

Doing business and investing in Estonia 2017



Contents

5 *Office location in Estonia*

6 *1 Country profile and investment climate*

- 1.1 Introduction
 - 1.2 Government structure
 - 1.3 Legal system
 - 1.4 People
 - 1.5 Economy
 - 1.6 Foreign trade
 - 1.7 Further reading
-

12 *2 Business environment*

- 2.1 Business climate
 - 2.2 Free trade zones
 - 2.3 International agreements
 - 2.4 Legal environment
 - 2.5 Regulations for business
 - 2.6 Property market
-

18 *3 Banking, finance and insurance*

- 3.1 Banking system
 - 3.2 Specialised financial institutions
 - 3.3 Investment institutions
 - 3.4 Capital markets
-

20 *4 Importing and exporting*

- 4.1 Trends in customs policy
 - 4.2 Import restrictions
 - 4.3 Customs duties
 - 4.4 Temporary import relief
 - 4.5 Documentation and procedures
 - 4.6 Warehousing and storage
 - 4.7 Re-exports
-

22 *5 Business entities*

- 5.1 Legal framework
 - 5.2 Choice of entity and business forms
 - 5.3 Private limited company (OÜ) and public limited company (AS)
 - 5.4 Partnerships
 - 5.5 Branches
 - 5.6 Representative offices
 - 5.7 Sole proprietorship
-

26 *6 Labour relations and social security*

- 6.1 Labour market
 - 6.2 Labour relations
 - 6.3 Working conditions
 - 6.4 Social security system
 - 6.5 Foreign personnel
-

32 *7 Accounting and audit requirements*

- 7.1 Accounting
 - 7.2 Chart of accounts
 - 7.3 Audit requirements
-

35 **8 Tax system and administration**

- 8.1 Tax system
- 8.2 Direct and indirect tax burden
- 8.3 Principal taxes
- 8.4 Legislative framework
- 8.5 Tax treaties
- 8.6 Tax returns and payments
- 8.7 Assessments
- 8.8 Appeals
- 8.9 Withholding taxes
- 8.10 Tax audits
- 8.11 Penalties
- 8.12 Advance clarifications

41 **9 Taxation of corporations**

- 9.1 Corporate tax system
- 9.2 Incentives
- 9.3 Taxable income
- 9.4 Deductibility of expenses
- 9.5 Related party transactions
- 9.6 Foreign exchange
- 9.7 Tax computations
- 9.8 Other taxes
- 9.9 Branch versus subsidiary
- 9.10 Holding companies

45 **10 Taxation of individuals**

- 10.1 Territoriality and residence
- 10.2 Taxable income
- 10.3 Non-taxable income
- 10.4 Deductions
- 10.5 Taxation of non-residents
- 10.6 Tax compliance

48 **11 Value added tax (VAT)**

- 11.1 Introduction
- 11.2 Scope of VAT
- 11.3 Zero-rating
- 11.4 Exempt supplies
- 11.5 Taxable amount
- 11.6 Non-deductible input VAT
- 11.7 VAT incentives
- 11.8 Simplification measures
- 11.9 Specific reverse charge
- 11.10 VAT compliance

52 **12 PwC in Estonia**

- 12.1 Assurance services
- 12.2 Tax services
- 12.3 PwC Legal
- 12.4 Advisory services

55 **Appendices**

Foreword

We welcome the opportunity through this Guide to provide relevant information for doing business and investing in Estonia.

Estonia is a small country located at the heart of the Baltic Sea Region - Europe's fast growing market of nearly 100 million people. Attractive location between East and West, an excellent business environment, stable government and liberal economic policy, moderate costs and the ease of doing business have already attracted numerous international companies to Estonia.

Estonia's economic freedom is among the highest in the world. In 2016 Index of Economic Freedom (prepared by the Heritage Foundation) Estonia is ranked 9th out of 178 countries. The Ease of Doing Business index by the World Bank (2017) sets Estonia at the 12th position. According to Transparency International (Corruption Perception Index 2016), Estonia is the least corrupt country in the Central and Eastern Europe.

This Guide has been prepared for the assistance of those interested in doing business in Estonia. It does not cover exhaustively the subjects it treats, but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws, regulations and decisions of the country and to obtain appropriate accounting and legal advice.

If you need additional information on doing business in Estonia, please do not hesitate to contact us in our office in Tallinn or through your nearest PwC office.

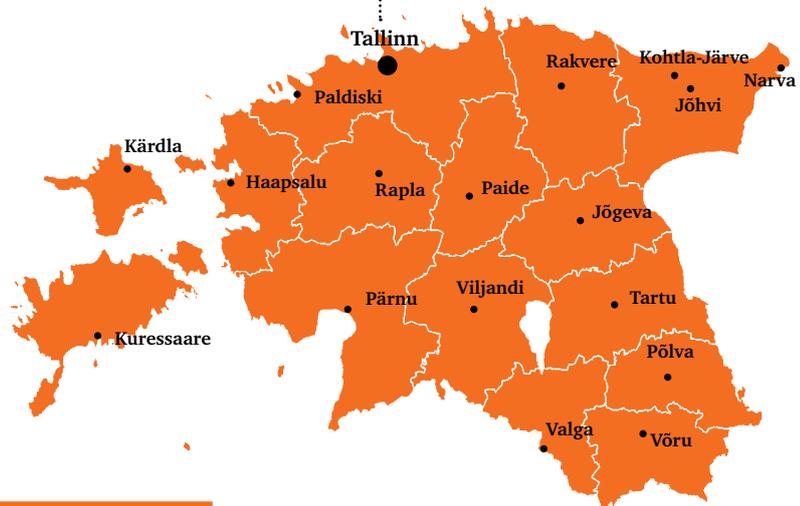


Ago Vilu

A handwritten signature in blue ink, appearing to read 'A. Vilu', written in a cursive style.

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1 Country profile and investment climate

Investor considerations:

A small Nordic country, having close economic ties with Scandinavia and Western Europe

A favourable geographic location on the Baltic Sea, a region of intense economic activities and growth potential with good access to Russia, the CEE countries and the EU region

Member of both the EU and NATO starting from spring 2004

Member of WTO

Part of the Euro zone since 1 January 2011

1.1 Introduction

The Republic of Estonia is situated in Northern Europe along the Baltic Sea. Finland lies to the north of Estonia, across the Gulf of Finland. Sweden is the western neighbour across the Baltic Sea. Estonia borders Russia in the east, with St. Petersburg approximately 200 kilometres across the north-eastern border. In the south Estonia borders Latvia. Estonia has approximately 1.3 million inhabitants.

Tallinn, the capital of Estonia, lies on the Baltic Sea coast, only about 60 kilometres (40 miles) south of Helsinki, across the Gulf of Finland. The population of Tallinn is approximately 440 thousand. Other bigger cities are Tartu, Narva and Pärnu.

The territory of Estonia covers 45 thousand square kilometres (17 thousand square miles). Estonia is a lowland country with average elevation of about 50 meters (160 feet) and a considerable part of the territory covered with wetlands.

The highest point, Suur Munamägi, is only 318m (1,043 feet) above sea level. More than 1,500 offshore islands make up 9 percent of the country's total territory. The largest of the islands are Saaremaa and Hiiumaa. Estonia is a country of numerous lakes, the largest of which are Lake Peipsi and Lake Võrtsjärv.

Estonia has a temperate maritime climate.

The Baltic Sea has a strong influence on local weather, especially in the coastal regions. Temperature ranges from -7°C (19°F) average daily in January to 17°C (63°F) average daily in July. Total rainfall is between 500 and 700 millimetres (20 to 28 inches) a year. There may

be permanent snow cover from December to March and the sea may be iced over during these months.

History

Estonians have been living in this territory since approximately 2500 B.C., making them among the longest settled of the European peoples. Due to Estonia's strategic location as a link between East and West, it has been conquered numerous times, and under foreign rule for several centuries.

At the beginning of the 13th century, Estonia was conquered by the Teutonic knights whose castles still dot the countryside. By 1285, Tallinn was a member of the Hanseatic League. During the Middle Ages, the Hanseatic League, which combined 70 Baltic Sea cities, formed one of the most powerful trading blocs in the world. The German merchant families, which settled here, dominated trading activities and successive generations of Germans built their manor houses across the country.

Germans were only the first among successive waves of conquerors. Danes, Swedes, Poles and Russians all swept across Estonia, setting up successive regimes, fortifying their towns and castles, and shipping their goods through Estonian ports.

In the late 19th century a powerful Estonian nationalist movement arose and on 24 February 1918, Estonia declared its independence from Russia. The period of independence was brief and Estonia was forcibly annexed by the Soviet Union in 1940. In 1991, Estonia regained its independence, having managed to break free from the Soviet Union without any acts of violence. Estonia became a member of NATO on 29 March 2004 and joined the European Union on 1 May 2004.





Since 1 January 2011, Estonia is part of the Euro zone.

1.2 Government structure

The highest authority of national legislation in Estonia is the Constitution of the Republic of Estonia (Eesti Vabariigi põhiseadus). The constitution was adopted by a referendum and came into effect on 29 June 1992, after Estonia had regained its independence.

Any other legislative acts must be in conformity with the Constitution as well as with the generally recognised principles and rules of international law which are an inseparable part of the Estonian legal system.

The Parliament

According to the Constitution, Estonia is an independent and sovereign democratic republic wherein the supreme power of state is vested in the people. The people exercise their supreme power of state through the election of the Estonian parliament (Riigikogu).

Ordinary elections of the 101 members of the unicameral Parliament are held every four years.

All citizens over 18 years of age have the right to vote.

The Parliament is Estonia's highest legislative authority and it is vested with the right to adopt laws.

A distinction is made between ordinary laws which are passed by a simple majority of votes in the Parliament, and constitutional laws, the adoption and amendment of which requires a vote by the majority of all members of the Parliament.

In addition, the Parliament has the right to ratify and withdraw from international treaties and decide on government loans.

Pursuant to the Constitution the Republic of Estonia is not to enter into international treaties which are in conflict with the Constitution.

If laws or other legislation in Estonia are in conflict with international

treaties ratified by the Parliament, the provisions of the international treaty shall apply.

The President

The President of Estonia is elected for five years by the Parliament or, under specific circumstances, by an electoral body consisting of the members of the Parliament and representatives of local governments. The President is the formal head of state and the commander-in-chief of the Estonian Defence Forces.





The laws passed by the Parliament are presented to the President for proclamation. The President has a right to veto the laws passed by the Parliament pursuant to which he/she may return the act to the Parliament.

If the Parliament does not thereafter amend the law, the President can proclaim the law or has the right to propose that the Supreme Court declare the law unconstitutional. If the Supreme Court finds that the law is in conformity with the Constitution, then the President proclaims the law.

The Government

Under certain conditions other state institutions may also exercise legislative power. The Government of the Republic (Vabariigi Valitsus) and the ministers carry out the legislative function by using the right to pass regulations on the basis of and for the implementation of laws (so called *intra legem* regulations).

