

Rödl & Partner

SUCCESSFUL TOGETHER

ESTONIAN LEGAL AND TAX ENVIRONMENT
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Riga, November 15, 2018



AGENDA

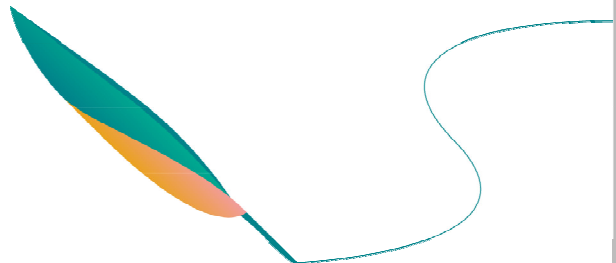
- 1 Corporate landscape/law
- 2 Labour market/law
- 3 Value-added Tax
- 4 Personal Income Tax
- 5 Corporate Income Tax
- 6 E-Tax System



1

CORPORATE LANDSCAPE/LAW

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|---|
| 1. 1 General comparison remarks |
| 1.2. Osaühing vs Aktsiaselts |
| 1.3. . Digitaal establishment / establishment via public notary |
| 1.4. Audit and review requirements |



1.1. GENERAL COMPARISON REMARKS

The forms of business differ from each other primarily with regard to the following characteristics:

- principles, extent and share of shareholder liability;
- the company's management bodies and decision-making processes, right of representation;
- the amount of required share capital and means of contribution;

Forms of legal entities:

- Täisühing – general partnership
- Usaldusühing – limited partnership
- Osaühing – private limited company
- Aktsiaselts – public limited company

In 2017 Estonia had 158,000 economical entities of which

- 66 % were corporate legal entities and
 - 15 % were private entrepreneurs.
- and
- 56% (71,000) of all economical entities are located in Harjumaa and 78% of them in Tallinn

1.2. OSAÜHING VS AKTSIASELTS

Legal form of business	Min. required start-up capital (euros)	Minimum required number of founders	Liability	Management
Private limited company (osaühing)	<ul style="list-style-type: none"> ▪ EUR 2500; ▪ none if the share capital is not bigger than EUR 25 000 and shareholder is private person 	at least 1	Shareholders are not personally liable for the private limited company's obligations	The obligatory management body of the private limited company is the management board; a supervisory board is mandatory only if specified in the articles of association.
Public limited company (aktsiaselts)	<ul style="list-style-type: none"> ▪ EUR 25 000 	at least 1	Shareholders are not personally liable for the public limited company's obligations	The supreme management body of the public limited company is the general meeting of shareholders; a public limited company must have a management board and supervisory board

1.3. DIGITAAL ESTABLISHMENT / ESTABLISHMENT VIA PUBLIC NOTARY

- Holders of an Estonian ID card or e-Residency card and a growing number of EU member states' ID cards can establish Private Limited Company (Osaühing) online. If an ID or e-Residency card is not available, a visit to a notary in Estonia is needed to verify the foundation documents.
- Except private limited company, all other forms of legal entities are established via Estonia public notary.

If you register electronically, a company can be established in just a few hours in the best case; still, budget one business day. Registering a private limited company through a notary will take 2-3 days from the date all documents are provided to the commercial register.

NB! Most time consuming is opening of starting account in Estonian bank!

1.4. AUDIT AND REVIEW REQUIREMENTS

Audit of the annual accounts is compulsory if at least two of the indicators of the financial year exceed the following conditions:

- 1) sales revenue or income 4,000,000 euros;
- 2) total assets as of the balance sheet date 2,000,000 euros;
- 3) average number of employees 50 people.

Or if at least one of the indicators of the financial year exceeds the following conditions:

- 1) sales revenue or income 12,000,000 euros;
- 2) total assets as of the balance sheet date 6,000,000 euros;
- 3) average number of employees 180 people.

