

Tax alert

Estonia, April 2020

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.



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Legal acts

On 15 April 2020 Estonian Parliament approved Supplementary Budget Act that stipulates measures to mitigate the effect of the spreading of corona virus COVID-19. These measures include the following tax measures.

Amendments to VAT Act

Application of 0% VAT

Personal protective equipment and other medical equipment (so-called crisis goods) used to prevent and stop the spreading of COVID-19 virus shall be provisionally exempted from the customs duty and VAT. This ensures similar conditions for all types of transactions (import of goods, intra-Community acquisitions, domestic sales). Provisional means that the right to use the 0% rate is linked to a decision made by the European Commission.

The import of crisis goods is exempt from customs duties and import VAT on the basis of the decision of the European Commission on 3.04.2020, which determines the exemption period from 30.01 to 31.07.2020 (could be extended if necessary). Neither the legislation of the European Union or Estonia provides an exhaustive list of goods subject to the exemption, but there is an indicative list used by Estonia in granting it. The exemption is not automatic, but is granted by a decision of the Tax and Customs Board upon the submission of the customs declaration.

Intra-community purchase is tax exempt if import of the same goods is tax exempt.

The 0% VAT rate makes it possible to sell the crisis goods (such as protective masks) imported by an Estonian company, without adding VAT, to the hospital (as an entitled person).

The Ministry of Finance has prepared a guidelines for customs and VAT-free imports, here: https://www.emta.ee/sites/default/files/ariiklient/toll-kaubavahetus/eriolukord/juhis_covid-19_impordivabastus_22.04.2020.pdf (only in Estonian).

Electronic publications: The list of goods and services to which a reduced VAT rate of 9% applies will be extended as of 1.05.2020

The aim of this amendment is to extend the reduced rate of 9% applicable to paper publications to publications on other physical media and to electronic publications (books, academic literature, press publications), which are presently subject to the VAT rate of 20%. Publications on physical media other than paper publications are audiobooks that are stored on a CD or other physical medium and that include the same textual information as a paper or electronic book.

The aim of the amendment is to tax publications, that differ only in the form in which they are published, similarly.

The employer is temporarily released from the obligation to pay the minimum social tax

Employers will not have to meet the obligation to pay at least the minimum amount of social tax per employee on salaries paid in March, April and May 2020. Instead, there is an obligation to declare and pay social tax on remuneration that is actually paid to the given employee. Employees will not lose their right to medical insurance due to this change.

Persons with a contract concluded under the law of obligations, i.e. not an employment contract, will not lose their medical insurance

Medical insurance for the insured persons that work on the basis of a service contract will not lose their medical insurance even if the minimum obligation to pay social tax is not met during the state of emergency. There is an obligation to declare and pay social tax on remuneration that was actually paid to the person.

Changes in Taxation Act regarding interest payments

Calculation and payment of tax interest (0.06%) will be suspended from 1 March 2020 until the end of the state of emergency. In

Legal acts

essence, the state gives interest fee loan to taxpayers during this time. The rate of the general tax interest will be reduced from 0.06% to 0.03% per day from the end of the state of emergency until 31 December 2021. In addition, the tax authority shall have the right to reduce the interest on a deferred tax liability by up to 100% during the period of 1 May 2020 to 31 December 2021.

A supplementary corporate income tax exemption on donations and gifts

If a legal person makes a donation or a gift for charitable purposes to an agency of an Estonian governmental body or that of a local municipality, or a social welfare institution or to an owner of an Estonia-based hospital during the period of 12 March 2020 to 01 July 2020, such a donation or gift shall not be subject to corporate income tax.

Excise duties will be temporarily reduced for the period 1 May 2020 to 30 April 2022

In order to mitigate the consequences of an emergency situation, excise duties on certain fuels and electricity will be temporarily reduced.

Please see more for information on temporary rates of excise duties here:

<https://www.emta.ee/et/arklient/aktsiisid-vara-hasartmang/kutus-ja-elektrienergia/aktsiisimaarade-ajutine-vahendamine>

Changes in pension scheme payments

The state will suspend state-funded payments (4%) into the second pillar pension fund of employees for the period of 1 July 2020 to 31 August 2021. Withheld pension contributions from employee's salary (2%) are still payable.

Starting from October 2020, employees will be entitled to submit applications to suspend their own payments (2%) into the second pillar

pension fund for the period of 1 December 2020 to 31 August 2021.

Changes in income tax for the forestry sector

There are two reasonable changes that will help both the self-employed (FIE) individuals in the forestry sector and individual forest owners. The changes will take effect retroactively from 1.01.2020.

The first change concerns the additional deduction applicable to the sale of timber to the self-employed (in addition to documentary costs), i.e. the estimated cost rate and its scope of the deduction. Previously, this estimated cost rate for the tax period is up to EUR 2,877, effective from 2008, and this rate cannot be applied if the self-employed sells the logging right of the forest. Such a distinction is not economically justified and distorts the sales decisions made by self-employed forest owners, as the sale of timber is preferred.

The new estimated cost rate will be set at up to EUR 5,000 and will also apply to income from the sale of growing forest logging rights and support for Natura 2000 private forest land.

Another important change is that the regulation on the estimated cost rate applicable to the self-employed will be extended to individual forest owners (i.e. those who are not self-employed). There are no reasonable grounds to use the estimated cost rate only if the logged timber is sold and income received (this income type is deemed as entrepreneurial income) by a self-employed person and there is a restriction if the logged timber is sold and income received (income type: capital gain) by individual who is not self-employed.

The possibility to deduct an estimated cost (up to EUR 5000) should compensate for costs that cannot be documented for objective reasons (or are practically difficult), especially where the forest owner seeks to harvest, grow and maintain his own forest rather than purchase it as a service. Such costs are incurred by the forest owner regardless of whether he is registered as self-employed or not.

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