If the Parliament is unable to convene in a situation of emergency, the President of the Republic may, in matters of urgent state need, issue decrees which have the force of law.

As a member of EU since 1 May 2004, Estonia is bound by EU law. The Ministry of Justice is responsible for the coordination of the harmonisation of Estonian law and EU law, making suggestions about harmonising Estonian legal acts with EU legal acts and giving the ministries and other institutions advice about the EU legal system and the principles of legislation.

Local government councils

Local Government Councils are regional representative and legislative bodies, elected by the residents of a rural municipality or city for the period of three years. All permanent residents (including citizens and non-citizens) of at least 18 years of age are eligible to vote. Local executive power is vested in local governments that resolve local issues and have local budgets to fulfil their duties.

1.3 Legal system

Like all continental European legal systems, the Estonian legal system is founded upon the principle of the priority of legislative acts as a source of law and their precedence over any other sources, such as judicial practice, doctrine or custom.

Courts

Estonia has a three-level court system, where:

- (i) county courts and administrative courts adjudicate matters in the first instance;
- (ii) appeals against decisions of courts of first instance are heard by courts of second instance and;
- (iii) the Supreme Court is the court of the highest instance.

County courts as courts of first instance hear all civil, criminal and misdemeanor matters. The decisions of county courts can be appealed to the courts of appeal (also called circuit courts), being the courts of second instance. Administrative courts hear administrative matters as courts of first instance.

The decisions of county and administrative courts are reviewed by courts of appeal in the second instance by way of appeal proceedings on the basis of an appeal, an appeal against a ruling, or a protest.

The Supreme Court is the court of the highest instance, which reviews

decisions by way of cassation proceedings, i.e. the parties to the proceedings have the right to appeal to the Supreme Court against the decisions of the courts of appeal. A matter is accepted for proceedings in the Supreme Court if the statements presented in the appeal show an opinion that the appeals court applied incorrectly, or materially violated a procedural rule that may involve an incorrect judicial decision. The Supreme Court is also the constitutional review court.

1.4 People

The total population of Estonia is around 1.3 million people. As in other countries in the region, the population growth rate has been very modest recently. Average life expectancy was 78 years in 2015; 73 years for men and 82 years for women. The population density is approximately 30 inhabitants per square km. Around two-thirds of the population is urban, and one-third rural. 69% of the population is of Estonian ethnicity. The second largest ethnic group is Russian, forming approximately 25% of the population. 1.7% of the population has Ukrainian roots, and Belarusians

and Finns make up approximately 0.9% and 0.6% of the population respectively.

The official language is Estonian. More than one million people speak Estonian, which belongs to the Finno-Baltic group of the Finno-Ugric language family. Estonian is closely related to Finnish (the similarity is comparable to that between Italian and Spanish), while Hungarian is a more distant relative. Estonia uses the Latin alphabet. As a majority of the Estonian business community is internationally oriented, English is understood and spoken fluently by a large number of businesspeople. Furthermore, many Estonians speak Russian and, especially in Northern Estonia, Finnish, among other foreign languages.

Overall, most Estonians are not religious. There is a tolerance toward all religions and in general religious beliefs do not affect business activities in Estonia. Formally, Estonians are predominantly Lutherans, but religion does not have any considerable impact on daily life. There are small Russian Orthodox, Baptist and other communities across the country.

Estonia has been reforming its education system since regaining independence in the beginning of 1990s. The current system consists of compulsory basic education, followed by upper-secondary education, at either a general high school or a vocational school. The general education process then offers higher education at university or at an applied higher education institution, and the vocational process offers post-secondary education at a technical school. The reformed educational system does, however, provide for movement between the general and vocational processes. Education is mostly provided in Estonian. State and municipal education establishments are mostly free of charge. There are 26 institutions of higher education in Estonia, including the renowned University of Tartu, Tallinn University of Technology, and other universities. The study programs of the bigger universities tend to be internationally accredited. Some universities have programs in the English language.

After regaining independence from the Soviet Union, Estonia has been among the most advanced emerging markets in Central and Eastern



Europe, mostly owing to the success of its socio-economic reforms over the last twenty years. Estonia has a liberal market-based economy. The government has pursued nearly balanced budgets and low public debt.

Oil shale-based energy production, telecommunications and IT products, textiles, chemical products, banking, food and

fishing, timber and wood products, shipbuilding, electronics, transportation and various services remain key sectors of the Estonian economy. Estonia produces nearly all of the energy needed for the country, supplying large part of its electricity needs with locally mined oil shale. Alternative energy sources such as wood, peat, and biomass contribute approximately 20% of primary energy production.

Key economic indicators over the period 2007-2015 are summarised in the table below.

1.5 Economy

Transport and telecommunications are well developed in Estonia. An efficient road network covers the whole of Estonia, though the quality of some secondary roads remains below western standards. There is

Key economic indicators 2007-2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP									
In current prices (EUR billion)	16.2	16.5	14.2	14.7	16.7	18.0	19.0	20.0	20.5
Real growth (%)	7.2	(5.0)	(14.2)	1.8	7.6	5.0	1.7	2.8	1.2
Prices									
Consumer price index (%)	6.6	10.4	(0.1)	3.0	5.0	3.9	2.8	(0.1)	(0.5)
Labour market and wages									
Unemployment rate (%)	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4	6.2
Average monthly gross wages and salaries (EUR)	724.5	825.2	783.8	792.3	839.0	887.0	949.0	1005.0	1065.0
General government budget									
Revenue (EUR billion)	6.0	6.1	6.2	6.0	6.4	7.0	7.2	7.7	8.2
Expenditure (EUR billion)	5.5	6.6	6.5	6.0	6.2	7.0	7.3	7.6	8.2
Balance (+/-) (EUR billion)	0.4	(0.4)	(0.3)	0.0	0.2	(0.0)	(0.0)	0.1	0.0
Foreign trade (special trade system)									
Exports (EUR billion)	8.0	8.5	6.5	8.7	12.0	12.5	12.3	12.0	11.6
Imports (EUR billion)	11.4	10.9	7.3	9.3	12.7	14.1	13.9	13.8	13.1
Balance of payments									
Current account balance (EUR billion)	(2.4)	(1.4)	0.4	0.3	0.2	(0.3)	(0.1)	0.2	0.4
Current account balance/GDP (%)	(17.1)	(9.8)	2.9	1.8	1.3	(1.9)	(0.4)	0.9	2.2
Direct investments assets' transaction (EUR billion)	1.7	0.9	1.0	0.9	(1.0)	1.0	0.6	0.7	(0.4)
Direct investment liabilities' transaction (EUR billion)	2.2	1.3	1.3	1.9	0.8	1.4	0.8	1.3	(0.6)
International investment position (at end of year)									
International investment position (EUR billion)	(11.6)	(12.5)	(11.3)	(10.5)	(9.1)	(9.2)	(9.5)	(9.2)	(8.3)
Direct investment assets' positions at the end of period (EUR billion)	5.6	6.3	6.0	6.5	6.1	7.1	7.7	8.7	8.4
Gross external debt (EUR billion)	17.4	19.0	17.3	16.5	16.7	18.0	17.6	19.1	19.2

Source: Bank of Estonia

a well-developed rail connection between Estonia and Russia. In combination with the well-located ice-free ports in the northern part of the country (the Port of Muuga near Tallinn being the largest), Estonia has served as a major transit corridor between the West and East. Estonia is connected to the international flight network via its international airport in Tallinn, serving direct flights to numerous European cities.

1.6 Foreign trade

In 2016, the export of goods totalled EUR 11.9 billion and total imports amounted to EUR 13.5 billion. Estonian foreign trade is mainly

based on strong economic ties with Finland, Sweden, Russia, Latvia, Lithuania and Germany, as well as with other countries.

1.7 Further reading

Some general tips for business visitors on visas, currency and public holidays can be found in Appendix B. For further background reading on Estonia, the web pages referred to below contain some very reliable material.

General information about Estonia: <http://www.visitestonia.com/>

Statistical information about Estonia: <http://www.stat.ee/en>

Background on the investment climate in Estonia: <http://www.investinestonia.com/>

Information about foreign trade: <http://www.estoniantrade.ee>

Information about the Estonian language: <http://www.einst.ee/publications/language/>

Information about the capital city Tallinn: <http://www.tourism.tallinn.ee/eng>

Estonian exports and imports by commodity groups, 2016

	EUR in billions	Exports	% of total	Imports	% of total
	Food and live animals	0.8	7%	1.0	8%
	Beverages and tobacco	0.2	1%	0.3	2%
	Crude materials, inedible, except fuels	1.0	9%	0.5	4%
	Mineral fuels, lubricants and related materials	0.9	8%	1.1	8%
	Animal and vegetable oils, fats and waxes	0.0	0%	0.0	0%
	Chemicals and related products	0.7	6%	1.5	11%
	Manufactured goods classified chiefly by material	1.8	15%	2.1	16%
	Machinery and transport equipment	4.2	35%	5.1	38%
	Miscellaneous manufactured articles	2.1	17%	1.5	11%
	Commodities and transactions not classified elsewhere in the SITC	0.1	1%	0.2	1%

Source: Statistical Office of Estonia

2 Business environment

Investor considerations:

Estonia is one of the most politically stable countries in CEE region a membership in Eurozone, WTO, NATO and OECD.

Estonia does not have corporate income tax on reinvested profits and it has the lowest public debt in the EU.

Estonia has a highly educated and motivated workforce.

Estonia is a frontrunner in applying modern IT solutions having a wide range of state e-services, e-banking, nation-wide ID-card and a digital signature legally equal to handwritten signature.

Estonia is the most transparent and the least corrupt country in CEE (Transparency International Corruption Perception Index 2016, 22nd out of 176 countries)

Economic freedom is regarded as one of the highest in the World and the best in EU (Economic Freedom World Ranking 2016, 9th out of 178 countries)

Regulatory environment is conducive for starting and operating a company (World Bank Ease of Doing Business 2016, 12th out of 190 countries)

2.1 Business climate

Estonia is the leading country in Central and Eastern Europe in terms of attracting foreign direct investments. Estonia is within a 3-hour flight from most major European, Scandinavian and Russian cities. Overall, the business climate in Estonia is characterised as free business and trade in alignment with EU practices. Many companies are subsidiaries of European, particularly Scandinavian, firms. Estonia has some of the highest credit ratings in the region (Standard & Poor: AA-; Moody's: A1; Fitch IBCA: A+).

Estonia is a member of euro area since 2011, but the country's cost level is still significantly lower than that of neighbouring Scandinavian countries.

Throughout the period of regained independence, the economic and fiscal policy of the Government has mostly been aimed at achieving long-term economic growth. The overall Government attitude is very welcoming towards foreign capital, especially into sectors that are export-oriented, innovative and support regional development. 0% corporate income tax is imposed on all reinvested earnings in Estonia.