Review of annual accounts is compulsory if at least two of the indicators of the financial year exceed the following conditions:

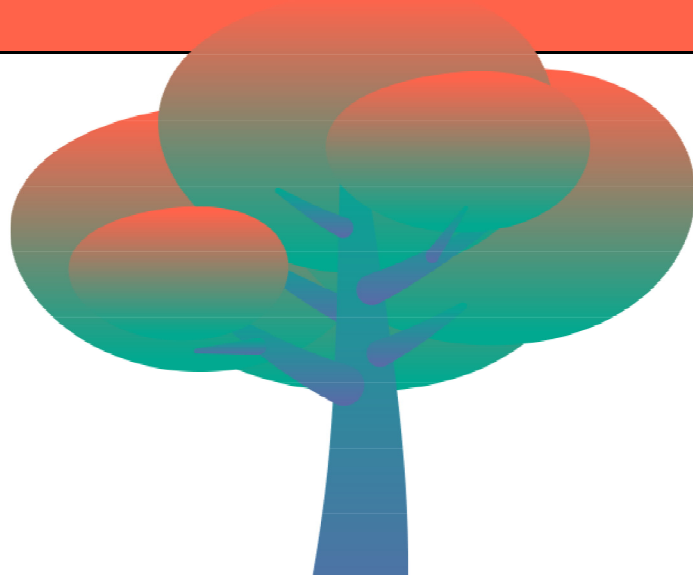
- 1) sales revenue or income 1,600,000 euros;
- 2) total assets as of the balance sheet date 800,000 euros;
- 3) average number of employees 24 people.

Or if at least one of the indicators of the financial year exceeds the following conditions:

- 1) sales revenue or income 4,800,000 euros;
- 2) total assets as of the balance sheet date 2,400,000 euros;
- 3) average number of employees 72 people.

2 LABOUR MARKET/LAW

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| 2.1. Estonian labour market |
| 2.2. General remarks on labour legislation |
| 2.3. Labour taxes |



2.1. LABOUR MARKET IN ESTONIA

According to Human Capital Report Estonia is a success story with regard to successful human capital potential maximization, ranking 15th globally.

The Estonian labour market can be described by:

- highly skilled workforce
- 86% of adults speaking at least one foreign language
- low unionisation
- simple and straightforward labour legislation
- easy hiring and job contract termination processes

– According to Statistics Estonia, in the 2nd quarter of 2018, the unemployment rate was 5.1%, the employment rate 68.2% and the labour force participation rate 71.9%. The unemployment rate was the lowest in a decade.

2.2. LABOUR LEGISLATION

The legislation is liberal and offers a lot of flexibility in agreeing on terms and conditions of employment. Regulations regarding employment and labour contracts are regulated by the Employment Contracts Act.

Labour legislation is mandatory nature and agreements which are derogating to the detriment of the employee from the provisions of this Employment Contracts Act and the Law of Obligations Act concerning the rights and obligations and liability of the contracting parties **is void!**

11

2.2 LABOUR LEGISLATION

Minimum wage (gross) in 2018

Monthly: EUR 500

Hourly: EUR 2.97

Minimum wage (gross) in 2019

Monthly: EUR 540

Hourly: EUR 3.2

Written contract with 12 mandatory data.

Registration of start and end of employment relationship is a must.

Employment agreement without the term is a rule.		Employee can any time terminate the employment agreement without the cause.
In certain cases employment agreement with the term is allowed.		
Employer can termination only with cause (so called extraordinary termination)		Employment disputes solved either in labour dispute committees or in court.

12

2.3. LABOUR TAXES

- The rate of social tax is **33%** (20% for social security and 13% for health insurance).
- Besides the social tax, unemployment insurance tax at a rate of **0.8%** must be paid on the gross salary (an additional **1.6%** is withheld from the employees' salary).

NB! Employers registered in Estonia (including the permanent establishments of foreign entities) must pay social tax on all payments made to employees, except on those specifically exempted by law. Fringe benefits and the income tax thereof are also included in the taxable base.

Estonian pension system consists of three pension pillars.

- I pillar or state pension. This is managed by the Social Insurance Board.
- II pillar or mandatory funded pension. This is managed by the Pension Centre. Payments are made by withholding **2%** from gross salary.
- III pillar or supplementary funded pension. This is managed by in insurance undertakings and banks.

