of taxation.

INDIVIDUAL taxation

Non-resident

A non-resident shall pay income tax only on income derived from Estonian sources (limited tax liability). The list of items of taxable income for non-residents provided for in Income Tax Act is exhaustive.

The main items of taxable income are:

- 1 income from work performed in Estonia if the payment was made by an Estonian resident or a non-resident operating in Estonia as an employer or a permanent establishment located in Estonia, or if the person has stayed in Estonia for the purpose of employment for at least 183 days over the course of 12 consecutive calendar months;
- 2 remuneration paid by a resident legal person to a non-resident member of a management or controlling body or by a permanent establishment located in Estonia to a non-resident member of a management body of the permanent establishment for the performance of functions;
- 3 business income derived by a non-resident in Estonia;
- 4 gains derived by a non-resident from a transfer of property if the immovable is located in Estonia;
- 5 income derived by a non-resident from a commercial lease or royalties if the immovable is located in Estonia;
- 6 remuneration paid to a non-resident artist or athlete in connection with his or her performance or competition in Estonia or the presentation of his or her works in Estonia.

INDIVIDUAL taxation

Non-resident's exempt income

Income tax is not charged on the following income of a non-resident (main items):

- 1 accepted estate;
- 2 income from sale of movable in personal use;
- 3 gains from transfer of immovable if an essential part of the immovable is a dwelling which was used by the taxpayer as his or her place of residence until transfer

Estonian sourced income

A natural person who is a resident of a Contracting State and who received at least 75 per cent of his or her taxable income in Estonia during a period of taxation can make the deductions from income taxable in Estonia in proportion to its share in his or her taxable income for the period of taxation.

INDIVIDUAL taxation

Tax return of non-resident

A non-resident is required to submit an income tax return concerning the gains derived during the calendar year and subject to taxation to the Tax and Customs Board not later than by 31 March of the following year. The same applies to other items of income received by non-resident from which income tax has not been withheld.

In the case of transfer of an immovable, 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 after receiving the first instalment.



