

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:

Villi Tõntson

E-mail: villi.tontson@ee.pwc.com

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 1, January 2015



Legal acts

Income tax and unemployment insurance contributions' rates reduced, tax exempt allowance increased

As from 1.1.2015, the general income tax rate has been reduced from 21% to 20% (from 21/79 to 20/80 for an Estonian corporate taxpayer).

Also, the unemployment insurance contribution rates have been set lower. The new rates are 1.6% for employees and 0.8% for employers (previously 2% and 1%).

The monthly tax exempt allowance has been raised from 144 euros up to 154 euros (1848 euros per year). Tax exempt allowance on pensions is 220 euros per month, thus, along with the general tax exempt allowance, a pensioner may have 374 euros of tax exempt income per month.

Minimum wage

The Government of the Republic has set the rate of minimum wage to increase up to 390 euros per month for full-time work. The rate of minimum hourly wage has been raised from 2,13 euros to 2,34 euros. The new minimum wage rates are effective from January 2015.

New corporate tax return forms

As from 1.1.2015, the corporate tax return form TSD with appendices have been updated (firstly due by 10.02.2015). The main change in the reporting principles is that from now on the taxpayer has to insert only the initial data and the system calculates all respective taxes on taxpayer's behalf (self-assessment is replaced by assessment principle).

Special attention should be paid on Annex 7 of TSD as completion may take longer than usually and appear more complex, especially for those entities founded some years ago or that have been subject to a corporate merger/division. The tax authorities' guidelines on how to fill out the renewed Annex 7 are published on their website:

<http://www.emta.ee/index.php?id=35843>

We recommend looking up in good time.

Legal acts

Loans to employees

As a general rule, loans provided to an employee have been treated as taxable fringe benefits unless the loan has had a stated interest at certain minimum rate set by the Minister of Finance. As from 1.1.2015, such minimum interest rate will no longer be established by the Minister of Finance but instead, it is set as 2x (twice) the interest rate of the European Central Bank applied on the main refinancing operations before 1 January and before 1 July each year. The interest rate is announced by the Estonian Bank on its website:

<http://www.eestipank.ee/volasuhete-intressimaar>
The latest interest rate before 1 January 2015 was 0.05% per year. Thus, if a loan given to employee bears at least 0.1% (2 x 0.05%) interest rate, there should be no taxable event.

Director's fees: non-resident directors

As from 1.01.2015, director's fees paid to non-residents are taxable in Estonia regardless of the paying agent. According to the previous wording of § 29 (2) of the Income Tax Act, director's fees were taxable in Estonia when paid directly by an Estonian entity. This amendment mainly concerns the director's fees paid by a foreign company (often a parent company) to a non-resident individual that has been appointed as a member of management or supervisory board of an Estonian entity (often a subsidiary), or as a director of a permanent establishment of a foreign entity.

Another way to dissolve a company

According to the amendments of the Commercial Code, effective from 2015, a sole shareholder individual may merge with his/her private or public limited liability company ('merged company'). As a result, the merged company will be deleted from the commercial register, whereas all its assets, rights and liabilities will be transferred under the general succession to the individual (sole shareholder). In this case, instead of a lengthy liquidation procedure, less complex merger procedure has to be carried out.

The merger is possible if merging individual is not insolvent and has a written consent from the Tax and Customs Board.

In general, upon such a merger, income tax liability arises at the level of a merged company. The taxable amount is the amount by which the merged company's equity exceeds paid in capital (incl. both monetary and non-monetary contributions) as per financial report. However, in certain cases the merging individual may also be liable to income tax. For example, if the total paid in capital exceeds the acquisition value of the shares in the merged company for the individual. Personal tax liability may also arise if the individual does not have to recover all the liabilities of the merged company.

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. © 2015 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.