

Tax Alert

Estonia, Issue 7, July 2010

AS PricewaterhouseCoopers in Estonia helps clients in finding tax efficient business solutions and managing tax risks.

We work together with our colleagues in other PricewaterhouseCoopers' offices world-wide and use our access to international know-how and long-term experience to quickly and efficiently solve tax issues that arise both locally and in foreign jurisdictions.

For more information, please see our contact details below.



Social Tax Act: Reduction of the minimum monthly social tax liability

On 17 June 2010 the Estonian Parliament adopted amendments to the Social Tax Act that entered into force as of 1 July 2010. The main objective of the changes is to bring the unemployed back to the labor market and to create better basis for creation of part-time jobs.

As one of the main amendments, the changes provide for a possibility to calculate the minimum liability of social tax taking into account also payments made by other employers. The principal employer must pay social tax at least on amount that taking into account the payments made by other employers would not be less than minimum monthly social tax liability (EEK 4350 per month). Thus, if the principal employer pays the monthly salary of EEK 2500 and another employer EEK 1500, the principal employer must pay the social tax of EEK 941 ((EEK 4350 - EEK 1500)*33%) and the other employer pays social tax of EEK 495. The principal employer, the one who also takes into account the personal allowance, must receive confirmations from other employers regarding the payments made by them.

Furthermore, the amendments provide for a social tax incentive for employers who hire a person who has been unemployed for at least 6 months. By hiring such person, employer will be exempted from a duty to follow the minimum monthly social tax liability in respect of that employee for 1 year. Social tax must be paid on the salary effectively paid. Hired individual must provide to an employer a respective confirmation from the Unemployment Insurance Fund.

Changes in taxation related to the adoption of Euro

The ECOFIN Council took the final decisions on the euro adoption in Estonia and confirmed that Estonia is ready and will adopt the euro on 1 January 2011. The Council also set the conversion rate at 15.6466 Estonian kroons to one euro, which corresponds to the currently effective rate.

Amounts indicated in kroons in tax-related legislation will be converted into euros in the direction more favorable to the taxpayer, if possible. Not all amounts will be subject to conversion as some amounts have already been provided in the relevant tax legislation. For example, as of 1 January 2011, monthly personal allowance will be EUR 144 (currently EEK 2250 = EUR 143.80), daily allowance for foreign trips will be EUR 32 (currently EEK 500 = EUR 31.96), VAT registration threshold will be EUR 16000 (currently EEK 250000 = EUR 15977.91), the new minimum collectable tax amount under the Taxation Act will be EUR 10 (currently EEK 50) and EUR 5 (currently EEK 50) under the Land Tax Act. Rates of state fees fixed in kroons in the State Fees Act shall be converted to euros, generally to the accuracy of one euro cent and generally in the direction more favorable for the person.

From a procedural perspective, all reports and settlements with the Tax and Customs Board, i.e., submission (including the calculation procedure) and amendment (including conversions) of declarations (turnover declarations, customs declarations, etc.), shall be executed in the currency that was valid during the taxation period. Thus, the reporting and calculation procedure for periods

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proceeding 2011 will be executed in kroons and the amount to be reimbursed or paid as of 2011 will be converted by tax authorities into euros pursuant to the general conversion rules.

Any tax-related information, disclosed by the Tax and Customs Board and reflecting the previous period, will be formulated in two currencies: the final amount will be calculated in euros but also indicated in kroons. Revenue stamps, indicated on

products in kroons prior to the introduction of the euro, may remain in circulation until they are used up. The amount indicated in kroons on the revenue stamp will be converted into euros according to the general conversion rules.

Information on adoption of euro (in Estonian, English and Russian) can be found at the website:

<http://euro.eesti.ee/EU/Prod/Euroveeb/index.jsp>

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