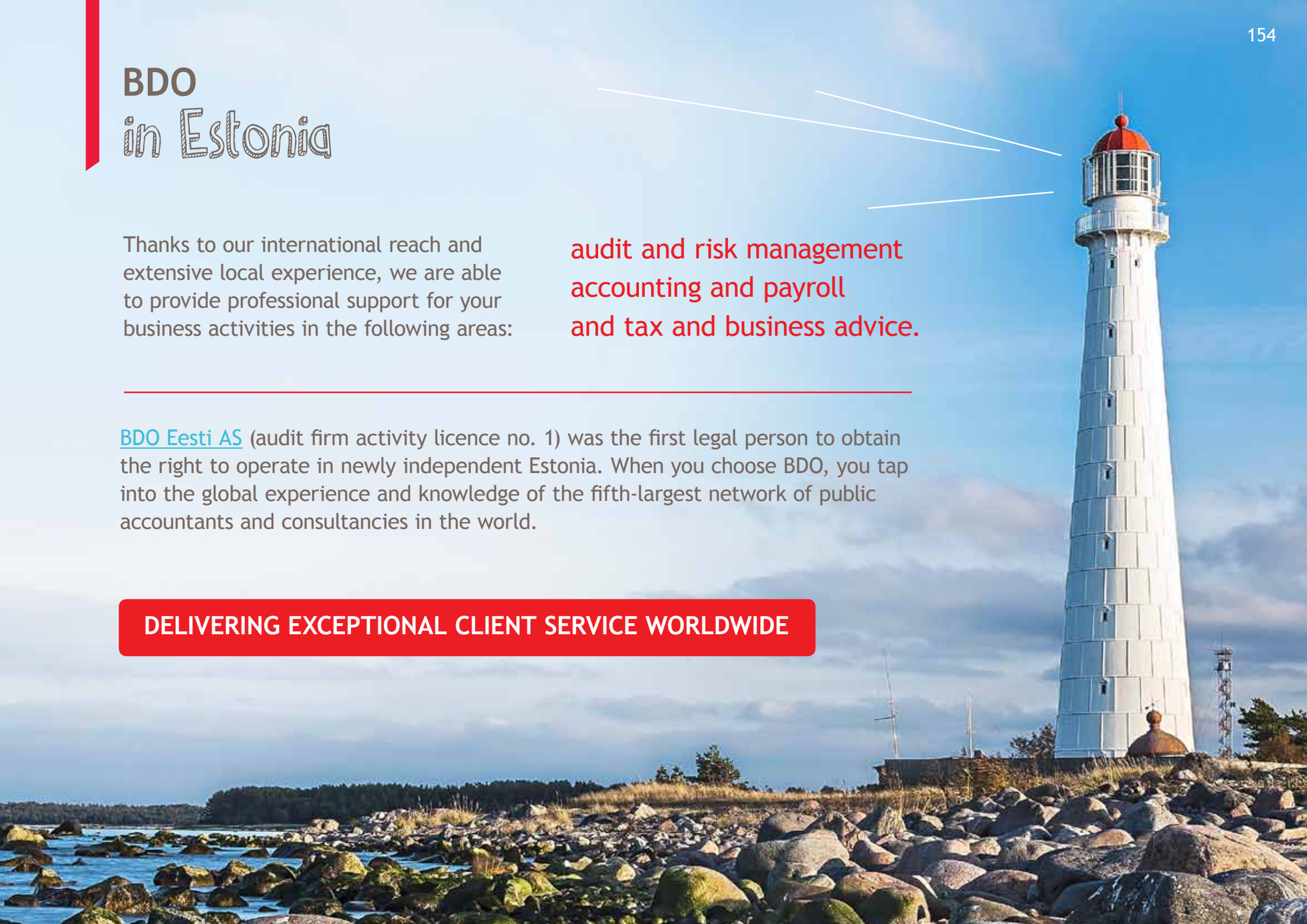
BDO in Estonia

Thanks to our international reach and extensive local experience, we are able to provide professional support for your business activities in the following areas:

**audit and risk management
accounting and payroll
and tax and business advice.**

[BDO Eesti AS](#) (audit firm activity licence no. 1) was the first legal person to obtain the right to operate in newly independent Estonia. When you choose BDO, you tap into the global experience and knowledge of the fifth-largest network of public accountants and consultancies in the world.

DELIVERING EXCEPTIONAL CLIENT SERVICE WORLDWIDE



BDO

Estonia

We are part of [BDO International](#), a network that was established in its current form in 1963 when public accountancy associations in the United Kingdom, Germany, the Netherlands, Germany, the US and Canada decided to join forces to better support their customers. The 50-year-old BDO trademark is an acronym formed from the names of the company's original partners: Binder Hamlyn (UK), Dijker & Co (Netherlands) and Otte & Co (Germany). BDO is a trademark of quality representing tens of thousands of dedicated professionals at independent companies who have joined together to foster exceptional customer service experience. What makes us special is our close personal relationship with our customers.