Estonia is one of the leading countries in the world in creating and implementing e-government solutions and cyber security. 99% of people use Internet banking services and more than 95% complete their income tax return over the Internet. Estonia hosts both the cyber security centre of NATO and the IT-agency of the European Union.

2.2 Free trade zones

There are four free trade zones established under separate orders of the Estonian Government: at the ports of Muuga; Paldiski and Sillamäe in the northern coast of Estonia as well as in Valga in the south-east Estonia (see also chapter 4.6).

2.3 International agreements

Estonia is a member of the WTO from 1999 and the European Union and NATO from 2004. In 2010, Estonia became the 34th member of OECD, the organisation that includes most of the world's wealthiest and most developed countries. Currently Estonia has 57 double taxation treaties in force.

2.4 Legal environment

Estonia has systematically reformed its legal system since the 1990s





with the top policy priority being facilitation of entrepreneurship. Legislators and governments have always displayed the clear will to make the business environment attractive in order to benefit from tax revenues and the jobs created by attracting foreign investors.

The Estonian legal environment favours entrepreneurship and the entrepreneurial mind-set. Foreign investors have equal rights and obligations with local entrepreneurs. All foreign investors may establish a company and conduct business in Estonia in the same way as local investors; no restrictions apply.

2.5 Regulations for business

Competition policy
Estonian competition policy is generally in line with EU competition principles.

The Estonian Competition Authority is the responsible body for supervisory and regulatory activities in this area. The Authority consists

of the Competition Division, Energy and Water Regulatory Division and Communications Regulatory Division. Estonia is one of the few countries in the European Union, where the anti-competitive agreements, so-called cartels, are processed in criminal proceedings.

Price controls

The Estonian Competition Act provides a general rule under which agreements between concerted practices and decisions by associations of undertakings which directly or indirectly fix prices or any other trading conditions, including prices of goods, tariffs, fees, mark-ups, discounts, rebates, basic fees, premiums, additional fees, interest rates, rent or lease payments applicable to third parties are prohibited. This principle is applied in conformity with the European Commission Notice on Vertical Restraints (2000/C 291/01), which prohibits the establishment of a fixed resale price. However, the provision of a list of recommended prices or maximum prices by the supplier to the buyer is not considered in

itself a violation of price controls regulation.

Consumer protection

The principal legal acts regulating consumer protection are the Consumer Protection Act, the Trading Act, the Advertising Act and the Law of Obligations Act. The protection of the legitimate rights of consumers and development and the implementation of consumer policy in accordance with the provisions of UN Guidelines, the Consumer Protection Act and of EU consumer policy is vested mainly in the Estonian Consumer Protection Board (CPB).

The three most important functions of the CPB are to supervise the consumer market, settle consumer complaints and inform and advise consumers. The CPB constitutes an inexpensive alternative to the civil courts, and the decisions of the Board serve as guidelines for trade enterprises. The Board is entitled to impose fines and prescriptive orders in case of a violation of the Consumer Protection Act and

other regulations. Together with other state and local government institutions, the Board also monitors the following fields: product safety, misleading advertising, consumer contracts, public services, product labelling, etc.

Patents, trademarks, copyrights

The principal Estonian laws governing intellectual property are the Copyright Act, the Patents Act, the Trademark Act, the Utility Models Act, the Industrial Design Protection Act and the Geographical Indication Protection Act. Business names and trade secrets are protected under the Commercial

Code and the Competition Act. Estonia has been a member of the WIPO (World Intellectual Property Organization) since 1994, and also a signatory to several international treaties, including the Paris and Berne Conventions, the Geneva Act of the Hague Agreement and the Madrid Protocol.

Patents

Inventions in any field of technology are entitled to patent protection provided they meet the criteria set forth in the Patent Act. An invention may be in the form of a device, process or material, including biological material, or their combination. An invention is patentable if it is new, involves

an inventive step and is capable of industrial application. The creator of a patented invention has a moral right of authorship. This right is inalienable and extends for an indefinite term. Creators also have the economic right to receive fair proceeds from profits made on the invention. Economic rights are transferable and inheritable.

An invention is granted patent protection upon its registration in the State Registry of Patents. The owner of the patent has exclusive rights to the patented inventions throughout the validity of the patent term (20 years). The right to apply for and hold a patent is, as a general rule, vested in the author



of the invention and the author's legal successors. Patent applications are filed with the Patent Office and an applicable state fee is paid. The Patent Office will then conduct an investigation to determine whether the invention meets the criteria and either issues a patent or rejects the application.

Trademarks

The Trademark Act defined trademarks and service marks as signs used to distinguish the goods and services of a particular person from similar types of goods and services offered by other persons. Trademarks are entitled to protection if they are registered in the Estonian Registry of Trade and

Service Marks, with the WIPO or the EU Office for Harmonisation in the Internal Market.

To register a trademark with the Estonian Registry of Trade and Service Marks, an application has to be filed with the Estonian Patent Office and the applicant has to pay a state fee. The Patent Office will review the application and issue a decision granting or denying the application. The term of protection for registered trademarks lasts for ten years and is renewable for further ten-year periods.

Copyrights

Copyright protection extends to any original works in the realms of

literature, art or science that are expressed in an objective form and are perceived and reproduced in this form either directly or by means of technical devices. A copyright to a work arises automatically upon the creation of the work; neither publication of the work nor registration of a copyright is necessary.

Estonian copyright law provides for both moral and economic rights. Protection of moral rights is perpetual while economic rights are subject to protection for 70 years from the author's death.

Anti-dumping

Estonia applies EU trade policy such as anti-dumping or anti-subsidy measures. The EU import regime applies to Estonia.

As stated in the law, dumping is the export of goods by a foreign exporter to Estonian customs territory for free circulation of those goods, below their normal value according to the Customs Code. The anti-dumping measures are customs taxes applicable with the rate ascertained by investigative procedure for reducing damage to Estonian industry resulting from the import of goods at dumping prices.

While the EU has a rather liberal foreign trade policy, some products need import licenses. There are some restrictions, especially on farm products, following the implementation of the CAP (Common Agricultural Policy): the application of compensations on import and export of farm products, aimed at favouring the development of agriculture within the EU, implies a certain number of control and regulation systems for goods entering the EU territory.

Acquisitions

The two main types of acquisitions are acquisition by way of business (asset) purchase, and acquisition by way of share purchase. The actual type of acquisition depends on the intentions of the parties, e.g. whether the investor is





interested in whole or part of the business of the target company, and what are the outstanding liabilities of the target company, etc. It is always recommended to conduct the due diligence before the acquisition, regardless of the type of acquisition.

Transfer of business

The Estonian Commercial Code defines business as an economic entity through which the company is operating. One company can have several enterprises, e.g. structural entities like production plants, retail stores, etc.

A transfer of business enterprise is usually undertaken when the buyer is not interested in some parts or liabilities of the company.

In practice, the investor is mostly interested in certain assets, rights and goodwill of the target company and negotiates the price accordingly.

Nevertheless, under the Law of Obligations Act, upon transfer of assets that form a business enterprise, obligations related to the assets sold are also transferred to the buyer.

As a result, the buyer of the assets will be jointly and severally liable for the enterprise-related

obligations of the seller, which are created before the transfer of the enterprise and the due date of which falls within five years after the transfer of assets.

A similar regulation is included in Estonian labour law for the protection of employees in case of a business transfer.

There is no statutory requirement regarding the form of the asset purchase. However, if particular assets involved require a particular form of contract (e.g. transfer of real estate must be notarised), the entire purchase agreement needs to be in the same form, unless the particular assets (such as real estate) are transferred separately from the rest of assets.

Alternatively, the acquisition may be performed by different transactions in different forms.

It should also be noted that public permits and licenses cannot be transferred upon sale of the business enterprise and must be obtained by the acquiring company separately.

Transfer of shares

If the shares in a company are acquired, the buyer acquires all rights and obligations as a shareholder of the company.

The assets and liabilities of the company will not be modified, i.e. no “pick and choose” like in the transfer of business.

In the case of a private limited company (osäühing or OÜ), the acquisition of shares generally requires a notarised share transfer agreement, unless the shares of an OÜ are registered with the Estonian Central Registry of Securities. In the latter case the transfer of shares may be made on the basis of a simple written contract. In the case of a

public limited company (aktsiaselts or AS), a written share transfer agreement is sufficient.

The parties are free to determine the date when the title to the shares is transferred, but for the purposes of the target company (i.e. with regard to the right to vote, right to dividends, etc.), the shares are deemed to be transferred as of the entry of the transfer into the list of shareholders.

If the buyer is not an existing shareholder of the target company and does not acquire a 100% shareholding in the target company, the other shareholders of the private limited company (OÜ or osäühing) have a pre-emptive right to purchase the shares, unless the articles of association of the target company say otherwise.

In the case of a public limited company (AS or aktsiaselts), the shareholders have the pre-emptive right only if it is prescribed in the articles of association.

It should also be noted that transfer of majority shareholding, or acquisition of control over the company by some other means, might be (if the sales in Estonia of the target company and the sales in Estonia of the buyer exceed a certain threshold) considered as a

merger for the purposes of Estonian Competition Act.

Thus, acquisition by way of share purchase may be subject to merger control but the acquisition by way of business (asset) purchase is not.

The legal aspects of acquisitions in Estonia are not very different from countries in the EU and there are no special restrictions on foreign capital.

2.6 Property market

The Estonian real estate market was the most active in the period of 2004-2006, but in 2007 the number and value of real-estate transactions began to fall gradually. From 2007 to 2011, the real estate market went through a severe recession. To cope with the new situation, market participants had to face a number of difficult decisions and reorganize their way of doing business. In the second half of 2011 and in 2012, the real estate market recovered and both the transaction volumes

and values started to increase again.

In 2013, the Estonian real estate market continued to rise. The rise has mainly been based on the positive developments of the Estonian economy, the growing confidence of people, low interest rates and the gradual addition of new real estate developments.

In 2016, 47,369 purchase-sale transactions of real estate with the total value of about 2.85 billion euros were notarized. About half of the purchase-sale transactions concerned apartments. The real estate market was the most active in Harju and Tartu Counties, which accounted for 42% and 10% of all transactions, respectively.

The most active part of the real estate market in Estonia is the market of apartments. However, the high number of transactions and limited offering in some market segments has increased the prices considerably. The average price

per square meter of an apartment in 2016 in Tallinn was 1647 €/m². Apartments in a new residential building cost between 2500-3500 €/m² (excluding unique apartments).

The number of transactions has increased considerably due to the low interest rates, which has kept the real estate market accessible to many buyers. In recent years the monthly average interest rate of housing loan has steadily been around 2-3%.

