



# Tax Card 2018

Effective from 1 January 2018  
The Republic of Estonia

KPMG Baltics OÜ

---

[kpmg.com/ee](http://kpmg.com/ee)



## CORPORATE INCOME TAX

In Estonia, corporate income tax is not levied when profit is earned but when it is distributed. Before 2018, the income tax rate for all dividends was 20% (calculated as 20/80 of the amount distributed as the net dividend). From January 2018, the tax rate for regularly paid dividends is 14% (calculated as 14/86 of the net distribution).

Under the regulation in force from 1 January 2018, from 2019 a profit distribution that is smaller than, or equal to, the past three years' average profit distribution which has been taxed in Estonia will be subject to income tax of 14% (calculated as 14/86 of the net distribution). The Income Tax Act includes certain transitional provisions:

- In 2019, the amount of profit distributions smaller than, or equal to, 1/3 of the profits distributed in 2018 is subject to corporate income tax (CIT) calculated as 14/86 of the net distribution while the tax payable on the remaining amount (if anything) is calculated as 20/80 of the net distribution.
- In 2020, the amount of profit distributions smaller than, or equal to, 1/3 of the total amount of profits distributed in 2018 and 2019 is subject to CIT calculated as 14/86 of the net distribution while the tax payable on the remaining amount is calculated as 20/80 of the net distribution.
- In 2021, the amount of profit distributions smaller than, or equal to, 1/3 of the total amount of profits distributed in 2018, 2019 and 2020 is subject to CIT calculated as 14/86 of the net distribution while the tax payable on the remaining amount is calculated as 20/80 of the net distribution.

Companies which distribute profit and pay 14% CIT on it are additionally obliged to withhold income tax of 7% from dividends paid to resident and non-resident natural persons.

## **Exceptions**

Under certain conditions, redistribution of dividends is not subject to taxation. Income tax is not charged on the dividends received from a company domiciled in an EEA Member State or Switzerland if at least 10% of the shares or votes in that company is held by an Estonian company. The exemption applies to dividends received from a company domiciled in another country if the Estonian company holds at least 10% of the shares or votes in the company, and income tax has been withheld or paid. Also, in some cases the exemption is applied to the dividends paid out of the profit attributed to a resident company's permanent establishment. However, the exemption does not apply if dividends are received from companies in low tax jurisdictions.

## **Fringe benefits and expenses not related to business**

Fringe benefits are subject to income tax of 20% (calculated as 20/80 of the net amount at the employer's level) and social security tax of 33% (social security tax is levied on the amount which includes both income tax and non-deductible VAT).

Excluding the exceptions expressly listed in the Estonian Income Tax Act, all benefits in kind provided to employees are taxed as fringe benefits. Share option programmes may be exempt from fringe benefit taxes under certain conditions.

Expenses and payments not related to the company's business are subject to income tax of 20% (calculated as 20/80 of relevant net amounts).

## **Gifts, donations and entertainment costs**

A resident company has to pay income tax of 20% (calculated as 20/80 of the net amount) on gifts and donations made, with certain exceptions granted to non-profit organisations. Expenses incurred while entertaining guests and business partners, i.e. expenses incurred in respect of accommodation, catering, transport and cultural events, are also subject to tax if they exceed certain tax-exempt limits.

## Transfer pricing

If the value of a transaction conducted between associated persons (including transactions carried out between the head office and its permanent establishment) differs from market conditions, the difference is subject to income tax. Qualifying companies must document their transactions with associated parties to prove that the prices used are at arm's length.

## Other distributions

Payments made by a resident company upon reduction of share capital or contributions, or upon redemption or return of shares or contributions, are subject to income tax at the level of the company who makes the payment. Income tax is paid only on the amount which exceeds the actual contribution made to acquire a holding. Similarly, the portion of liquidation proceeds that exceeds the initial monetary or non-monetary contributions is subject to corporate income tax of 20% (calculated as 20/80 of the net amount).

## Loss carried forward

Losses incurred by a company do not affect corporate taxation.

## Thin capitalisation

No thin capitalisation rules are applied in Estonia.

## Withholding tax on payments to non-residents

In Estonia, withholding tax is imposed on the following payments made to non-residents:

- |  |            |
|--|------------|
| • interest   | 0%, 20% *  |
| • royalties  | 0%, 10% ** |
| • fees for services provided in Estonia                              | 10%        |
| • rental payments  | 20%        |
| • dividends (subject to CIT calculated as 14/86 of the net dividend) | 7% ***     |

\* 20% rate applies to interest exceeding the market interest rate.

\*\* In certain cases, outbound royalty payments are exempt from withholding tax provided that the recipient is an associated company of the paying company and is a resident in another EU Member State or Switzerland, or such a company's permanent establishment situated in another Member State or Switzerland.

\*\*\* Withholding obligation applies when dividends are paid to natural persons.

Withholding tax rates may be subject to reduction under Double Taxation Treaties (see the list below).

Withholding tax is paid on making the payment.

## PERSONAL INCOME TAX

In Estonia, a flat rate of 20% is imposed on personal income.

### **Taxable income**

Natural persons are subject to general income tax of 20% on income derived from

- employment (monetary payments);
- business (self-employed income);
- property/investment (rental income, royalties, interest, capital gains on disposal of business, movable and immovable property);
- other sources (certain pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds).

In certain cases, the income tax rate is 10%.

Fringe benefits are taxed at the employer's level.

