

ESTONIAN TAX SYSTEM
for residents and holding,
property, treasury, trading,
investments, manufacturing
and services companies

Kaido Loor

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Estonian tax revenues

TAXES	Y2012	Share
Income taxes	518 598 t€	7%
..natural person income tax	266 178 t€	4%
..CIT	252 420 t€	3%
Social taxes	1 932 747 t€	27%
..for pension insurance	1 160 333 t€	16%
..for health insurance	772 414 t€	11%
Heavy vehicles tax	3 895 t€	0%
VAT	1 493 679 t€	21%
Excise taxes	776 242 t€	11%
Gambling tax	20 720 t€	0%
Customs taxes	29 390 t€	0%
TOTAL	7 226 615 t€	100%



Stable or not?

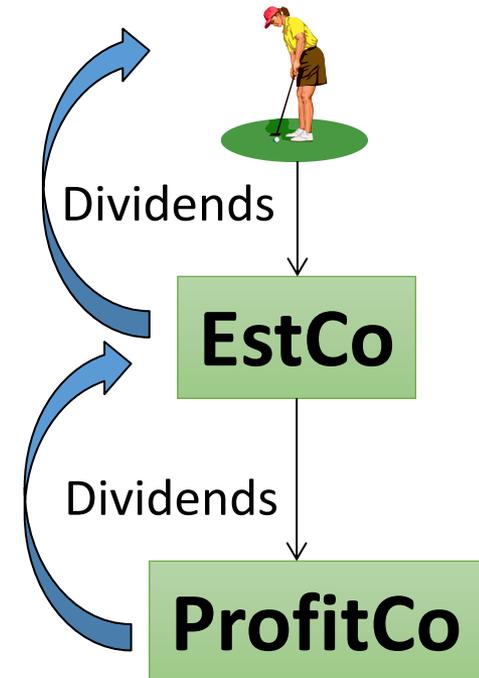
- Took effect from 1 Jan 2000
- Promise to lower CIT to 20% from 2015
 - Previous promises (18% from 2012) not kept
- Compliance with EU legislation?
 - Is CIT a withholding tax?
 - European Court of Justice decisions in cases of Test Claimants in the FII Group Litigation, Oy AA and Burda GmbH confirm it complies with EU law
- Effect of CCCTB
 - Parallel tax systems?



How the Estonian CIT & PIT works for resident natural persons

Tax base and rates

- Worldwide, 21%
- Dividends tax exempt, if
 - Tax withheld at source, or
 - Tax paid at company level, or
 - Paid from Estonian company





How the Estonian CIT works for resident corporates

- Dividends (79 units of dividends result in 21 units of tax)
 - Excl. redistributed dividends (10% participation exemption)
 - Incl. dividends to low tax territories
- Excessive liquidation proceeds
- Fringe benefits (21% CIT + 33% social taxes)
- Gifts and donations (21%)
- Non-business expenses and payments (21%), e.g.:
 - Non-business goods and services
 - Shares and securities issued by low-tax country companies



No issues with:

- Deductions
- Annual returns
- Tax amortisation
- Thin capitalisation



How the Estonian CIT works for non-residents

- Very limited withholding taxes in B2B situation:
 - Business income (DTT article 21 avoids this)
 - Royalties
 - No withholding tax on:
 - Dividends
 - Interest
 - Royalties (EU and 25% shareholding)
- Non-resident tax on Estonian real estate income (lease, capital gain)
- Estonian CIT is not withholding, i.e. not creditable against home CIT



So what does it mean to common business structures?

- Holding activities
- Property
- Treasury
- Trading
- Investments
- Manufacturing and service companies



Estonia as a Holding Regime

- Outset:
 - Dividend pass-through
 - No tax on gains
- But:
 - Capital gains stuck in EstCo?
- Opportunities are in:
 - Downstream investments
 - Interposing EstCo between HoldingCo and LowTaxCo
 - Many HoldingCo jurisdictions (e.g. Netherlands, Latvia) impose withholding on dividends to LowTaxCo, but not to EstCo



Estonia as a Property Investment Country 1/2

■ Real Estate SPVs

- Capital gains @ SpecialHoldCo level 😊

- Investor (non-resident) – SpecialHoldCo – EstSPV – Real estate
- Investor (resident) – EstHoldCo – SpecialHoldCo – EstSPV – Real estate

- Capital gains @ SPV level tax free 😊

- Extraction of capital gains 😞
 - Tax planning

- Lease @ SPV level -> shareholders' loan interest 😊

- Hybrid loan 😊



Estonia as a Property Investment Country 2/2

- **Contractual Real Estate Funds**
 - Amendments from 2014
 - Double taxation in some scenarios if investor holds $\geq 10\%$ of the fund
- **Investment contract with property manager (?)**



TreasuryCo in Estonia?

- Inbound and outbound interest 😊
 - Inbound
 - From EU – free from withholdings (interest and royalty directive)
 - Non-EU withholdings on interest received credit dividend tax payable by TreasuryCo
 - Outbound interest free from withholding and no thin cap 😊😊
 - Interest to LowTaxCo 😊
- Outbound interest as a hybrid loan 😐
- Very good e-banking facilities
 - Advance (transfer) pricing agreements with taxman not yet, but hopefully soon, possible 😐



TradingCo in Estonia?

- Outset:
 - No tax on gains
 - Unlike offshores, Estonia can be just on the transit corridor
 - Logistics service providers
- But:
 - Gains stuck in EstCo? Dividends taxable ☹️
- Opportunities are in:
 - Tax planning



Estonia for Securities' Investments

- Outset:
 - No issues with taxes until there is profit to distribute
- But:
 - No holding regime
 - Gains stuck in EstCo
- No good opportunities ☹️



Estonia for Manufacturing and Services

Outset:

- Intra-group royalties in EU 😊
- Investment loans from shareholders and banks 😊
- Intra-group contract manufacturing and services
 - Little practice with transfer pricing 😊
- High payroll taxes:
 - Personal income tax withholding 21% (20% Y2015)
 - Mandatory pension withholding 2%
 - Social tax 33%
 - Unemployment tax
 - Employer 1%
 - Employee (withholding) 2%



Summary

- Estonian tax system is good for:
 - Residents
 - Capital intensive projects
 - Real estate
 - Manufacturing
 - Treasury
 - Potentially trading
 - Special uses for planning holding structures
- In relative terms, high tax cost on labour



Thank you!

Kaido Loor

Partner

Mob +372 56 46 57 58 / Ph +372 6400 930

kaido.loor@sorainen.com

ESTONIA

Pärnu mnt 15
10141 Tallinn
phone +372 6 400 900
estonia@sorainen.com

LATVIA

Kr. Valdemāra iela 21
LV-1010 Riga
phone +371 67 365 000
latvia@sorainen.com

LITHUANIA

Jogailos 4
LT-01116 Vilnius
phone +370 52 685 040
lithuania@sorainen.com

BELARUS

ul Nemiga 40
220004 Minsk
phone +375 17 306 2102
belarus@sorainen.com

www.sorainen.com