

Tax Alert

Estonia, Issue 2, February 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.



LEGISLATION

Isle of Man, Macedonia, Israel and Azerbaijan added to the "white list"

On 11 February 2010, the Government renewed the "white list" which includes all the countries not considered as low tax territories from Estonian perspective. The list applies retroactively from 1 January 2009 to Azerbaijan and from 1 January 2010 to Isle of Man, Macedonia and Israel. There are now 46 countries in the list. White listed countries are automatically considered as jurisdictions with adequate tax system and specific anti-avoidance measures targeting low-tax jurisdictions are not applied to transactions with companies located in the white listed territories. In respect of other jurisdictions, a taxpayer may have a burden to prove the adequacy of the country's tax system (i.e. that it is not a low-tax territory).

Specific anti-avoidance provisions in Estonian tax legislation, for example, make it more burdensome to acquire a holding in a company located in a low tax rate territory, to grant a loan or purchase services from such companies. Furthermore, individuals may be obliged to declare their shareholdings in such companies and pay tax on corporate profits notwithstanding whether they have received dividends or not (i.e. CFC-rules).

The "white list" currently includes the following territories: Armenia, Austria, Azerbaijan, Belgium, Belorussia, Bulgaria, Canada, China (except Hong Kong and Macau), Croatia, Czech Republic, Cyprus, Denmark, Finland, France, Georgia, Germany, Greece, Hungary, Ireland, Island, Isle of Man,

Israel, Italy, Japan, Kazakhstan, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Norway, Poland, Portugal, Romania, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, The Netherlands (except Aruba and Dutch Antilles), Turkey, UK (except Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Channel Islands, Gibraltar, Montserrat, Turks and Caicos Islands), Ukraine and USA (except US Virgin Islands, Marshall Islands).

The "white list" (in Estonian) is available at: <https://www.riigiteataja.ee/ert/act.jsp?id=13277303>

Changes in tax treatment of payments from equity

As of 1 January 2009, capital reductions, share redemptions (share buy-backs) as well as other similar payments from equity (e.g. liquidation proceeds) are generally taxable at the level of the company making the repayments. Taxable base consists of repayments made to the shareholders that exceed the monetary and non-monetary contributions made into the "paid-in capital" of that company.

It must be noted that the explanations to the tax returns as amended on 28 December 2009 and effective as of 1 January 2010 further specify the calculation rules of the "paid-in capital".

According to the general rule, after the merger or division, the unused "paid-in capital" of the company or companies should equal to the unused "paid-in capital" of the company or companies before the merger or division. However, the explanations to the tax returns include as of 1 January 2010 two significant clarifications:

- In case of a merger between a parent

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company and a subsidiary, the contribution by the parent company to the subsidiary's equity will be eliminated from the calculation of the "paid-in capital";

- the relevant tax return (TSD 7, annex 3) has to be submitted also prior to the merger, division or transformation (previously the tax return had to be submitted for the first time in the month when the payments from the equity were made, irrespective whether the payment was subject to tax or not).

Changes to the Intrastat reporting

In 2010, the procedures for submitting Intrastat declarations have been changed. One of the main amendments is that the Intrastat report must be submitted on the 14th day following the reporting month (previously 10th working day following the reporting month). Also the statistical thresholds have been changed. From 1 January 2010 the exemption threshold for dispatches is being reduced from EEK 2 million to EEK 1.7 million. This means that the reporting obligation arises also for companies whose threshold exceeds EEK 1.7 million in 2010. The exemption threshold for arrivals remains EEK 2 million.

OTHER INFORMATION

Publication "Guide to doing business and investing in Estonia"

A new version of publication "Guide to doing business and investing in Estonia" is available on our website. This Guide has been prepared for the assistance of those interested in doing business in Estonia. It does not exhaustively cover the subjects it treats, but is intended to answer some of the most important, general questions that may arise.

The publication is available at:
<http://www.pwc.com/ee/en/publications/index.jhtml>

Tax research competition 2010

PricewaterhouseCoopers and Estonian Taxpayers Association are inviting researchers to submit their papers to the annual tax research competition. The competition takes place for the 11th time. The monetary prize fund is EEK 50 000 and the deadline for submitting the papers is 15 June 2010.

More detailed information about the competition (in Estonian) is provided at
<http://www.maksumaksjad.ee/modules/news2/article.php?storyid=52>

Estonian tax authorities opened a new website assisting individuals declaring their income

Estonian Tax and Customs Board created a new website (in Estonian) "For the assistance for those who declare their income" (<http://www.emta.ee/?id=26806>) which should help individuals to find information about declaring their 2009 income. Additionally a forum where tax specialists answer taxpayers' questions was opened.

Our people

On 6 January 2010, Estonian business daily Äripäev published an article by Villi Tõntson about a study put together by PwC and the World Bank Group. The study measures the ease of paying taxes across 183 economies worldwide. The article (in Estonian) is also available at:
http://www.aripaev.ee/4553/arv_kolumn_455301.html

On 20 January 2010, Estonian business daily Äripäev published an interview with PwC CEE Tax and Legal Services Leader Steven Snaith. The interview (in Estonian) is also available at:
http://www.aripaev.ee/4567/uud_uudid_456710.html

On 21 January 2010, Estonian business daily Äripäev published an article by Ain Veide about legislative amendments related to the VAT grouping. The article (in Estonian) is also available at:
http://www.pwc.com/ee/et/insights/Ettevotja_avaldis_esitatud.jhtml

On 28 January 2010, PwC tax training "Tax changes in 2010" took place. Presentations were delivered by Ain Veide ("VAT changes in 2010"), Erki Uustalu ("Tax treatment of payments from equity 2010"), Hannes Lentsius ("Transfer pricing - How to reduce risks?") and Iris Gutmann ("Applying for E101 - today and tomorrow").

On 17 February 2010, Estonian business daily Äripäev published an article by Erki Uustalu on tax attributes in Estonian tax system that may reduce the potential tax liability of Estonian legal entities. The article (in Estonian) is also available at:
http://www.pwc.com/ee/et/insights/Maksuatribuudid_uustalu.jhtml

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