

Tax Alert

Tax Services

Estonia • November 2008

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.



Estonian tax changes 2009

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
Pärnu mnt 15, 10141 Tallinn
Tel: + 372 614 1800
E-mail: tallinn@ee.pwc.com
www.pwc.ee

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.

© 2008 AS PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the Estonian firm of AS PricewaterhouseCoopers or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Corporate taxation

The Estonian Parliament adopted several amendments to the Income Tax Act on 19 and 20 November 2008. Most important changes are described below.

The undistributed corporate profits will remain tax-exempt and the tax base for corporations will generally remain the same, except that liquidation proceeds, share buy-backs and capital reductions will similarly to dividends become subject to tax at the level of Estonian company (until 31.12.2008 such items are taxable at the level of the shareholder only).

The profit distributions made by companies will still be subject to 21/79 corporate tax in 2009 and will be subject to reduced 20/80 corporate tax in 2010, 19/81 in 2011 and 18/82 in 2012 (previously the tax rate had to reduce to 18/82 by 2011).

In addition, the Parliament has decided to abolish the introduction of advance

corporate tax payments and changing the tax period and corporate tax reporting from the current monthly basis to a tax year as prescribed in the earlier law amendments adopted on 26 March 2008.

The Parliament made various changes in the withholding taxation of non-residents. Consequently, the withholding taxation on dividends paid to non-residents will be fully abolished from 2009. (In 2008, there is 21% withholding tax on dividends paid to non-resident corporate shareholders not meeting the 15% participation threshold in the Estonian company distributing the dividends).

In addition, the domestic rates of withholding taxes on royalties, fees received by artistes and sportsmen and service fees for services performed in Estonia will be reduced from 15% to 10% as of 2009.

The adopted law will also reduce the threshold for participation exemption from current 15% to 10%. Thus, from 2009 dividends distributed by Estonian companies will be exempt from corporate tax upon distribution if these are paid out

of dividends received from qualified foreign companies in which the Estonian company has at least 10% shareholding. Moreover, from 2009 the credit method may be used for other types of income also in the absence of the effective double tax treaty.



Personal income tax

The Parliament decided to postpone the reduction of individual income tax rates from 2009 to 2010. Thus, the existing 21% flat rate income tax will apply in individual taxation also in 2009.

The Parliament also postponed the increase of the annual tax-exempt basic allowance. This will stay at EEK 27,000 (approx. EUR 1,726) in 2009 and will be increased to EEK 30,000 (approx. EUR 1,917) from 2010, to EEK 33,000 (approx. EUR 2,109) from 2011 and EEK 36,000 (approx. EUR 2,301) from 2012.

In addition, the tax-exempt basic allowance (EEK 27,000, approx. EUR 1,726) for the first child will be temporarily abolished from 1 January 2009. As a result, the allowance would be granted to families with two or more children, where one tax-resident parent may claim an additional personal allowance for the second and each additional child. The basic allowance will be reintroduced for the first child from 1 January 2010.

Value-added taxation

The Estonian Parliament also adopted the amendment to the VAT Act on 19 November 2008, which will increase the rate of reduced VAT from 5% to 9% from 1 January 2009 and will limit the list of items subject to reduced VAT.

Thus, from 2009 reduced rate of 9% will apply only to books, listed pharmaceuticals and medical appliances, hotel accommodation services and periodicals. All other supplies that are currently subject to the reduced 5% rate (i.e. the treatment of dangerous waste, funeral items and services, theatrical performances and concerts) will be taxed at the standard VAT rate of 18% from 1 January 2009.

[For more information regarding the above matter, please do not hesitate to contact us](#)

Tax Alert

Estonia • November 2008

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.

© 2008 AS PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the Estonian firm of AS PricewaterhouseCoopers or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.