

*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

Estonia, Issue 20, August 2016



## Legal acts

### ***Tax relief for sports and health costs to be granted in upcoming years***

A draft law that has the objective of exempting an employee's sports and health costs from income and social tax to the extent of 400 euros per year has been sent for approval by the Ministry of Finance. Currently, if the employer incurs these types of costs without a concrete obligation deriving from law, these are deemed to be fringe benefits and taxed under §48 of the Income Tax Act (ITA).

The draft law seeks to amend §48 of ITA (fringe benefits) allowing an employer responsible for calculating the basic allowance of an employee to make or compensate the below costs to an employee:

1. Participation fee of a public sports event
2. Direct costs related to a sporting or exercising area
3. Costs related to maintaining employer's existing sports facilities
4. Covering the cost of services of rehabilitation doctors, physiotherapists or activity therapist, clinical speech therapist or clinical psychologist that have a professional qualification or have been inserted in a respective national registry.

The threshold for the exemption is 100 euros per quarter per employee i.e. 400 euros per year. Employers will have the obligation to submit an annual tax return about the use of the tax incentive.

The amendment is planned to be effected as of 1 January 2018 and is initially set to be in force for 5 years.

### ***Broadening the scope of the social tax exemption***

In addition, the same draft law lays down an amendment to §3(3) of the Social Tax Act that would grant employers the possibility of paying compensation exempt from social tax up to 100% of the employee's average salary already for the second and third day of medical leave.

This amendment should come into force as of 1 January 2017.

### ***Raising the threshold of registration for VAT and extending the scope of the reverse charge mechanism***

The Government has approved and sent a draft law to the Parliament that raises the threshold for obligation to register as a taxable person for VAT purposes from 16,000 euros to 40,000 euros. If the taxable supplies of the business remain below 40,000 euros, it is free to choose whether to register as a taxable person for VAT or not. The amendment is scheduled to become into force as of 1 January 2018.

Additionally the domestic reverse charge

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mechanism is extended to the metal industry sector. The list of goods subject to reverse charge [VAT § 411 (2)] is complemented with metal products with a certain CN code that are mainly used for construction services and the engineering industry, e.g. construction fixtures; leaf metal both in the form of scrolls and sheets; water and gas pipes; square bars and girders. The amendment is of urgent nature and will be implemented as of 1 January 2017.

### *Changes in Russian Value Added tax in Russia regarding the provision of electronic services*

In June 2016 the Russian State Duma approved tax amendments regarding the taxation of electronic services provided by foreign companies to Russian clients via the Internet. The rate of value added tax is 18% in Russia.

Services that are considered electronic are inter alia:

- services for providing goods, services and intermediating buy-sell offers of goods via the Internet
- the granting of nonexclusive rights to use computer programs and databases via the Internet, including the right to access computer programs, e.g., online games;
- the provision of advertising services on the Internet;

- storing and processing data online;
- the provision of domain names and provision of hosting services;
- the provision of access to search systems on the Internet;
- IP telephony services;
- the provision of rights to use ebooks, music and other content;
- other services provided by law

The amendments will come into effect on 1 January 2017.

According to the amendments, electronic services will be taxed at the location of the customer. Foreign companies providing the abovementioned services to Russian individuals are obliged to calculate and remit Russian VAT unless the obligation is placed on the recipient of the service by law (e.g. if the recipient is a Russian company or a sole proprietor). Even service providers who only engage with clients that are individuals are liable for Russian VAT. In order to comply, it is mandatory to register with the Russian tax authorities and submit VAT returns electronically by the 25th date following each quarter.

The taxable value of the service is calculated based on the sales price including the VAT amount. 15.25% of the sales price is calculated as VAT that must be remitted to the Russian tax authorities by the 25th date following each quarter, whereby the service providers have no right to deduct input VAT on costs incurred in relation to providing their services in Russia.

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