**Apartments'
average
price per m²
Tallinn
2016**

**1647
€/m²**



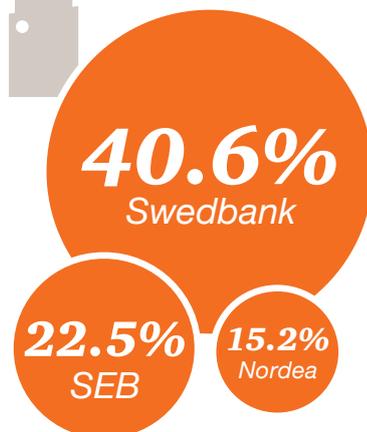
3 Banking, finance and insurance

Investor considerations:

Estonia is part of the Euro zone since 1 January 2011

The largest banks are subsidiaries and affiliates of Scandinavian banking groups

A wide range of financial services is available to both local and foreign customers



Market share in Estonia
30 Dec 2016

3.1 Banking system

The Bank of Estonia (Eesti Pank) is the independent central bank. As Estonia is part of the Euro zone, the core tasks of the Bank are to help to define the monetary policy of the European Community and to implement the monetary policy of the European Central Bank. Eesti Pank is also responsible for holding and managing Estonian official foreign exchange reserves as well as supervising overall financial stability and maintaining reliable and well-functioning payment systems. Eesti Pank is responsible for the circulation of cash in Estonia.

The developments in the banking sector since Estonia regained independence have been rapid, along with the trend of welcoming foreign capital. The banking sector has gone through major restructuring as a result of privatisation, consolidation and bankruptcy in late 1990s, following a relatively stable period in the 2000s. The banking sector is dominated by two major commercial banks, Swedbank and SEB, owned by Swedish banking groups. These two banks control approximately 63% of the financial services market. The third largest bank is an affiliate of the Finnish Nordea group and the fourth largest bank is an affiliate of the Danish Danske Bank. There are no state-owned commercial banks or other credit institutions.

Estonian banks offer a full range of services. There is no differentiation between local and foreign businessmen and entities, which can generally access the same range of banking services in Estonia as they do in Western European countries.

Estonian banking has achieved significant success in the development of electronic transaction systems. The number



of internet clients is growing continuously. Active co-operation between major banks and mobile operators has also led to innovative solutions for customers. Debit and credit cards are widely used in everyday transactions.

3.2 Specialised financial institutions

Estonian commercial banks are the largest providers of leasing and factoring services. The services provided are becoming more sophisticated and diverse while the clients are also becoming more aware of the services on offer. The sector has been growing extensively as a result of the decline in interest rates and the increase in customers' welfare. The range of potential leasing objects has grown to include anything from bikes, home furniture and travelling arrangements up to real estate, personal vehicles, trucks and farming equipment.

The factoring services include domestic factoring, export factoring, invoice factoring as well as tax factoring. There are also options to finance VAT returns. For international companies, the available factoring services include the handling of the entire accounts receivable portfolio of local companies.

The Estonian insurance market has similarly gone through a major consolidation over the years since

Market share of banks by total assets as of 30 December 2016

EUR in billion	Total assets	Market share
Swedbank AS	9.74	40.6%
AS SEB Pank	5.39	22.5%
Nordea Bank Finland PLC Eesti filiaal	3.64	15.2%
Danske Bank A/S Eesti filiaal	1.61	6.7%
AS LHV Pank	0.85	3.5%
AS DNB Pank	0.77	3.2%
AS BIGBANK	0.41	1.7%
OP Corporate Bank plc Eesti filiaal	0.38	1.6%
AS Eesti Krediidipank	0.28	1.2%
Versobank AS	0.21	0.9%
Tallinna Äripanga AS	0.20	0.8%
AS Citadele banka Eesti filiaal	0.19	0.8%
Svenska Handelsbanken AB Eesti filiaal	0.16	0.7%
AS Inbank	0.08	0.3%
Scania Finans AB Eesti filiaal	0.04	0.2%
Folkefinans AS Eesti filiaal	0.00	0.0%
Total	23.97	100.0%

Source: Financial Supervision Authority

independence and has reached stability. A wide choice of insurance services is available from Estonian insurance companies as well as from international service providers.

3.3 Investment institutions

Investment funds provide a wide range of different investment options. There are four types of investment funds allowed in Estonia. Contractual investment and investment funds founded as a joint-stock company are the main types of funds used for investment purposes. The majority of Estonian investment funds are managed by Estonian commercial banks. Operations of mandatory and voluntary pension funds build on the pension reform that was gradually implemented by 2003.

Contributions into the pension fund are compulsory for young people. Others may voluntarily join the system but they cannot

cancel the contract afterwards. The contribution to the mandatory pension fund is calculated as 2% of the salary to which the state add 4% of the individuals' salary. Overall, mandatory pension funds have become popular among individuals. Voluntary pension funds offer aside pension, and also traditional insurance services as for example life insurance. There is a tax incentive according to which individuals can make contributions up to 15% of their income that are considered to be exempt from income tax.

Venture capital facilities have become more and more accessible. In addition to expanding small and medium enterprises, it has become easier to gain access to financing through EBRD and other development programs. Nevertheless, the amount of venture capital committed to Estonia is still relatively small when compared to developed countries and some CEE countries. The capital is usually of foreign origin although many local

brokerage and investment banking units are also involved in direct investment activity by providing companies with private equity finance.

3.4 Capital markets

All Estonian public limited company (AS-type) securities are registered in the Estonian Central Security Depository. Transactions with securities can be made using over-the-counter systems or on the regulated market.

The regulated stock market operates in the context of a cross-Baltic stock exchange maintained by the NASDAQ OMX Group that coordinates the trading process and imposes regulations. Investors can enjoy simplified access and minimised investment barriers when operating on Estonian, Latvian and Lithuanian markets. Overall, the Baltic stock markets have similar market practices and rules for all three Baltic countries, with common market information and trading systems.

4 Importing and exporting

Investor considerations:

All customs clearance procedures are carried out electronically. Common customs tariff duties are applicable to all goods imported into the EU. Importers may apply for deferred taxation. VAT is not imposed on the import of goods subject to immediate tax warehousing on the condition that the recipient of the imported goods is the keeper of the tax warehouse. Exporters and importers must have EORI registration.



4.1 Trends in customs policy

As the member of the EU, Estonia has implemented the EU customs legislation. As of May 1 2016, a new Union Customs Code and related acts became applicable, which replaced Community Customs Code and its implementing provisions effective before that.

The priority of Estonian customs authorities has been and will be in the future the contraband trade, especially tobacco products and alcohol.

4.2 Import restrictions

There is no banned list in Estonia, but some goods (e.g. drugs, military equipment, cultural objects, hazardous waste, CITES goods) need specific permission for importation which is given by the authorities concerned.

Some quotas for certain types of goods are imposed by the EU and are applied to all member states. The quotas enable the importation of duty-free goods or goods at a lower rate, until the quotas are filled.

4.3 Customs duties

Common customs tariff duties are generally applicable to all goods imported into the EU. However, in certain circumstances, such duties are not applied.

The customs duty rates are based on value and dependent on the type of goods and the country of origin. Imports from EFTA countries, Switzerland, and EU candidate or associated countries are generally free of duty. The duty rate usually stays between zero and 10%. Additional rates are usually levied as a result of anti-dumping cases.

Estonia's membership in the EU implies that all aspects of customs duties are decided by the common customs tariff - TARIC. Customs duties on imports and exports and charges having an equivalent effect are prohibited between member states.

In TARIC all measures relating to tariffs, commercial and agricultural legislation are integrated. This database gives economic operators a clear view of measures to be undertaken when importing or exporting goods. The TARIC does not contain information relating to national levies as rates of VAT and excises.

Valuation rules are based on the WTO Customs Valuation Agreement transposed onto the applicable European Community legislation.

The customs value usually includes the charges for goods, transportation, insurance and other services provided for importing the goods into the EU.

Usually the import taxes should be paid at the point of entry. Importers may apply for deferred taxation.

4.4 Temporary import relief

Under the temporary admission procedure, non-Community goods intended for re-export may be used in the customs territory of the Community, with total or partial relief from import duties.

4.5 Documentation and procedures

All customs clearance is carried through electronically.

Any economic operator established in the EU needs to have an EORI number. Economic operators established outside the EU have to



be assigned an EORI number if they lodge a customs declaration, an Entry or an Exit Summary Declaration.

A special authorisation from the customs authorities is required for:

- the use of the inward- or outward-processing procedure, the temporary admission procedure or the end-use procedure.
- the operation of storage facilities for the temporary storage or customs warehousing of goods, except where the storage facility operator is the customs authority itself. The conditions under which the use of one or more of the procedures referred to above or of the operation of storage facilities is permitted is set out in the authorisation. The authorisation will be effective from the date of issue and is usually at a fixed date. Except where otherwise provided for in the customs legislation, the authorisation mentioned above is granted only to the following persons:
 - persons who are established in the customs territory of the Community;
 - persons who provide the necessary assurance of the proper conduct of operations and, in cases where a

customs debt or other charges may be incurred for goods placed under a special procedure, provide a guarantee required; in case of the temporary admission or inward processing procedure, the person who uses the goods or arranges for their use or who carries out processing operations on the goods or arranges for them to be carried out, respectively.

4.6 Warehousing and storage

Under a storage procedure, non-Community goods may be stored in the customs territory of the Community without being subject to any of the following:

- import duties;
- other charges as provided for under other relevant provisions in force;
- commercial policy measures, insofar as they do not prohibit the entry or exit of goods into or from the customs territory of the Community.

Community goods may be placed under the customs warehousing or free-zone procedure in accordance with the customs legislation or

Community legislation governing specific fields, or in order to benefit from a decision granting repayment or remission of import duties. Generally there is no limit to the length of time goods may remain under a storage procedure.

4.7 Re-exports

Non-Community goods destined to leave the customs territory of the Community are subject to a re-export notification to be lodged at the relevant customs office and with the exit formalities. The re-export notification should meet the requirements for customs clearance documentation.

The re-export procedure is not applied for:

- goods placed under the external transit procedure which only pass through the customs territory of the Community;
- goods trans-shipped within, or directly re-exported from, a free zone;
- goods under the temporary storage procedure which are directly re-exported from an authorised temporary storage facility.

5 Business entities

Investor considerations:

A foreign investor may operate through the following corporate forms that should be registered within the commercial register: a public limited company, a private limited company, a general partnership, a limited partnership, a commercial association or a branch.

The private limited company and public limited company are the most commonly used forms of entities for doing business in Estonia due to their most essential characteristic – the limitation of the shareholders' liability.

Business units like permanent establishments or representative offices are not registered with the Commercial Register. A permanent establishment should be registered in the registry of Estonian Tax and Customs Authorities. As a general rule, Estonian legislation does not recognise the concept of a representative office. However, the branch must be registered in the Commercial Register.

The estimated minimum cost of setting up a branch or subsidiary in Estonia may range between EUR 1,000 to EUR 3,000 (excluding a minimum compulsory share capital).

Establishing a company in Estonia may take from few days up to a couple of weeks. Foreign investors may also buy ready-made companies (in this way, these procedures might take only a few days upon receiving all the relevant information/ documents).



5.1 Legal framework

The legal environment for business entities in Estonia is mostly regulated by the Commercial Code (*Äriseadustik*).

