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Tax alert

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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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Unemployment insurance contributions' rates remain unchanged

On 11 September 2015, the Government of Estonia passed the Regulation No. 92 setting the rates of unemployment insurance contributions for the years 2016-2019. The contribution rates in next four years are 1.6% for employees and 0.8% for employers, as they are under the currently effective regulation.

The Government did not support the Supervisory Board of the Estonian Unemployment Insurance Fund in their proposal to reduce the rates as from 2017 down to 1.4% and 0.7%.

Changes in VAT

The Ministry of Finance has published a draft law on amendments to VAT Act. The main changes concern VAT treatment of the sales to the European Union institutions and the defence forces of NATO member states. According the draft law, the currently applied exemption with refund of VAT will be replaced by direct exemption as from 1 May 2016 in order to reduce the overall administrative burden.

Direct exemption means that the seller of goods or services is entitled to apply zero-rated VAT if the goods or services are sold to EU institutions in Estonia or to the defence forces and military headquarters of NATO countries which are located in Estonia. The zero-rated VAT may be applied on the basis of a specific VAT exemption certificate as enforced by Council Implementing Regulation No. 282/2011, Annex II. The certificate has to be signed by the EU institution's representative and the Ministry of Foreign Affairs or NATO forces' /military headquarters' representative and the Ministry of Defence, respectively. If the goods or services (except fuel, telecommunication services and utilities) are sold to an EU institution, such as the European Commission's Representation, the European Parliament's Information Office, European Agency for the operational management of IT systems, etc., the total cost before VAT should be at least 53 EUR.

The draft law includes several other changes which should become effective as from 1 July 2016. For example, sales of any collectable coins and bank notes of numismatic interest will be subject to standard VAT (currently exempt).

It is planned to regulate in more detail the declaration rights and procedures of import VAT. Presently, if the formal conditions are met, it is possible to release the goods from customs without a payment of import VAT providing opportunities for a tax fraud. The draft law introduces the legal grounds to suspend or revoke the right to report import VAT in the VAT return. Such right may be revoked by issuing a notice of assessment or if the taxable person has not met the conditions for declaring import VAT in the VAT return during six consecutive months.

In order to optimize the workflow of the tax and customs authorities and border guard forces,

Legal acts

the tax-free goods and related invoices will be in certain occasions checked at the border crossing by the border guard officials instead of the customs officials.

The draft law alleviates the terms of VAT exemption in situations where an independent group of persons provides to its member services necessary for a member to exercise its main activity which is exempt from VAT or in relation to which the member is not a taxable person. An independent group of persons refers to any type of company or non-profit organization. According to the explanatory notes, the mitigated regulation could be implemented in the future, for example, in the banking sector to allocate the costs for the development of a common IT solution.