

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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Amendments to Taxation Act: Taxes paid to be published

As from 1.08.2014, the state taxes paid by all juridical persons (including companies and private entrepreneurs) and the institutions of the state and local municipalities will be published on the website of the Estonian Tax and Customs Board. The explanatory notes on the new measure mark the aim is to ensure fair competition in the market as well as improvement in tax compliance. Moreover, information on the taxes paid provides public insight into contribution each entity makes towards financing public services.

The taxes to be published include all amounts and types of state taxes (also those challenged by a taxpayer) paid during the calendar year (cumulatively on a cash basis). For the sake of more clear perception, the so called employment taxes – social tax, income tax, mandatory funded pension contribution and unemployment insurance contributions – will be set apart from other types of taxes paid. Otherwise, for example, exclusively or mostly exporting companies with 0%-rated VAT sales might be perceived as non-contributing.

The respective online data base will be updated quarterly on the 10th day of the month following each quarter. The new practise will be launched on 10.10.2014 disclosing the amounts of taxes paid in August and September 2014.

Extended deadline for refunds of tax

The general 30-day period during which excess tax must be refunded by the Tax and Customs Board has been extended by 30 days. In other words, the tax authorities have now 60

days of interest free period to process the tax refund claims. This change concerns the applications for a tax refund submitted from 1 August 2014 onwards.

The general 60-day term is also applied to reclaims of VAT which is the most common type of tax refund claim. However, VAT Act allowed the tax authorities to delay VAT refund claims three times, each up to 30 days (i.e. 90 days in total) on top of the general refund period (which was previously 30 days and is now 60 days). Therefore, in order to keep the maximum processing period of VAT reclaims at 120 days, the possible delays in refund under VAT Act have been restricted to two times 30 days (i.e. 60 days in total). As a result of this amendment, the tax authorities may determine the eligibility of a VAT refund claim during 60 days without an obligation to account for interest in favour of the taxpayer. However, should there be no evidence against the VAT reclaim, any further delays would result in late payment interest at the rate of 0.06% per day starting from the 61st day.

The above amendments to the refund policy do not affect the principles of the refund process of individual income tax. The Tax and Customs Board must refund the excess individual income tax by 1 July of the year following the taxable period. According the Tax and Customs Board, 96% of all income tax refund claims have been fulfilled notably before the due date.

Preparation of a tax audit report on request

According to Taxation Act (§ 81) effective before 1.08.2014, the Tax and Customs Board were obliged to prepare an audit report to close a tax audit even if the audit did not result in any changes in tax liability. As from 1.08.2014, the tax authorities are no longer obliged to prepare an audit report where there are no findings that increase or decrease one's tax liability. However, in such a case, for further information on grounds and conclusions of the tax audit, the taxpayer may request the audit report within 10 calendar days as from the respective notice from the tax authorities. The purpose of the law amendment is to reduce administrative burden on the tax authorities while ensuring the taxpayers their rights.

Amendments to Income Tax Act: Tax exempt car allowance

As from 1.09.2014, the option to pay tax exempt car allowance of 64 euros per month to cover the employment related use of a personal car has been cancelled. However, if driving records are kept in accordance with the official procedure established by the Government of the Republic, it is still possible to pay tax exempt compensation at the rate of 0.3 euros per kilometre. The total tax exempt compensation limit has been increased from 256 euros up to 335 euros per calendar month. The described tax exempt limit can be applied by more than one employer per individual.

A personal car is deemed to be a car in the possession of an employee or a member of management or supervisory

board, and which is not in the ownership or possession (e.g. under a rental contract) of the employer.

The described tax exempt personal car compensation cannot be paid to individuals hired under a general service agreement not governed by labour law. If this is the case, the costs incurred from using a personal car for rendering services may be reimbursed on the basis of the appropriate invoices.

The respective changes have been made to Regulation No. 164 of the Government of the Republic, which sets out the terms of tax exempt compensation.

(Full text in Estonian: <https://www.riigiteataja.ee/akt/126082014011?leiaKehtiv>)

Amendments to Value Added Tax Act:

Restrictions on reclaiming VAT on company car expenses

According to the proposed amendments, VAT treatment of the company cars available for private use should change as from 1.12.2014. Currently the general rule is that input VAT paid on a company car and related expenses can be fully reclaimed, however, monthly VAT charges apply on the value of private use (the latter is defined in Income Tax Act). The new rules introduce 50% limit on reclaims of VAT paid on purchase of a car and related goods and services (such as fuel, repairs, maintenance, etc.). The monthly VAT charges on the value of private use will be abolished.

As the proposed amendments are derogating from the EU VAT Directive, approval from the Council of the European Union is required (pending).

The Ministry of Finance is preparing the respective amendments to VAT return form KMD and to Regulation no 39 which sets out the rules on adjusting VAT paid on capital assets.

Once the proposed amendments to VAT treatment of company cars are final and officially published, we will explain the new rules in more detail in one of the next issues.

The respective application had to be submitted to the Tax and Customs Board by 31.08.2014. All late applications will be processed individually case by case.

Official application form is available on the website of the tax authorities:

http://www.emta.ee/public/Maksud_ja_aktsiisid/KMD_INF/KMD_INF_taotlus_taidetav.pdf

Transitional period set on filing the Form KMD INF

The new VAT form KMD INF must be firstly submitted for November 2014 by 22.12.2014. Provided there is a valid reason why the taxpayer is not able to update the software in time (e.g. the software developer is engaged with other projects), it was possible to apply for temporary exemption from filing the information required in the new form up to 20.06.2015.

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