

# Tax Alert

Estonia, Issue 10, July 2009

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.



## VAT rate is increased to 20%

On June 18, the Parliament passed the second supplementary budget and correspondingly amended several laws, including the VAT Law whereby from 1 July the applicable VAT rate is 20% instead of the 18% rate. The amendment was published in the State Gazette on June 26.

In connection with the increase of the VAT rate, cigarettes may be sold with up to 1,7% higher price than the maximum retail price until 30 September provided that the Tax and Customs Board issued the tax stamp before 1 July.

The new VAT rate is lower than in Latvia (21% - since 1.01.2009) but higher than in Lithuania (19% - since 1.01.2009).

Starting from 1 July all sales are taxed with the new VAT rate. Credit invoices must be issued with the VAT rate on the original invoice. Questions-and-answers regarding the application of the new VAT rate are published on the web page of the Estonian Tax and Customs Board:  
<http://www.emta.ee/?id=25989>

## Increase of excise

The Parliament amended the Alcohol, Tobacco, Fuel and Electricity Excise Act and implemented higher excise rates for petrol (10,8%), diesel (12%) and natural gas. From 1 January 2010 tobacco excise for cigarettes will increase.

## Changes in compensating business trips

From 1 July the new Government's regulation on compensating expenses related to business trips and payment of daily allowances became into effect. The amendments are as follows:

- In case of domestic business trips, daily allowances may be paid (upon such agreement between parties) but these are taxable to the full extent;
- When compensating other expenses related to the business trip, the limits applicable until now (35% of daily allowances in case of foreign trips and 100% of daily allowances in case of domestic trips) are abolished and compensation may be paid based on expense documents.

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## The amendments to the Land Tax Act

On 10 June 2009, the Parliament passed amendments to the Land Tax Act which grants local municipalities the discretion to release homeowners from the land tax. According to the Law the local municipality may release a person from land tax on residential land up to 0.3 ha within a city and 1 ha within a rural municipality used by him/her provided that the dwelling on this land is the person's registered place of residence in the population register and the person does not earn rental income from the use of this land. The law also provides local municipalities the right to implement differentiated tax rates based on the intended purpose of the land. The amendments come into effect from

## A new draft limits the scope of persons eligible for income tax incentives

On 18 June 2009 the Government handed over to the Parliament the draft law amending the Income Tax Act in a manner which limits the scope of taxpayers eligible for tax incentives. According to the draft law resident individuals would no longer be entitled to deduct interest paid on study loans from their taxable income. In addition, resident individuals would no longer be able to deduct entrance- and membership fees of trade unions from their taxable income. If the Parliament approves the law, the amendments are expected to come into effect from 1 January 2010.

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