

Tax Alert

Estonia, Issue 14, October 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.



Double tax treaty concluded between Estonia and Republic of Korea

On 23 September 2009 Estonia and Republic of Korea concluded the treaty for avoidance of double taxation with respect of taxes on income. The treaty generally follows the wording of the OECD Model Tax Convention, which is a basis also for the rest of Estonian tax treaties. The treaty provides for the following tax rates for taxing investment income:

- ▶ Treaty limits withholding tax on dividends to 5% provided that the shareholder is a company holding directly at least 25% of the capital of the company paying the dividends and 10% in all other cases. As Estonian domestic legislation does not provide for a withholding tax on dividends, the treaty may generally affect only the dividends paid from Republic of Korea to Estonia;
- ▶ Treaty limits withholding tax on interest to 10% and provides several exemptions (eg for interest payable to or loans guaranteed by financial institutions performing functions of governmental nature). As Estonian domestic legislation does not provide for a withholding tax on arm's length interest, the treaty may generally have an impact only on interest payable from Republic of Korea to Estonia;
- ▶ Treaty limits withholding tax to 5% on royalties for the use of industrial, commercial, and scientific equipment and to 10% in all other cases.

The signed treaty is not yet in force. The treaty will enter into force on the 15th day

after the parties have notified each other about the completion of the respective domestic constitutional procedures (e.g. ratification in Estonia). As a general rule, the treaty would become effective from January 1 of the year following that in which treaty enters into force.

The full text of the treaty in Estonian and English and the explanatory memorandum in Estonian are available at: http://eoiigus.just.ee/?act=6&subact=1&OTSIDOC_W=268773

Double tax treaty concluded between Estonia and Serbia

On 24 September 2009 Estonia and Serbia concluded the treaty for avoidance of double taxation with respect of taxes on income. The treaty generally follows the wording of the OECD Model Tax Convention, which is a basis also for the rest of Estonian tax treaties. The treaty provides for the following tax rates for taxing investment income:

- ▶ Treaty limits withholding tax on dividends to 5% provided that the shareholder is a company holding directly at least 25% of the capital of the company paying the dividends and 10% in all other cases. As Estonian domestic legislation does not provide for a withholding tax on dividends, the treaty may generally affect only the dividends paid from Serbia to Estonia;
- ▶ Treaty limits withholding tax on interest to 10% and provides several exemptions (eg for interest payable to financial institutions wholly owned by government). As Estonian domestic legislation does not provide for a

Contacts:

Villi Tõntson
E-mail: villi.tontson@ee.pwc.com
Ain Veide
E-mail: ain.veide@ee.pwc.com
Erki Uustalu
E-mail: erki.uustalu@ee.pwc.com

AS PricewaterhouseCoopers
Tax Services
Pärnu mnt 15, 10141 Tallinn
Tel: 614 1800
E-mail: tallinn@ee.pwc.com
www.pwc.ee

withholding tax on arm's length interest, the treaty may generally have an impact only on interest payable from Serbia to Estonia;

- ▶ Treaty limits withholding tax to 5% on royalties for the use of, or right to use any copyright of literary, artistic or scientific work including cinematographic films. Any other royalties, including payments for the use of, or right to use any industrial, commercial, and scientific equipment and computer software may be subject to withholding tax of 10%.

The signed treaty is not yet in force. The treaty will enter into force after the parties have notified each other about the completion of the respective domestic constitutional procedures (e.g. ratification in Estonia). As a general rule, the treaty would become effective from January 1 of the year following that in which treaty enters into force.

The full text of the treaty in Estonian and English and the explanatory memorandum in Estonian are available at:

http://eoigus.just.ee/?act=10&subact=1&ESILEHT_W=269473

Planned amendments to the Income Tax Act

On 30 September 2009 the Government initiated another draft law introducing amendments to the Income Tax Act (586 SE). If approved by the Parliament, draft will become effective from 1 January 2010. Overview of the more significant planned amendments is listed below:

- ▶ The planned gradual decrease of the income tax rates which would have resulted the 18% tax rate by 2012 is withdrawn. Thus, the applicable income tax rate for year 2010 will continue to be 21%;
- ▶ Also, the planned increase of the tax exempt personal allowance for individuals is withdrawn. Previous law provided for a gradual increase by EEK 3000 per year until it reaches EEK 36 000 by 2012. Thus, the tax exempt personal allowance for individuals continues to be EEK 27 000 per year in 2010 i.e. EEK 2 250 per month;
- ▶ The draft law provides that similarly to

rules applicable in year 2009, individuals will be entitled to one additional tax exempt allowance (EEK 27 000) per each child under the age of 17 years starting only from the second child. Previous law adopted on 19 November 2008 provided that application of the additional personal allowance starting from the second child is applicable only temporarily in 2009 and from 2010 the deduction applies again from the first child. Provided that the new draft law will be passed, for the year 2010 and onwards, the individuals may deduct the additional allowance from the second child in their annual tax return.

The full text of the draft law and the explanatory memorandum are available in Estonian at:

http://www.nigikogu.ee/?page=en_vaade&op=ms&eid=775679&u=20091005131845

Planned amendments to the Excise Tax Act

On 30 September 2009 the Government initiated a draft law introducing amendments to the excise tax acts (585 SE), which provides 10% increase for the alcohol excise starting from 1 January 2010 and 20% increase of tobacco excise from 1 January 2011.

The full text of the draft law and the explanatory memorandum are available in Estonian at:

http://www.nigikogu.ee/?page=en_vaade&op=ms&eid=775670&u=20091005132301

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