3.

VALUE ADDED TAX



3. VALUE ADDED TAX (VAT)

- The standard rate of VAT is 20%;
- The reduced rate is 9% and 0% in some cases.
- VAT is charged on the supply of goods and services in the course of business activities and the self-supply of goods and services.

Rate of 9% applies to:

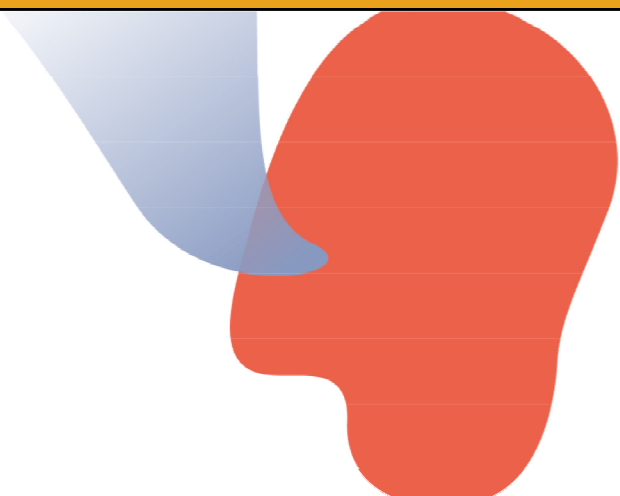
- 1) books and workbooks used as learning materials, excluding learning materials
- 2) medicinal products, contraceptive preparations, sanitary and toiletry products and medical devices intended for the personal use;
- 3) periodic publications, excluding publications mainly containing advertisements or personal announcements, or publications the content of which is mainly erotic or pornographic;
- 4) accommodation services or accommodation services with breakfast, excluding any goods or services accompanying such services.

- The threshold for obligatory registration is 40,000 EUR;
- The threshold for a taxable person with limited liability in the case of the acquisition of goods is 10,000 EUR;
- There is no threshold in the case of the acquisition of services.

Filing of VAT returns:
20th day of the month
following the taxable
period

4.

PERSONAL INCOME TAX



PERSONAL INCOME TAX

- Residents pay tax on their worldwide income. Taxable income includes, in particular, income from employment (salaries, wages, bonuses and other remuneration); business income; interest, royalties, rental income; capital gains; pensions and scholarships (except scholarships financed from the state budget or paid on the basis of law). Taxable income does not include dividends paid by Estonian or foreign companies when the underlying profits have already been taxed.
- The personal income tax is withheld from the employees' gross salary every month and paid by the employer.

PERSONAL INCOME TAX

Non-residents pay personal income tax only on their income received from Estonian sources. Taxable income in Estonia includes:

- income from work under a labour contract or contractor's agreement in Estonia;
- income from business carried out in Estonia;
- interest income received from Estonia (only if it is substantially higher than that of similar debt claims);
- royalties;
- income from the lease of assets located in Estonia;
- gains from disposal of assets located in Estonia;
- directors' fees paid by Estonian enterprises;
- pensions and scholarships

FRINGE BENEFITS (INCOME TAX AND SOCIAL TAX)

Fringe benefits are any goods, services, remuneration in kind or monetarily appraisable benefits which are given to an "employee" in connection with an employment or service relationship, membership in the management or controlling body of a legal person, or a long-term contractual relationship, regardless of the time at which the fringe benefit is granted.

NB! Fringe benefits are taxed in Estonia with Income Tax and Social Tax.

For example fringe benefits include:

1. full or partial covering of housing expenses;
2. the use of a vehicle or other property of the employer free of charge or at a preferential price for activities not related to employment or service duties or to the employer's business;
3. payment of insurance premiums, unless such obligation is prescribed by law.