### **Deductions from income**

Under Estonian law, certain amounts may be deducted from personal income such as:

- basic exemption EUR 0 – 6,000 per year (see the table below);
- increased basic exemption of EUR 1,848 granted to a parent maintaining at least two minor children per each child aged 17 or less, starting with the second child;
- additional deductions for housing loan interest, training expenses, gifts, donations, insurance premiums, acquisition of pension fund units, etc.

The total amount of additional deductions allowed is limited to EUR 1,200 (incl. EUR 300 in respect of housing loan interest); however, the amount deducted cannot exceed 50% of the taxpayer's taxable income during the period of taxation (i.e. a calendar year). Natural persons have to submit the personal income tax return annually by 31 March following the year of taxation.

From January 2018, the amount of basic exemption deductible from the income of a resident natural person depends on his/her income:

| <b>Annual gross income (EUR)</b> | <b>Basic exemption</b>   |
|----------------------------------|--|
| Up to 14,400                     | EUR 6,000 (maximum)  |
| Between 14,400 and 25,200        | Proportional reduction of basic exemption, determined using a specific formula |
| EUR 25,200                       | No entitlement to basic exemption  |

### **Social security**

An employer must pay mandatory social security contributions on gross employment income. No ceiling has been set on social security contributions. The minimum social security obligation per employee per month is EUR 155.10.

For employees working in Estonia, social security and unemployment insurance contribution rates are as follows:

- the rate charged to employers: 33.8% (33% + 0.8%);
- the rate charged to employees: 1.6%.

Funded pension contributions of 2% are withheld on gross salary payments to residents if the employee has joined the funded pension system. The latter is obligatory to an Estonian tax resident born in 1983 or later.

## VAT

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

**The following supplies are subject to VAT of 9%:**

- books and certain periodicals;
- certain medicines and medical devices;
- accommodation services.

**The following transactions are subject to zero-rate (0%) VAT:**

- export of goods and intra-Community supplies;
- cross-border business-to-business services;
- goods placed in free zones or free warehouses,
- certain goods listed in Annex V of Council Directive 2006/112/EC that are placed in a VAT warehouse;
- export and import-related transport services, international passenger services;
- supply of aircraft used by an air carrier operating mostly on international routes;
- supply of sea-going vessels for navigation on high seas;
- provision of services on board vessels or aircraft during international transport;
- supplies of goods under diplomatic and consular arrangements;
- supplies of goods and services to institutions of the EU and NATO forces.

**The following transactions are exempt from VAT:**

- transactions involving securities and financial services (with an option to tax domestically);
- insurance transactions;
- transactions involving immovable property or parts thereof (with an option to tax);
- rental transactions involving immovable property or parts thereof (with an option to tax);
- universal postal services;
- lotteries and gambling;

- certain education services;
- transactions involving health and welfare.

### Special arrangements

- the domestic reverse charge applies to voluntarily taxed immovable property, scrap metal,
- precious metal and some metal products
- postponed import VAT payment mechanism
- VAT grouping

## REAL ESTATE TAX AND LAND TAX

The only property tax imposed in Estonia is the land tax. As a rule, the annual tax rate is between 0.1% and 2.5% of the taxable value of the land. The owner (or, in certain cases, the user) of the land has to pay the tax. However, the land under a taxpayer's home is exempt from tax.

## INVESTMENT INCENTIVES

Only one investment incentive is available under the Estonian tax system – no tax is levied on retained or reinvested profits. However, profit distributions are subject to taxation.

## REAL ESTATE TRANSFER DUTY

The duty is paid by the acquirer of immovable property. The rate of the duty depends on the purchase price of the property. However, if the purchase price cannot be established, the rate depends on the taxable value of the land plus the value of the building (in the case of improved immovable property).



## TAX TREATIES

As of 1 January 2018, Estonia has Double Taxation Treaties with the following countries and jurisdictions:

|            |                 |                   |
|------------|-----------------|-------------------|
| Albania    | Iceland         | Serbia            |
| Armenia    | India           | Singapore         |
| Azerbaijan | Ireland         | Slovakia          |
| Austria    | The Isle of Man | Slovenia          |
| Bahrain    | Israel          | Spain             |
| Belarus    | Italy           | Sweden            |
| Belgium    | Jersey          | Switzerland       |
| Bulgaria   | Kazakhstan      | Thailand          |
| Canada     | The Republic of | Turkey            |
| The Czech  | Korea           | Turkmenistan      |
| Republic   | Latvia          | Ukraine           |
| China      | Lithuania       | The United Arab   |
| Croatia    | Luxembourg      | Emirates          |
| Cyprus     | Macedonia       | The United        |
| Denmark    | Malta           | Kingdom           |
| Finland    | Moldova         | The United        |
| France     | The Netherlands | Mexican States    |
| Georgia    | Norway          | The United States |
| Germany    | Poland          | of America        |
| Greece     | Portugal        | Uzbekistan        |
| Hungary    | Romania         | Vietnam           |

\* In 2017, Double Taxation Treaties were also concluded with Kyrgyzstan and Japan but these have not yet come into force.

For further information please contact:

**KPMG Baltics OÜ**

Narva mnt 5

10117 Tallinn

Estonia

**T:** +372 6 268 700

**F:** +372 6 268 777

**[www.kpmg.ee](http://www.kpmg.ee)**

**Joel Zernask**

Head of Tax

*[jzernask@kpmg.com](mailto:jzernask@kpmg.com)*

**[kpmg.com/app](http://kpmg.com/app)**



---

This card was prepared in October 2017 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Estonia.