

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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Tax alert

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Legal acts

Changes in duration of national health insurance coverage

Recent amendments to the Health Insurance Act, enforced as from 1 January 2016, introduce a new system of national health insurance coverage for the members of management / supervisory board and individual contractors who are not self-employed.

Under the new regulation, the duration of coverage is linked to the corporate and payroll tax return 'TSD'. In order to be eligible for the coverage, the amount of social tax reported for the individual must be at least at the officially set minimum rate which is EUR 128.70 in 2016 (EUR390*33%). No longer are applicable the 14-day waiting period before one is actively enrolled to the system nor the two-month warranty period after the engagement enabling the coverage has ended. The health insurance coverage may be obtained under a single or multiple engagements, the main criterion is that the total of social tax reported and paid by all employers must be at least EUR 128.70.

The coverage takes effect after the TSD is submitted and ceases when the minimum social tax has not been reported by the date the TSD is due (10th of each month). The coverage does not cease during the time the individual is entitled to receive benefits related to temporary incapacity (e.g. sickness benefit).

An example: An agreement for services is concluded with a member of the board on 1 January

2016. He is paid for the services on 31 January, at least minimum social tax is reported on the form TSD which is filed on 10 February. The health insurance coverage is valid for the period of 11 February -10 March. If the same pattern is repeated in March, the coverage automatically extends to the period of 11 March – 10 April, and so on. If the initial payment to the member of the board is made on 1 February, his health insurance coverage would start on 11 March, i.e. one day after the February TSD is due.

Changes in Commercial Code

During 2015, a number of changes were made to the Commercial Code including a few that have impact on profit distribution on the basis of 2015 annual report and on the report itself.

Firstly, a further restriction was set on distribution of the profits in the cases where the company balance sheet as at 31 December 2015 includes development costs capitalised as intangible assets and which have not fully depreciated by the end of the financial year (CC § 157 section 3¹ - concerning private limited liability companies and § 335 section 1² – concerning public limited liability companies).

The Guidelines of the Accounting Standards' Board define 'development' as the application of research findings to the development, design or testing of new products, services, processes or systems (for example the development of a new recipe or production process).

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In order to calculate the distributable profits under the new, more confining regulation, the balance of undepreciated development costs must be deducted from the total of profit (i.e. profit from the previous periods and net profit) and distributable reserves.

An example: The company's balance sheet as of 31 December 2015 includes undepreciated development costs at the amount of EUR 25 000. The total amount of retained profit is EUR 75 000. There are no distributable reserves. In this case the amount of profit that may be distributed is EUR 50 000, which is found by subtracting the undepreciated development costs (25, 000) from the retained profit (75, 000).

Another change concerns the Estonian companies that have a foreign parent company and which are exempt from the obligation to prepare consolidated financial report under Accounting Act § 29 section 5 or 6.

Such companies must submit to the Commercial Register also the consolidated group report of the parent company (including the auditor's report if the audit is mandatory).

More options for private limited companies

Several amendments made to the Commercial Code in 2015 specifically concern the private limited liability companies ('Osäühing'). Most of the new regulations, however, require changes to the articles of association before they can be applied.

Examples of notable changes in private companies' regulations include:

- a private limited liability company may now issue different types (with different rights) of shares, making it possible to rank the shareholders by voting power and privileges, such as eligibility for the profits;
- the share capital may be conditionally increased by 50%; this would allow to issue share-based options to create an option program for the management, employees or related parties;
- a private limited liability company may buy back its share in nominal value not exceeding 1/3 of the share capital (previously the limit was set at 1/10).

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