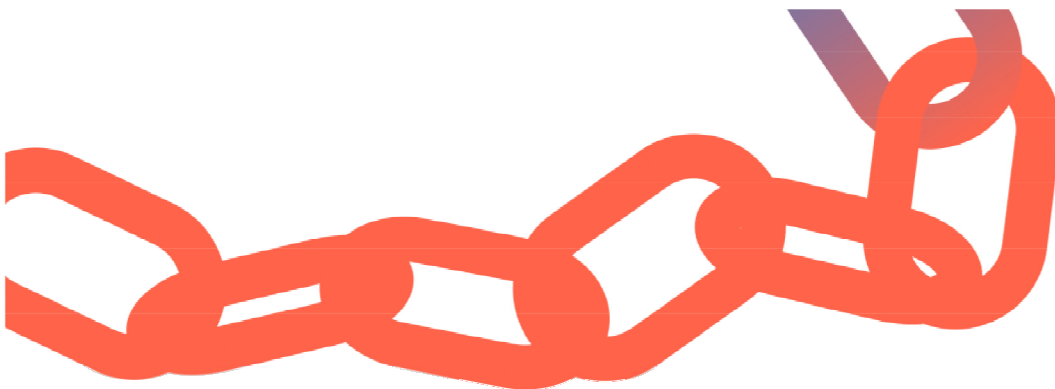
Fringe benefit is always paid by the employer.

It is non-personalised tax.

19

5.

CORPORATE INCOME TAX



20

5. CORPORATE INCOME TAX

Estonian resident companies and the permanent establishments of foreign entities (including branches) are subject to 20% income tax only in respect to all distributed profits (both actual and deemed).

Distributed profits include:

- corporate profits distributed in the tax period
- gifts, donations and representation expenses
- expenses and payments not related to business
- transfer of the assets of the permanent establishment to its head office or to other companies

NB! There is no corporate income tax on retained and reinvested profits.

21

5. CORPORATE INCOME TAX

- Starting from January 1, 2018 – the corporate income tax rate on regular (3 years in a row) profit distributions was lowered from 20% to 14%, but only in cases where dividends are paid to legal persons.
- Fringe benefits are taxable at the level of the employer. The employer pays income tax and social tax on fringe benefits.
- Dividends paid to non-residents are no longer subject to withholding tax, irrespective of participation in the share capital of the distributing Estonian company. However, various withholding taxes may still apply to other payments to non-residents if they do not have a permanent establishment in Estonia or unless the tax treaties otherwise provide.

22

6.

E-TAX SYSTEM



6. E-TAX SYSTEM

e-Tax is an electronic tax filing system set up by the Estonian Tax and Customs Board. Each year, around 95 per cent of all tax declarations in Estonia are filed electronically.

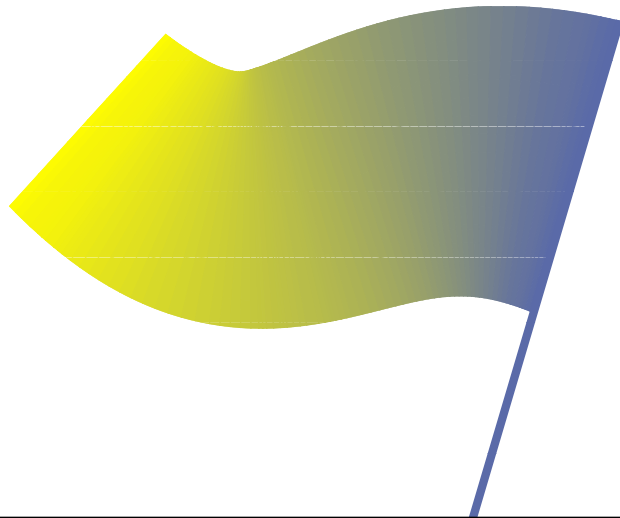
The system enables you to:

- file an enterprise's declarations for income tax, social tax, unemployment insurance and contributions to the mandatory pension fund
- request value-added tax returns
- request alcohol excise, tobacco excise, fuel excise and packaging excise duty returns
- file customs declarations
- file personal income tax declarations

Non-residents can choose a tax representative. The tax representative of a non-resident is a person to whom the Tax and Customs Board has issued a corresponding activity license authorised to represent the non-resident for the performance of obligations arising in Estonia.

NB! ID -card requirement!

THANK YOU!



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