The passive legal capacity of an entity commences as of its entry in the commercial register and terminates as of its deletion from the Commercial Register.

Every entity must have a business name which is entered in the Commercial Register and under which the undertaking operates.

The business name always contains the appendage referring to the legal form of the entity. A business name

may not be misleading with regard to the legal form, area or scope of activity of the undertaking nor contrary to good morals.

When starting operations in Estonia, it should be kept in mind that there are certain areas of activity for which a license is required or in which only a particular type of entity may operate, as well as areas of activity in which operation is prohibited by law.

There may also be special requirements deriving from the law with respect to the obligations of companies which are dependent on the area of business of the company (e.g. banking, investment, insurance, lending, sale of fuel or alcohol, etc.).

As a general rule, entities are subject to accounting obligations and need to submit financial statements to the Commercial Register. An audit of the financial statements may be required depending on the legal form and the amount of share capital of the entity.

Entities may merge, divide or be transformed only in the cases and pursuant to the procedure provided by law. In the cases provided by law, the permission of a competent agency is required for merger, division or transformation.

5.2 Choice of entity and business forms

The Commercial Code provides for five types of business entities: general partnership (*täisühing*), limited partnership (*usaldusühing*), private limited company (*osajühing*), public limited company (*aktsiaselts*) and commercial association (*tulundusühistu*).

Of the five types of entities regulated under the Commercial Code, the private limited company and public limited company are the most commonly used forms of entity for doing business. This is due to their

most essential characteristic – the limitation of the shareholders' liability.

Consequently the main emphasis of this chapter is on these two forms of business, and the central aspects of their operation are presented in the form of a comparison. However, at first, please find a short overview of the other business entities.

5.3 Private limited company (OÜ) and public limited company (AS)

Private limited companies and public limited companies have a share capital divided into private limited company shares and public limited company shares, and the shareholders are not personally liable for the obligations of the companies – the companies are liable for the performance of their obligations with all of their assets.

Limited companies are established by concluding notarised certified foundation agreements and adopting articles of association.

Private limited companies may also be established with an expedited procedure. In such cases all the

necessary documents are presented to the Commercial Register electronically and authenticated with digital signatures.

Even though the number of shareholders is unlimited by law in both cases, the private limited company is suited for a more closed circle of contributors.

Accordingly, safeguards enabling respective control are provided by law, including rights of pre-emption in case of the sale of shares to non-shareholders, and even the possibility of prescribing (in the articles of association) that a resolution of the partners is required to transfer a share or a part thereof to a third party.

The shares of a public limited company are freely transferable, but shareholders may establish pre-emptive rights in the articles of association.

As for the minimum share capital, it is EUR 25,000 in the case of a public limited company and EUR 2,500 in the case of a private limited company. In certain fields of activity (e.g. banking, insurance





€ 2,500

*Private limited company
minimum share capital*

companies, etc.) the laws may provide for higher share capital requirements.

The private limited companies may also be established without contribution of share capital, provided that the founders are private individuals only and the planned minimum share capital does not exceed EUR 25,000. The share capital of such a company will consist of claims against the shareholders, who are liable with all of their assets up to the amount they have promised to pay to the share capital of the company.

In a public limited company each share grants one vote at the shareholders' general meeting. In a private limited company each shareholder holds one share and each EUR 1 of the share generally gives one vote at the meeting of shareholders unless articles of association states otherwise.

The shares of a public limited company must be registered with the Estonian Central Registry

of Securities (CRS). The shares of a private limited company can be registered with the CRS if desired. If the shares of the private limited company are not registered in the CRS, the share registry is kept by the company's management board.

Transactions for transferring and pledging the shares of private limited companies must be notarised, unless the shares are registered in the CRS.

Thus registration of the shares of a private limited company in the CRS is advisable if numerous transactions with the shares are anticipated. There are no similar requirements as to the form of transactions with shares of public limited companies. Transfers as well as pledges of public limited company shares are registered in the CRS.

Corporate governance

The management structure of the public limited company consists of three levels, the shareholders' general meeting, the supervisory board and the management board, whereas the management structure of the private limited company usually lacks the level of the supervisory board.

However, a private limited company must have a supervisory board if it is prescribed by the articles of association.

The management board, the members of which are elected by the supervisory board, is a directing body of the limited company, which represents and directs the company, whereas the supervisory board plans the activities and organises the management of the company as well as supervising the activities of the management board.

For the management board, consent of the supervisory board is required for conclusion of transactions, which are beyond the scope of everyday economic activities. Where the company lacks a supervisory board, these rights and obligations are exercised by the meeting of the shareholders.

The shareholders' general meeting is the highest management body of a public limited company whereas the respective body of a private limited company is called the meeting of shareholders.

These management bodies are vested with powers to take the most crucial decisions from the perspective of the company's development – division of dividends, approval of financial statements, election and recalling of the members of the supervisory board, etc.

Liability

A member of the management board is expected to perform his or her duties with due diligence. Management board members shall be jointly and severally liable for damage wrongfully caused to the company, unless they prove that they have acted with due diligence. The same applies with respect to the supervisory board members.

Generally, the liability of shareholders for the limited company's obligations is limited to their payments into the company's share capital.

However, shareholders are held liable for any damage wrongfully caused to a public limited company, another shareholder or third persons.



5.4 Partnerships

General partnership – a company in which two or more partners operate under a common business name and are solely liable for the obligations of the general partnership with all of their assets.

Limited partnership – a company in which two or more persons operate under a common business name, and at least one of the persons (general partner) is liable for the obligations of the limited partnership with all of the general partner's assets, and at least one of the persons (limited partner) is liable for the obligations of the limited partnership to the extent of the limited partner's contribution.

Commercial association – a company for which the purpose is to support and promote the economic interests of its members through joint economic activity in which the members participate as consumers or users of other benefits, suppliers, through work contribution, through the use of services or in any other similar manner.

A commercial association is liable for its obligations with all of its assets. Members of a commercial association are not personally liable for the obligations of the association. However, the articles of association may prescribe that the members are solely liable for the obligations of the association with all of their assets, or liable to a certain extent.

5.5 Branches

Another way for a foreign company to permanently offer goods or services in its own name in Estonia is to establish a branch (*filiaal*). The business name of the branch of a foreign company must consist of the business name of the company and the words *Eesti filiaal* (Estonian branch). The branch must be registered in the Estonian Commercial Registry through submission of an application and certain required documentation.



Certain entities such as foreign banks or insurance companies located in non-EU states must also obtain a required license. Banks and insurance companies from EU member states must notify the Estonian Financial Supervision Authority that they intend to commence activities in Estonia.

It should be considered that a branch is not a business entity and the foreign enterprise is liable for obligations arising from the activities of the branch. The foreign enterprise is also liable to appoint one or more directors that are accountable to the foreign enterprise. At least one director

must be resident in an EU state or Switzerland.

5.6 Representative offices

As a general rule, Estonian legislation does not recognise a representative office.

5.7 Sole proprietorship

In addition to the possibility of establishing a business entity, it is possible for any natural person to conduct business as a sole proprietor who must be entered in the commercial register before commencing with permanent business activity.

6 Labour relations and social security

Investor considerations:

Trade unions and employers generally have a cooperative relationship; strikes are rather unusual in Estonia.

Social security contributions (33.8%) calculated from the gross employment income are payable by the employer.

Employees do not make any personal social tax contributions. Employee's part of unemployment insurance contributions and compulsory accumulative pension contributions are withheld from the gross income by the employer.

Foreigners, residing in Estonia on the basis of residence permit, are, in general, permitted to work in Estonia. Separate work permits are not issued.

Short-term employment of non-residents must be registered with the Police and Border Guard Board.

Non-resident may act as a member of the management or supervisory board of Estonian legal entity without the registration.



6.1 Labour market

The economically active population is approximately 600 thousand. About one third of them have higher education and 86% of adults speak at least one foreign language. For older generation the main foreign language is Russian and for younger adults English. Estonian students are amongst the best in Europe on their English language skills.

Structural unemployment continues to be an issue and there's a continuous need for talent in sectors relying on skilled labour. At the same time there are 30 thousand people registered as unemployed and over 3,000 jobs available. The unemployment rate has been around 5% of total population in last few years.

6.2 Labour relations

Employer/employee relations

Regulations regarding employment and labour issues are regulated by the Employment Contracts Act (*Töölepinguseadus*).

Work relations are also regulated with the Law of Obligations Act (*Võlaõigusseadus*), the Individual Labour Dispute Resolution

Act (*Individaalse töövaidluse lahendamise seadus*), and the Occupational Health and Safety Act (*Töötervishoiu ja tööohutuse seadus*).

Compared to rather strict and protective labour laws of „old Europe“, Estonian employment law is more liberal and offers more flexibility in agreeing on terms and conditions of employment. However, the principle of protection of employees, as the economically weaker party, is applied – therefore the agreement between employee and employer on terms that are disadvantageous to employee, compared to what is set forth in legislation, may be void.

Also the principles of equal treatment and non-discrimination of employees need to be followed.

Trade unions and collective agreements

Trade unions are visible generally in transportation, health services and the processing industry. However, the level of activity is significantly lower than in western European countries. Membership in a union is not compulsory.

86%
of adults

Speak at least
one foreign language



A collective agreement as a voluntary agreement between employees or a union or federation of employees, and an employer or an association or federation of employers can be concluded. Currently there are slightly over 800 effective collective agreements registered.

6.3 Working conditions

Salaries and wages

All rules regarding remuneration for employees working under an employment contract are set forth in the Employment Contracts Act. Employment contracts must specify the employee's wage rate, additional payments, if any, method for calculation of the remuneration and procedures for paying remuneration.

Due to free movement of workforce and competitiveness of Estonians at Scandinavian (and other) job markets the pressure on wages is expected to continue. In recent years, the average gross salary has increased at the pace of 5-9% per year and equalled EUR 1,096 in in



€ 470

Minimum wage for 2017

2016. Also the legally established minimum wage has increased almost every year and is EUR 470 for 2017.

The employer's obligation is to calculate and withhold all payroll taxes.

Employment contracts

Foreigners and stateless persons who reside in Estonia permanently have rights pertaining to employment equal to those of Estonian citizens unless otherwise prescribed by law.

The employment contract must be concluded in writing. An oral

employment contract may be entered into only for employment for a term of less than two weeks. Employment contracts must contain certain mandatory terms. Employers bear administrative liability for formalising employment contracts.

An employment contract is generally entered into for unlimited term, unless the limited term if justified by good reasons arising from the temporary fixed-term characteristics of the work. Probation period up to 4 months can be applied.

Employment agreement can be amended only with mutual consent, so it's advisable to sign off all important terms including work responsibilities, internal work rules and all company's regulations while entering into employment contract.

A natural person of eighteen years or over, who has an active legal capacity or restricted active legal capacity can be employed. As for the employment of minors, there are legal restrictions towards the conclusion of an employment contract as well as towards the



nature of the work that may be performed by minors and their working conditions.

