Estonia Country Profile

EU Tax Centre

June 2021

Key tax factors for efficient cross-border business and investment involving Estonia

EU Member State	Yes.
Double Tax Treaties	With the following countries, territories and jurisdictions:

Albania	France	Kyrgyzstan	Slovakia
Armenia	Georgia	Latvia	Slovenia
Austria	Germany	Lithuania	Spain
Azerbaijan	Greece	Luxembourg	Sweden
Bahrain	Guernsey	Malta	Switzerland
Belarus	Hong Kong SAR	Mexico	Thailand
Belgium	Hungary	Moldova	Turkey
Bulgaria	Iceland	Netherlands	Turkmenistan
Canada	India	North Macedonia	UAE
China	Ireland	Norway	UK
Croatia	Isle of Man	Poland	Ukraine
Czech Rep.	Israel	Portugal	US
Cyprus	Italy	Romania	Uzbekistan
Denmark	Japan	Serbia	Vietnam
Finland	Jersey	Singapore	
	Kazakhstan		
	Rep. of Korea		

Most important forms of doing business	Public limited company (aktsiaselts, AS), Private limited company (osaühing, OÜ).
Legal entity capital requirements	Minimum share capital of a public limited liability company is EUR 25,000, Minimum share capital of a private limited liability company is EUR 2,500.
Residence and tax system	A legal person is a resident if it is established pursuant to Estonian law. Resident companies are taxed on their worldwide income when distributed

(not taxable as long as it is retained in the company), and non-resident companies are taxed on Estonian source business income when distributed.

Compliance requirements for CIT purposes

Taxable amount must be reported monthly whenever profits are distributed or payments treated as profit distribution/taxable expenses are made. Form TSD (a combined tax return for corporate income tax (CIT) and payroll taxes) with Annexes and Form INF1 should be filed by the 10th day of the month following the month in which the payment occurred.

Corporate income tax rate

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 percent (calculated as 20/80 of the amount distributed as the net dividend). In January 2018, a lower tax rate of 14 percent (calculated as 14/86 of the net distribution) was introduced for regularly paid dividends.

Withholding tax rates

On dividends paid to non-resident companies

No withholding tax (WHT).

On interest paid to non-resident companies

No WHT.

On patent royalties and certain copyright royalties paid to non-resident companies

A rate of 0 percent is applied if royalties are at arm's length and between affiliated companies established in the EU, under certain conditions. In all other cases: 10 percent (unless a Double Tax Treaty (DTT) provides a more favorable rate).

On fees for technical services

No, but WHT is applicable on payments to a non-resident for services provided in Estonia (tax rate can be reduced under DTT).

On other payments

20 percent on payments to a legal person located in a non-cooperative jurisdiction for tax purposes for services provided to an Estonian resident.

Companies which distribute profit regularly and pay 14 percent CIT on it are additionally obliged to withhold income tax of 7 percent from dividends paid to resident and non-resident natural persons. Tax treaties may provide lower WHT rates.

Branch withholding taxes

No WHT.

Holding rules	Dividend received from resident/non-resident subsidiaries CIT is not applied on redistributed dividends if the recipient is a company holding 10 percent or more of the share capital of the company distributing the dividends, and either the latter is resident in Estonia, the EEA or Switzerland, or the underlying profit has been subject to foreign tax, or the dividend received has been subject to foreign WHT. If the holding rules are not fulfilled, the credit method is generally applied. Capital gains obtained from resident/non-resident subsidiaries Capital gains are exempt until a distribution is made.
Tax losses	No.
Tax consolidation rules/Group relief rules	No.
Registration duties	Minimal.
Transfer duties	On the transfer of shares Minimal. On the transfer of land and buildings Minimal. Stamp duties Minimal state duties. Real estate taxes The only property tax imposed in Estonia is a land tax.
Controlled Foreign Company rules	In general, if an Estonian entity has at least a 50 percent holding in a controlled foreign company (CFC) or its foreign branch, which does not carry on business activities of substance, the Estonian CFC rules must be applied. An exception might apply if certain thresholds in terms of the amount of annual profit and financial income earned by the CFC are not exceeded.
Transfer pricing rules	General transfer pricing rules Yes. Documentation requirement Yes.

Thin capitalization rules/Interest Limitation rules	The deduction of borrowing costs from the taxable base is limited if the borrowing costs are deemed excessive (and are not subject to any exceptions). Borrowing costs are considered excessive if they exceed 30 percent of earnings before, interest, tax, depreciation and amortization (EBITDA) and the borrowing costs exceed EUR 3 million in a single financial year. The limitation of borrowing costs deduction is not applicable, if: 1) a resident company is not part of a consolidated group for the purposes of financial reporting and has no affiliated company or permanent establishment, or 2) the loan is used to finance long-term public sector infrastructure projects and the project developer, borrowing costs, assets and income are all within the European Union, or 3) a resident company that is a member of a consolidated group for financial reporting purposes opts to not have its excessive borrowing costs taxed (has to comply with certain conditions).
General Anti-Avoidance rules (GAAR)	Yes.
Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-hybrid rules	An anti-avoidance rule on hidden profit distributions was introduced into Estonian law as of January 1, 2018. Companies resident in Estonia must pay income tax on loans issued to shareholders, to other companies located on the higher level in the group structure and to shareholders' other subsidiaries (sister companies), if the circumstances of the transaction indicate that it might be a hidden profit distribution. Circumstances that demonstrate that the loan is a hidden profit distribution are, for example, the absence of an intention or the ability to repay the loan. If the repayment term is longer than 48 months, the taxpayer has to prove that it intends and is able to repay the loan. This amendment applies to qualifying loans granted as of July 1, 2017. The anti-hybrid rules are effective mainly from January 1, 2020.
Advance Ruling system	Yes.
IP / R&D incentives	No.
Other incentives	No.
VAT	The standard rate is 20 percent, and the reduced rate is 9 percent.

Other relevant points of attention	No.
Mandatory Disclosure Rules Updates	For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page.

Source: Estonian tax law and local tax administration guidelines, updated 2021.

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