

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.

Contacts:

Hannes Lentsius

E-mail: hannes.lentsius@ee.pwc.com

AS PricewaterhouseCoopers

Tax Services

Pärnu mnt 15, 10141 Tallinn, Estonia

Tel: +372 614 1800

E-mail: tallinn@ee.pwc.com

www.pwc.ee

Tax alert

Estonia, Issue 31, August 2017



Legal acts

Tax Alert August 2017

Before retiring for summer holidays, the Parliament passed amendments of Auditors Activities Act. Majority of the amendments came into force on 1 July. Below we describe the important amendments that entrepreneurs should take into account.

The audit obligation of public limited companies is amended)

Hereafter, the annual report of the public limited company must be audited if the company has more than two shareholders [§ 91 (3)], the previous regulation required the annual report of a public limited company to be always audited. The provision comes into force on 1 September 2017. In case of up to two shareholders, the audit obligation is based on the same criteria as for private limited companies.

Minimum length of audit contract

The mandatory minimum length of a contract to audit the annual accounting reports is established (§ 55 (1)²). From 1 July, the audit contract must be concluded for a minimum of two years. This requirement applies only in case of a mandatory audit.

The annual rotation of auditors complicates filling the requirements of professional standards and may endanger the independence of the auditor. A longer contractual period allows the auditor to better understand the client and improve the quality of the report. It also reduces the costs involved in contracting and the cost per contract per year. This requirement applies not only to public-interest entities, but to all companies. The minimum length of the contract is without prejudice to the parties' rights to terminate it as a pre-emptive remedy in the event of a breach of contract.

The list of public interest entities will be shortened

Limiting the definition of a public-interest entity is an important amendment. Auditors Activities Act's § 13 (1) 4), 5) and subsections (2) ja (3) will be abolished.

From 1 July the public-interest entities (PIE) are credit institutions, insurance companies and stock companies. Many companies and local government units, which were previously subjected to PIE regulation due to their size are now exempted from additional obligations (for example the formation of an audit committee).

Legal acts

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. © 2017 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.

Prohibition of additional services to public-interest entities

A ban for providing non-audit services to PIE will be introduced. (§ 59¹).

The ban applies to the services listed in the Regulation of the European Parliament and the Council (EU) № 537/2014 article 5 (1) a) – k) (so-called „black list“). However, as an exception, a member state may exclude certain services from the „black list“. In Estonia, this is done by regulation in the largest possible volume and these services are:

1. preparation of tax return;
2. identification of state subsidies and tax incentives;
3. assistance with tax audits carried out by tax authorities;
4. calculation of direct and indirect taxes and deferred tax amounts;
5. tax advice;
6. valuation services, including valuation services provided in the framework of actuarial services or in support of legal disputes.

The provision of these services will continue to be subject to the conditions:

1. they are irrelevant to the audited financial statements or they do not have a direct or indirect effect on such reports;
2. the estimated impact on the audited financial

- statement is fully documented and explained in the additional report to the audit committee;
3. the audit firm complies with the independence principles laid down in directive 2006/43/EC

The „blacklist“ therefore includes, for example, the following services: legal services (general counseling, negotiation, representation in court proceedings, services related to the internal audit function of the audited entity, services regarding certain taxes etc.

The above regulation came into force on 17 June 2016 and its provisions therefore apply to audits of financial periods beginning later than 17 June 2016.

Supervisory fee

The mandatory membership fee for a member of the Board of Auditors will be converted into three installments, adding a supervisory fee as a third component. (§ 106 (1)). Supervisory fee covers these costs of supervision which do not correspond to the country's earmarked allocation.

Due to the supervisory fees, the cost of auditors increases. Hereafter, the level of supervision fee is 0.7-2.4% of the audit company's sales revenue. The supervisory fee burden on the auditors can ultimately lead to an increase in service fees of the auditors.