All natural and legal persons providing the work are required to register the persons employed by them with the Estonian Tax and Customs Board. The requirement applies to all workers, including also in addition to employees, the contractors, managers without employment contract, trainees and volunteers. The registration is required by the moment an employee commences the work, i.e. directly before starting the work. The tax inspectors perform regular inspections, mainly in specific sectors such as construction works, restaurants and catering etc.

Working hours

It is presumed that a full-time employee works 40 hours during a 7-days period, 8 hours per day. Certain flexible options exist for applying summarised working time calculation within specified period up to 4 months.

The hours of part-time employees are agreed between the employer and employee; overtime is normally permitted upon an agreement between the employer and employee.

Certain limits must be observed when working overtime; total working time may generally not exceed an average of 48 hours per week over a four-month period.

Details regarding the work regime, such as the start and end of the work day, time for meals and other breaks, may be determined by internal work procedures, collective agreement or work contract.

An employee is entitled to annual paid leave in the amount of 28 calendar days.

Paid holidays

There are ten legally-imposed holidays in Estonia. These are: 1 January – New Year's Day; 24 February – Independence Day; Good Friday; Easter Sunday; 1 May – May Day; Pentecost; 23 June – Victory Day; 24 June – Midsummer Day; 20 August

- Day of Restoration of Independence; 24 December – Christmas Eve; 25 December – Christmas Day; 26 December – Boxing Day. Employers are required to grant employees paid leave in the amount of three hours on a work day directly preceding the New Year's Day, Independence Day, Victory Day and Christmas Eve. Work on public holidays has to be compensated at a double rate.

Equal opportunities

According to prohibition on discrimination against employees, an employer cannot discriminate against a potential or existing employee on any of the following grounds: sex, race, religion, age, disability and sexual orientation.

Termination of employment

Bases for the termination of an employment contract are provided in the Employment Contracts Act.

An employer may not cancel an employment contract ordinarily, but it may be terminated upon agreement between the parties at any time. The extraordinary



termination of the employment contract on the initiative of the employer is allowed on economic reasons (decrease in the work volume or reorganisation of work or other cessation of work) or on reasons related to employee (inability to perform his/her duties, breach of trust etc).

6.4 Social security system

The social protection system is made up of two pillars: the social security system that comprises pension insurance, health insurance, child benefits, unemployment benefits and funeral grants; and the social welfare pillar that consists of social assistance cash benefits and social services. In the Estonian context, no distinction is made between social insurance and social security, which are covered by the same term in the Estonian language. The pension and health insurance schemes are contributory social security schemes that are financed principally by the social tax. The Estonian social tax of 33% (comprising 20% social security contributions and 13% health insurance contributions) must be paid by employers on top of the gross salary. Currently, employees are not required to make any personal social tax contributions.



The Estonian pension system is divided into three pillars:

- First pillar: state pensions. The state pension insurance guarantees an income for people when they retire or in the event of their becoming incapacitated or losing their provider. State pensions are paid out from the social tax calculated on salaries.
- Second pillar: the compulsory accumulative pension scheme to which resident employees make contributions at 2% of their gross salary and the state adds 4% of the 33% social tax calculated on the employee's salary.
- Third pillar: supplementary funded pensions i.e. additional voluntary pensions.

The government sets specific rules for the three-pillar system: administering the 1st pillar, guaranteeing the 2nd pillar and providing supervision and regulation system for both the 2nd and 3rd pillars.

Employers make contributions (through the national social tax) to the 1st pillar. Employees make mandatory payments into the 2nd pillar and are free to choose whether or not to contribute to the 3rd pillar.

Under Estonian unemployment insurance legislation the unemployment insurance contributions must be paid both

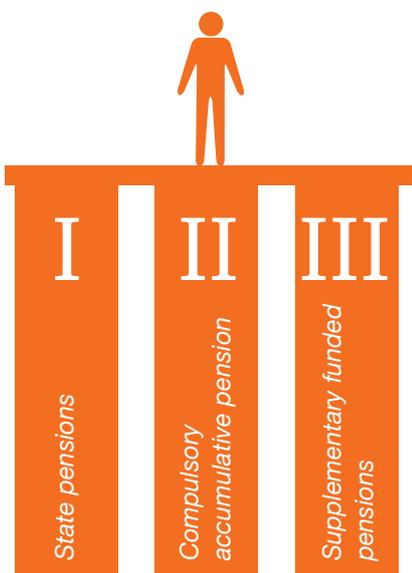
by the employer and the employee (again by withholding).

The rates of unemployment insurance contributions set by law are flexible: 0.5 - 2.8 % for employees and 0.25 - 1.4 % for employers. Currently the applicable contributions are respectively 1.6% and 0.8%.

For income tax purposes, the employee's unemployment contribution is deductible from the resident individual's taxable income. Unemployment insurance contribution does not apply to the remuneration paid to the members of the Management Board, members of the Supervisory Board and to the procurators.

EC regulation 1408/71 may make it possible for employees assigned to Estonia from another EU Member State, EEA country or Switzerland to remain covered by their home country social security system. In order to remain covered by the social security system of his/her home country, the employee has to apply for a certificate of social security coverage (e.g. A1) to be issued by the social security authorities of his/her home country before moving to Estonia.

Besides the EC regulation, Estonia has concluded social security treaties with the Canada, Ukraine and Russia which include similar provisions of



social security coverage for assigned employees.

6.5 Foreign personnel

Residence permit

The Citizen of European Union Act prescribes the terms for settling in Estonia of citizens of member states of the European Union and the European Economic Area and the Swiss Confederation (hereinafter “EU citizens”) and their family members who are citizens of third countries and the procedures necessary for it.

Generally, an EU citizen who has resided in Estonia permanently for five successive years, on the basis of the right of temporary residence, will obtain the right of permanent residence.

The residence permits to the third country nationals and persons with undetermined citizenship are issued

under the Aliens Act. Residence permit may be temporary (validity period up to five years) or long-term. Temporary residence permit may be issued to a foreigner:

- for settling with a spouse;
- for settling with a close relative:
- for settling of a minor child with his/her parent
- for settling of an adult child with his/her parent
- for settling of a ward with his/her guardian
- for settling of a parent/grandparent with his/her child/grandchild;
- for settling permanently in Estonia;
- for study;
- for employment;
- for business
- to participate in Criminal Proceedings.

For additional information, see also: <https://www.politsei.ee/en/teenused/residence-permit/tahtajaline-elamisluba>

Employment permit

Foreigners, residing in Estonia on the basis of residence permit, are, in general, permitted to work in Estonia. Separate work permits are not issued.

In addition to the employment in Estonia on the basis of a residence permit, a person may work in Estonia temporarily for up to 270 days during a year if (a) he/she stays legally in Estonia on the basis of visa or on the basis of visa-free stay and (b) whose employment has been registered prior to the commencement of work.

Registration of short-term employment in Estonia must be done by employer. Expedited procedure applies for employment of teachers and lecturers in educational institutions, for scientists and top specialists.

Ordinary procedure of registration of short-term employment is for



experts, consultants and skilled workers (employment for start-up), as well as for au pairs, seasonal workers in agriculture, artists, sportsmen, coaches and some other limited occasions.

For registration of employment see also: <https://www.politsei.ee/en/teenused/working-in-estonia/>

EU citizen may reside and work in Estonia without registration of his/her right of temporary residence for a term of up to 3 months.

A foreigner may carry a managing or supervising role as a member of management body of a legal entity registered in Estonia.

Living conditions

Real estate

In Estonia, the real estate market is well established and there exist no restrictions on buying or renting a flat or a house.

Current offers from the Estonian real estate market are available on the following web pages: www.kv.ee, www.city24.ee or www.ekspresskinnisvara.ee.

In practice, it may be advisable to get in touch with one of the leading real estate companies in Estonia, which are involved in house-hunting services as their main business.

Education

The majority of Estonian schools are teaching in Estonian language and there are Russian schools for ethnic minority. The only accredited school for offering general education based on the European Schools curriculum is Tallinn European School (www.est.edu.ee) where about 120 children from over 40 nationalities currently study. The languages of instruction at the school are mainly English, French and German and there's both primary and secondary school as well as nursery.

Health care

An individual insured in another EU member state (i.e. a holder of the European health insurance card or its replacement certificate) will receive all necessary health care while staying temporarily in Estonia. This insurance covers all medical treatment similarly available to locals. However, it is advisable to have an additional private medical insurance in order to extend the security coverage.

Restrictions on employment

There are no additional restrictions on the number of foreign employees on payroll or on the time period they may be employed in Estonia.

Fiscal registration number

When moving to Estonia an individual does not need a separate fiscal registration – the data logging formalities described below in sub-points are sufficient for the fiscal authorities.



7 Accounting and audit requirements

Investor considerations:

Financial statements should be prepared in accordance with either IFRS as adopted by the European Union, or accounting principles generally accepted in Estonia.

Annual reports prepared in accordance with Estonian GAAP, except for consolidated annual reports, are to be submitted to the Commercial Register electronically.

7.1 Accounting

Statutory requirements

The length of a financial year is twelve months. In the event of an accounting entity being founded or terminated or the date of the commencement of its financial year being changed, or in other cases prescribed by law, the financial year of the accounting entity may be shorter or longer than twelve months but shall not exceed 18 months.

At the end of each financial year, an accounting entity (public limited company, private limited company) is required to prepare an annual report. Starting from 1 January 2016, the content and volume of the annual report depends on the size of a company. The size groups and applicable requirements are defined by the Accounting Act as follows:

Micro-Sized Entity	Small-Sized Entity	Medium-Sized Entity
<p>Private limited companies (OÜ) which are in compliance with all of the following criteria:</p> <ul style="list-style-type: none"> • Total assets¹ do not exceed EUR 175 thousand; • Revenue² does not exceed EUR 50 thousand; • Total liabilities¹ < total equity¹; • One shareholder who is also member of the Management Board. 	<p>Entities which do not exceed the limits of two of the following three criteria:</p> <ul style="list-style-type: none"> • Total assets¹ do not exceed: EUR 4 million; • Revenue²: EUR 8 million; • Employees³: 50. 	<p>Entities which do not exceed the limits of two of the following three criteria:</p> <ul style="list-style-type: none"> • Total assets¹ do not exceed: EUR 20 million; • Revenue²: EUR 40 million; • Employees³: 250.
<ul style="list-style-type: none"> • Two primary statements: abridged balance sheet and income statement; • Specified information in limited amount of notes; • No management report has to be prepared. 	<ul style="list-style-type: none"> • Two primary statements: long or abridged balance sheet, and income statement (if chooses abridged primary statements, certain additional disclosure requirements apply); • Specified information in limited amount of notes; • Management report. 	<ul style="list-style-type: none"> • Full financial statements in accordance with Estonian GAAP or IFRS as endorsed by the EU. • Management report.