INTERNATIONAL BDO NETWORK

\$6 BILLION
TOTAL REVENUE IN 2012

↑ OVERALL
GROWTH
2002 – 2012: **89.5%**

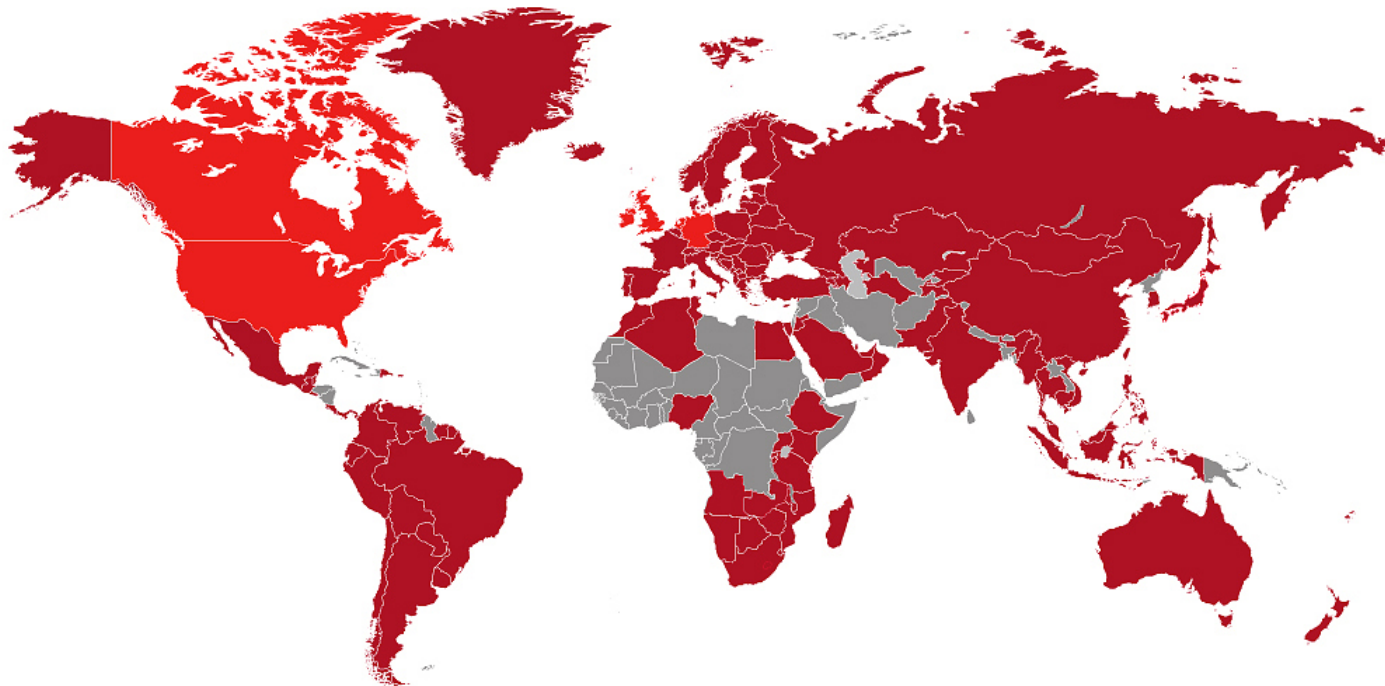
↕ AVERAGE ANNUAL
GROWTH
2002 – 2012: **9%**

GLOBAL NETWORK

1963:
GERMANY, NETHERLANDS
UK, CANADA & US

2013:
147
COUNTRIES

↑ OVERALL
GROWTH
2002 – 2012: **39%**



BDO Estonia

In our more than 20 years of activity, we have become the leading company in our field in Estonia. We have more than 300 clients, including top domestic and inter-national corporations and public sector organizations. Our Estonian offices staff more than 40 specialists who offer professional economic sector support and services that take into account the latest international developments.

BDO is a resource for the demanding and ambitious client who needs professional, flexible support for their principal line of work. In putting our skills and knowledge to work for clients, we help them to meet their goals and challenges. We are demanding in adhering to service standards and train and encourage employees to think outside the box. In our day to day activity, this means that our services and counsel must be understandable for everyone, and that we keep our promises.

INTERNATIONAL BDO NETWORK



BDO EUROPE

This region now forms part of BDO EMEA (see ME&A below).
Statistics as at September 2012.

€1.8 BILLION



TOTAL REVENUE



1963:
GERMANY,
NETHERLANDS, UK

2013:
63
COUNTRIES

EUROPEAN NETWORK

18,501
PEOPLE



372 OFFICES



BDO AMERICAS

Includes North America, the Caribbean and Latin America. Statistics as at September 2012

€2 BILLION TOTAL REVENUE



18,244 PEOPLE



OFFICES 651



1963:
CANADA,
USA

2013:
33
COUNTRIES

AMERICAS NETWORK

BDO ASIA PACIFIC

BDO's fastest-growing region 2012.
Statistics as at September 2012

€803 MILLION



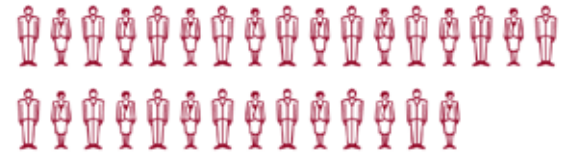
TOTAL REVENUE



2013:
22
COUNTRIES

ASIA
PACIFIC
NETWORK

15,538 PEOPLE



137 OFFICES



BDO ME & A

This region now forms part of BDO EMEA (see Europe above)

€100 TOTAL REVENUE MILLION



2013:
27
COUNTRIES

MIDDLE EAST
& AFRICA
NETWORK

2,650 PEOPLE



44 OFFICES

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