

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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Changes in accounting and auditing regulations

The Ministry of Finance has published a draft law on amendments to Accounting Act and several other acts, including Auditors Activities Act. For the most part, the force behind the proposed changes is the EU Accounting Directive (2013/34/EU), which Estonia is required to transpose into national law by no later than 20 July 2015.

The main objective of the Accounting Directive is to simplify accounting requirements and thereby reduce the associated administrative burden, especially on small companies. This is done by introducing harmonized approach to the statutory financial statements the companies prepare. The amount of information the Member States may require from the companies should depend on the size of the company, i.e. the larger the company, the higher the level of disclosure.

Size categories for companies and consolidated groups

In order to distinguish the companies by size, specific categories with corresponding thresholds have been proposed. The size categories include micro, small, medium and large companies; and small, medium and large groups. In Estonia, majority of the companies would be defined as micro or small-sized entities. The respective thresholds have been proposed as follows:

A company is categorized as a micro-entity if all of

the four criteria are met as at the balance sheet day of the current and preceding financial year:

1. balance sheet total does not exceed EUR 175 000;
2. liabilities do not exceed share capital;
3. company has only one shareholder who is also a member of the board;
4. company is not registered as a VAT payer.

The size criteria for a small company are met if at least two out of three of the following criteria are fulfilled as at the balance sheet day of the current and preceding financial year:

1. balance sheet total does not exceed EUR 4 000 000;
2. net turnover does not exceed EUR 8 000 000;
3. average number of employees during the financial year does not exceed 50.

In order to shift from one size category to another, the criteria must be broken in two consecutive financial years.

Simplifications for micro- and small-sized companies

According to the draft proposal, micro-sized companies are permitted to publish an abbreviated balance sheet, a profit and loss account and virtually no notes (maximum 3 annexes). Micro entities may choose not to submit the management report.

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For small-sized companies a detailed balance sheet, a profit and loss account and some notes (maximum 9 annexes corresponding the level of detail included in their accounts) are to be prepared to satisfy regulatory requirements.

Any company remains entitled to provide more information or statements on a voluntary basis having regard to the size and nature of their business.

New thresholds for statutory audit and review exemptions

The draft amendments to Auditors Activities Act propose to raise both the statutory financial audit and review exemption thresholds. The new thresholds would apply to the annual accounts concerning the financial years starting 1 January 2016 or later.

It should be noted that increase in audit exemption thresholds would be 100%. This means that many companies currently subject to statutory financial audit would fall into the category of statutory financial review.

Increase in review exemption thresholds is not projected to be as high.

Mandatory disclosure of auditor fees

The draft amendments to Accounting Act introduce

a requirement to all companies that are subject to financial audit to disclose the remuneration receivable by the company's auditor. The nature and amount of the fees for all audit and non-audit services have to be disclosed in the annex to annual financial report in five separate categories: (1) audit services, (2) review services, (3) other assurance services, (4) associated services and (5) other business services, including tax advisory services.

Application of diversity policy in management

Large companies, listed in a stock exchange of an EU or EEA Member State, will have an obligation to disclose diversity policies applied in the management of the company. A description of the diversity policy should be included in the corporate governance statement (which is a part of the management report).

If diversity policy is not applied there is no obligation to put one in place, however, the corporate governance statement should then include a clear explanation why this is the case.

The competencies of Estonian Accounting Standards Board change

The current version of the Estonian accounting standards, a simplified summary of IFRS which is widely used by the companies that are not required

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to prepare their accounts in accordance with IFRS, was drafted by the Estonian Accounting Standards Board (EASB). As per proposed law amendments, EASB will be released from this role. In the future, the Estonian accounting standards will be set forth with the regulations of the Minister of Finance.

New standards for annual accounts of a permanent establishment

As an interesting example of other changes proposed to Accounting Act, the Ministry of Finance has announced its commitment to drafting detailed rules on annual accounts of permanent establishments of foreign entities. According to currently effective regulations, annual accounts of a permanent establishment may be prepared in line with the rules applicable in the country of origin.

The draft documents concerning all of the proposed changes in accounting and auditing regulations are available in Estonian language on the Government website and can be viewed at:

<http://eelnoud.valitsus.ee/main/mount/docList/5c3072a6-54d8-4a61-bd59-dceae891efbb#cgzObLbo>

Changes in Income Tax Act

The Ministry of Finance has recently published a set of changes that concern income taxation. We will review the respective draft law amendment act

in more detail in our next newsletter. However, as a brief glimpse into what is waiting ahead, the law amending proposals include significant increase in the limit of tax exempt daily allowance. The current rate 32 euros per day spent outside of Estonia will be raised up to 50 euros. And secondly, if passed by the Parliament, the amended Income Tax Act would offer individuals with real estate rental income a 20% unlimited deduction.

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