¹ At the end of the financial year

² Of the financial year

³ Average during the financial year



Annual report is to be submitted to the Commercial Register within six months of the end of the financial year. All annual reports prepared under Estonian GAAP, except for consolidated annual reports, are to be submitted electronically in XBRL format through Company Registration Portal <https://ettevotjaportaal.rik.ee/>. Other annual reports are to be submitted in pdf format. Consolidated annual reports prepared under Estonian GAAP and annual reports prepared

under IFRS can voluntarily be submitted in XBRL format.

Entries in the Commercial Register are public. Everyone has the right to examine the card register and the business files, and to obtain copies of registry cards and of documents in the business files.

Branches of foreign companies need not to prepare annual reports. Instead, an unattested copy of the audited and approved annual report of the company is submitted to the Commercial Register of the location of the branch no later than one month after approval of the annual report or seven months after the end of the financial year.

This requirement does not apply to companies of states which are Contracting Parties to the EEA Agreement if the legislation of the country of the registered office of the company does not require the annual report to be disclosed.

Obligation to preserve accounting documents:

- accounting source documents – for seven years from the end of the financial year during which the source document was recorded in the accounts;
- accounting ledgers, journals, contracts, financial statements, reports and other business documents which are necessary for reconstructing business transactions during audits – for seven years from the end of the corresponding financial year;
- business documents relating to long-term rights or obligations – for seven years after the expiry of their term of validity;
- accounting rules and procedures – for seven years after the amendment or replacement thereof;
- accounting registers created electronically should be preserved electronically. The legibility of the data should be ensured within the preservation period.

Accounting principles in Estonia

Financial statements should be prepared in accordance with either:

- accounting principles generally accepted in Estonia; or
- IFRS as adopted by the EU.

Listed companies and financial institutions are required to prepare financial statements in accordance with IFRS as adopted by the EU.

Estonian GAAP is written by the Estonian Accounting Standards Board (EASB).

Estonian GAAP effective from 2013 is based on IFRS for Small and Medium-sized Entities (IFRS for SMEs) with limited differences from IFRS for SMEs with regard to accounting policies as well as disclosure requirements. Differences in accounting policies arise mainly due to the fact that in some areas Estonian GAAP allows a choice of accounting policy, one of the alternatives being the only policy accepted under IFRS for SMEs. Except for differences from limited reasons, net profit and equity

are usually the same, regardless whether the financial statements are prepared in accordance with IFRS for SMEs or Estonian GAAP

In areas not specifically covered by Estonian GAAP, the treatment in IFRS for SMEs is recommended, but not mandatory. Each Estonian GAAP standard contains a brief comparison with the respective section of IFRS for SMEs. Translation of the guidelines is available at <http://www.fin.ee/aruandluskorraldus/Inglise.zip>.

7.2 Chart of accounts

Generally the chart of accounts is used in Estonia, but is not compulsory under the current legislation.

7.3 Audit requirements

Public limited companies (AS) are subject to audit. In addition, audit or review is mandatory if an entity exceeds certain quantitative thresholds (consolidating entities apply the thresholds to the consolidated numbers). The

	Review	Audit
Exceeds at least 2 of the 3		
Revenue ¹	EUR 1.6 million	EUR 4 million
Employees ²	24	60
Total assets ³	EUR 0.8 million	EUR 2 million
Exceeds at least 1 of the 3		
Revenue ¹	EUR 4.8 million	EUR 12 million
Employees ²	72	180
Total assets ³	EUR 2.4 million	EUR 6 million

¹ Of the financial year
² Average during the financial year
³ At the end of the financial year

Audit is mandatory if the number of employees exceeds



thresholds effective from 1 January 2016 are presented below:

An entity subject to a review may instead opt for an audit.

The Authorised Public Accountants Act provides requirements for public interest entities (PIEs).

The following entities are considered as PIEs (the list is not exhaustive):

- Listed entities;
- Financial institutions; or
- Entities which exceed at least two of the following thresholds:
 - Revenue or income EUR 66 million;
 - Total assets at balance sheet date EUR 33 million;
 - Average number of employees during financial year: 1,000.

PIEs must form audit committees, consisting of at least two members, including at least two members having expertise in the field of accounting, finance or law. The definition of PIE will be changed in 2017.

Auditors

All certified auditors are members of the Board of Auditors (www.audiitorkogu.ee), a self-governing professional association of Estonian auditors, which organises the professional activities of auditors and protects their rights. At present there are ca 350 auditors in Estonia.

The Auditing rules include requirements for auditing and professional ethics to be based on the standards of the International Federation of Accountants.

The Board of Auditors is responsible for the supervision of the professional activities of auditors and compliance with the Auditing rules.



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Auditors in
Estonia



8 Tax system and administration

Investor considerations

Main principles of Estonian tax policy: simple tax system, broad tax base and low rates.

The aim of the Estonian Government is to shift the tax burden from labor to consumption.

Flat income tax rate since 1994 (flat income tax rate at 20% applies to both individuals and companies).

Unique corporate tax system since 2000: all undistributed corporate profits are tax-exempt.

Local taxes play an insignificant role in the Estonian tax system.

Estonia operates a self-assessment system.

The Government's intention is to improve tax administration (electronic tax administration is well established).

8.1 Tax system

Administration of the tax system

Taxes are levied on the basis of tax laws enacted by Parliament. Both state and local taxes are imposed under the taxation laws. The structure and basis of the tax system is regulated by the Law on Taxation. Local taxes are introduced by local municipal councils according to the Law on Local Taxes. Local taxes play an insignificant role in the Estonian tax system.

The tax administrator is the Estonian Tax and Customs Board. Local taxes are administrated by the local municipal councils and local offices of the Tax Board.

The allocation of state taxes between national and local governments is set out by the tax legislation. The

Income Tax Law states that 11.6% of resident individuals' income tax before deductions is allocated to local municipalities, but the rest, including all taxes levied from pensions and capital gains, is allocated to the state budget.

Classes of taxpayers

Estonian taxpayers are resident and non-resident legal entities and individuals. The term legal entity includes companies, partnerships, legal entities established under public law and non-profit organisations and foundations.

A legal entity is treated as resident in Estonia if it is founded under Estonian laws. An Estonian branch of a foreign company is generally treated as a permanent establishment of a non-resident entity. An individual is treated as



resident in Estonia if the person has a permanent place of residence in Estonia, is present in the country for 183 days or more during any 12-month period, or if a person is employed in the public state service of Estonia, dispatched abroad.

Non-resident taxpayers include foreign entities and individuals, or their permanent establishments in Estonia.

Registration requirements

Taxpayers that are based in Estonia and are registered in the Estonian Commercial Register (subsidiaries, branches etc.) will be automatically recorded into the taxpayers registry that is held by Estonian Tax and Customs Authorities. A separate registration is required for VAT purposes.

Foreign companies can only register with the Tax and Customs Authorities in certain circumstances (e.g. acting as a foreign employer, having a permanent establishment and as a VAT liable person).

8.2 Direct and indirect tax burden

Direct taxation in Estonia takes the form of corporate and individual income taxes, as well as a gambling tax. Indirect taxes include VAT, excise taxes and customs duty.

The rest of the national revenue consists of state fees, sale of state property, sale of goods and services and different subsidies.

Tax collections have been stable within the last few years and this also applies to the apportionment of direct/indirect taxes. VAT collection has improved since declaration of invoices exceeding the amount of EUR 1000 became obligatory for taxable persons.

8.3 Principal taxes

The structure and basis of the tax system are set out in the Law on Taxation.



The existing state taxes are:

- Income tax (corporate and personal);
- Social tax;
- Land tax;
- Gambling tax;
- VAT;
- Customs duty;
- Excise duties (alcohol, tobacco, fuel, some packaging materials and electricity);
- Heavy load vehicles tax.

Currently, Estonia does not impose any gift or estate taxes. Various transactions subject to registration with the authorities are liable to payment of a state fee (stamp duty).

Employers and employees must also make mandatory unemployment contributions and compulsory accumulative pension contributions to the state budget.

As permitted by the Law on Local Taxes, a few municipalities have introduced the following local taxes:

- advertisement tax;
- road and street closure tax;
- motor vehicle tax;
- animal tax;
- entertainment tax;
- parking charges.

8.4 Legislative framework

Estonian tax law is harmonised with EU legislation and based on the continental European law model. As of 1 May 2004 EU legislation applies in Estonia like in any other EU member state.

The Parliament has the authority to impose taxes. Local government has a limited right to establish local taxes.

Tax administrators have no discretion to make alterations to legislation or to conclude contracts with taxable persons concerning their tax liabilities.

After accession to the EU, the case decisions of the European Court of Justice are legally binding for Estonian courts and tax authorities.

Estonian law recognises the direct effect of EU legislation. The courts interpret the tax law.

8.5 Tax treaties

Estonia has tax treaties in force with Albania, Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, Bulgaria, Canada, China, Croatia, the Czech Republic, Cyprus, Denmark, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Ireland, Isle of Man, Israel, Italy, Jersey, Kazakhstan, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Moldova, the Netherlands, Norway, Poland, Portugal, Republic of Korea, Romania, Serbia, Singapore, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Thailand, Turkey, Turkmenistan, Ukraine, the United Arab Emirates, the United Kingdom, the United States of America, Uzbekistan and Vietnam.

Treaties have also been concluded with Russia and Morocco but these are not yet in force.

8.6 Tax returns and payments

Legal entities

The period of taxation is a calendar month. The combined corporate income tax and payroll tax return (form "TSD" with appendices) must be submitted to the local tax authorities and taxes must be remitted by the 10th day of the month following a taxable distribution or payment. Tax returns can be lodged through an electronic

form over the Internet. Estonian tax system does not recognise any advance corporate income tax payments.

The VAT taxation period is a calendar month, and the VAT should be declared and paid on or before the 20th day of the following month.

If the statistical threshold (in 2017 per calendar year for dispatches this is EUR 130,000 and arrivals this is EUR 200,000; same threshold was applied in 2015 as well as in 2016) has been exceeded, Intrastat declarations are required to be submitted to Statistics Estonia. The due date for submission of an Intrastat declaration is the 10th working day following the calendar month to which the declaration relates. The declaration liability is valid until the end of the calendar year. A business may file its Intrastat declarations electronically.

EC sales listing is due on a monthly basis by the 20th day of the following month.

Individuals

For individuals, the period of taxation is a calendar year. In general, resident individuals must file an individual income tax return by 31 March following the year in which the income arises. Electronic filing of tax returns becomes available from 15 February.

Certain items of foreign sourced, tax exempt income must be reported for information purposes. Married resident taxpayers may elect to lodge their tax returns jointly or separately.

For non-residents, the tax withheld at source at domestic or treaty rates generally constitutes final tax as regards their Estonian source income and the non-resident is generally not obliged to submit a tax return to the Estonian tax authorities for income so taxed.

However, for certain types of Estonian source income, non-residents are liable under Estonian



domestic law to self assess Estonian tax and submit a tax return to the Estonian tax authorities by the following deadlines:

- Capital gains realised from certain types of assets should generally be reported by 31 March of the year following the realisation of the gain. Capital gains from the sale or disposal of immovable property located in Estonia should be reported within one month of realising the gain.
- Profits derived from business activities (without a registered permanent establishment) conducted in Estonia should generally be reported by 30 June of the following year (or within two months if business activities in Estonia are terminated).
- Other items of Estonian-source income from which income tax was not withheld but should have been must be reported by 31 March of the year following the year in which the income was received.

A resident individual will receive an income tax assessment based on his/her filed return at least 30 days before the tax payment is due and based on that, must pay the final amount of income tax due by 1 July of the year following the period of taxation.

Resident taxpayers who reported business income, capital gains or foreign income in their tax return must pay the final amount of income tax due by 1 October of the year following the period of taxation.

8.7 Assessments

Estonia operates a self-assessment system. Tax returns show the tax due and taxpayers must pay this amount without waiting for a formal assessment notice.

The tax administrator has the right to recalculate the tax due in the tax return according to the terms and order fixed in the Law of Taxation. The taxpayer will be informed in writing about the recalculated tax

to be paid and the reasons for the recalculation.

Resident individual taxpayers will receive an assessment notice upon the submission of individual income tax returns 30 days before the tax due payment deadline.

8.8 Appeals

Where there is a dispute regarding the amount of tax assessed by the tax administrator, the burden of proof that the assessment was incorrect rests with the taxpayer.

The taxpayer has the right to appeal to the local office of the tax administrator who calculated the amount of the tax due and dispute the assessment in question within 30 days after receiving obligatory notice of the amount due.

If the local tax administrator does not accept the appeal, the taxpayer must forward the appeal to the central institution of the tax administrator within seven days, which must make a decision within 30 calendar days of receiving the appeal.

An appeal does not mean that the taxpayer does not have to pay the tax due. However, until the decision is made, the tax administrator cannot freeze or extract funds from the taxpayer's bank account.

The taxpayer or the withholding agent has the right to appeal in court at any stage of the tax dispute. However, again, this does not mean that the taxpayer does not have to pay the tax due until the courts say otherwise.

8.9 Withholding taxes

Withholding agents must withhold income tax from certain payments.

Withholding agents include resident legal entities, resident individuals registered as sole proprietorships or acting as employers, and non-residents having a permanent establishment or acting as employers in Estonia.

The tax must be reported and paid by the 10th day of the month following the payment. Income tax is not withheld from payments to resident companies, registered sole proprietorships and registered permanent establishments of foreign companies.

The following payments are subject to withholding tax:

- There is no withholding tax on interest payments to non-residents.
- Royalties (including payments for the use of industrial, commercial, or scientific equipment) paid to non-residents are generally subject to 10% withholding tax under domestic law, but reduced rates or exemptions may apply under double tax treaties. Certain royalty payments to associated EU and Swiss companies meeting certain conditions are exempt from withholding tax.
- Rental payments to non-residents for the use of immovable property located in Estonia and movable property subject to registration in Estonia (excluding payments for the use of industrial, commercial or scientific equipment) are subject to 20% withholding tax under domestic law, but double tax treaties may exempt payments for the use of movable property from withholding tax.
- Interest, royalties and rental payments to resident individuals are subject to 20% withholding tax.
- Payments to non-resident companies for services provided in Estonia, including management and consultancy fees, are subject to 10% withholding tax under domestic law, but exemptions may apply under double tax treaties. Service fee payments to "tax haven" entities are always subject to 20% withholding tax.
- Salaries, directors' fees and service fees paid to individuals are subject to 20% withholding tax under domestic law, but double tax treaties may exempt service fee payments to non-resident individuals from withholding tax.



- Payments for the activities of non-resident artists or sportsmen carried out in Estonia are subject to 10% withholding tax.
- Certain pensions, insurance benefits, scholarships, prizes, lottery winnings, alimony, etc. paid to non-residents and resident individuals are subject to 20% withholding tax.

For non-residents who do not have a permanent establishment in Estonia, the tax withheld from the above payments at domestic or treaty rates constitutes final tax as regards their Estonian source income and they do not have any tax reporting requirements in Estonia.

For certain types of Estonian source income, non-residents are liable under Estonian domestic law to self-assess Estonian tax and submit a tax return to the Estonian tax authorities. Such types of income include:

- taxable capital gains;
- profits derived from business conducted in Estonia without

a registered permanent establishment;

- other items of income from which tax was not withheld but should have been withheld.

8.10 Tax audits

The Law on Taxation provides the tax administrator with a right to investigate taxpayers by commencing two different types of tax investigation:

- Audit of individual cases;
- Tax audit.

An audit of individual cases is generally commenced for the purpose of investigating the facts already known by a tax administrator.

Tax audits are used for the purpose of a comprehensive investigation of the taxpayer's overall economic activity, and to identify unknown facts. The related taxes and time ranges will be stated on the notification issued by the tax administrator seven days before the beginning of the revision.

8.11 Penalties

In practice, in case of voluntary adjustments to tax returns the taxpayers will only pay unpaid tax and interest on the late payment.

Currently the interest rate is 0.06% of the tax due for each day of delay.

Under the Estonian Law on Taxation, if a legal person fails to submit a tax return, documents or other information by the due date prescribed by tax laws, or submits false information or knowingly submits incorrect documents to the Tax and Customs Authority, the latter may assess a fine of up to EUR 32,000.

Failure to submit information or submitting incorrect information to the tax authority, to reduce tax or withholding obligations, or to increase or create a claim for refund, or to violate a withholding obligation if the act results in a tax underpayment, refund, set off or compensation without basis of an amount corresponding to or

exceeding major damage, is subject to provisions of the Penal Code.

The limitation period for making an assessment is three years from the due date of the tax return for a simple failure to pay. In the event of intentional tax avoidance (or willful tax evasion), the limitation period for making a tax assessment is five years from the due date of the tax return.

8.12 Advance clarifications

A binding advance ruling will include the tax authorities' opinion on the consequences of a transaction or series of transactions to be undertaken by a taxpayer.

The ruling will be binding on the tax authorities, provided that the transactions are concluded within the time and under the circumstances described in the ruling request, and also provided that the relevant tax legislation had not been changed substantially before the taxpayer entered into the transaction.

Rulings will not be issued on transfer pricing matters and may be denied for hypothetical transactions and transactions with the sole purpose of tax avoidance.

Binding rulings will be issued within 60 days of the submission of the request, or within 90 days if the tax authorities have a valid reason to

request an extension of the response deadline.

Summaries of tax rulings that have general significance or deal with frequently asked questions may be published on the tax authorities' website, with due regard for the protection of tax privacy and personal data of the persons involved.

Upon the taxpayer's request the Estonian Tax and Customs Authorities may also issue an advance clearance within 30 days, but this is not formally binding to them; in practice the authorities follow the clearance issued if all facts and circumstances have been properly described.



9 Taxation of corporations

Investor considerations

All undistributed corporate profits are tax-exempt.

Estonia has no thin capitalisation or CFC rules for corporate taxpayers.

The period of taxation is a calendar month.

Corporate income returns are due by the 10th day of the month following the taxation period.



9.1 Corporate tax system

All undistributed corporate profits are tax-exempt. This exemption covers both active (e.g. trading) and passive (e.g. dividends, interest, royalties) types of income, as well as capital gains from sales of all types of assets, including shares, securities and immovable property. This tax regime is available to Estonian companies and permanent establishments of foreign companies that are registered in Estonia.

Corporate profits are not taxed until the profits are distributed as dividends, share buy-backs, capital reductions, liquidation proceeds or deemed profit distributions, such as transfer pricing adjustments, expenses and payments that do not have a business purpose, fringe benefits, gifts, donations and business entertainment expenses.

9.2 Incentives

There are no special tax incentives in Estonia but the whole Estonian corporate tax system, which provides for an indefinite deferral for taxing corporate profits, can be viewed as a tax incentive that promotes re-investment of profits and thus stimulates economic growth.

Mergers, divisions and re-organisations of companies are generally tax-neutral.

There is no form of consolidation or group taxation for corporate income tax purposes.

Dividends distributed by Estonian companies are exempt from corporate income tax ('participation exemption') if these are paid out of:

- dividends received from Estonian, EU, EEA and Swiss tax resident companies in which the Estonian company has at least 10% shareholding;
- profits derived through a permanent establishment ("PE") in the EU, EEA or Switzerland;
- dividends received from all other foreign companies in which the Estonian company has at least a 10% shareholding, provided that either the underlying profits have been subject to foreign tax or foreign income tax was withheld from dividends received;
- profits derived through a foreign PE in all other countries, provided that such profits have been subject to tax in the country of the PE; or
- liquidation proceedings, share buy-backs or capital reductions, which have been subject to taxation by the distributor of such income.



Estonia has no thin capitalisation or CFC rules for corporate taxpayers.

There are specific anti-tax haven rules for certain dealings with tax haven companies, treating these as deemed profit distributions.

There is a general anti-avoidance rule, which allows tax authorities to ignore the legal form of a transaction and reclassify it for tax purposes according to its “real” economic substance, if there are grounds to believe that the transaction was undertaken for the purpose of avoiding tax. As of 1 November 2016 there is also a special anti-avoidance rule under which the participation exemption for dividends shall not be applied to an arrangement or a series of arrangements which are not genuine, because the main purpose or one of the main purposes is obtaining a tax advantage. The exemption is applied to the extent that they are put into place for valid commercial reasons which reflect the necessary and appropriate economic content for such business activities.

9.3 Taxable income

As noted above, Estonia levies a corporate income tax only on profits that are distributed as dividends, share buy-backs, capital reductions, liquidation proceeds or deemed profit distributions.

Starting from January 2015 distributed profits are generally subject to a 20% corporate income tax (20/80 on the net amount of profit distribution). For example, a company that has profits of 100 available for distribution can distribute dividends of 80, on which it has to pay corporate income tax of 20. From the Estonian perspective, this tax is regarded as a corporate income tax and not a withholding tax, so the tax rate is not affected by double tax treaties. Certain domestic and foreign taxes can be credited against the corporate income tax charge under domestic law or double tax treaties. Certain distributions are exempt from such tax (“participation exemption”).

Dividends paid to non-resident legal entities (including “tax haven”

entities) are not subject to additional withholding tax under domestic law.

Distributable profits are determined by financial statements drawn up in accordance with Estonian GAAP or IAS/IFRS and there is no adjustment of accounting profits for tax purposes (e.g. there is no separate tax depreciation, or tax loss carry forward or carry-back).

9.4 Deductibility of expenses

Depreciation and depletion

Distributable profits are determined by financial statements drawn up in accordance with Estonian GAAP or IAS/IFRS, and there is no adjustment of accounting profits for tax purposes. Corporate entities are not subject to tax depreciation rules.

Net operating losses

There is no use for the losses carried forward, as distributable profits are determined by financial statements drawn up in accordance with Estonian GAAP or IAS/IFRS and there is no adjustment of accounting

profits for tax purposes (tax loss carry-forward or carry-back).

Payments to foreign affiliates

Payments to foreign affiliates are “deductible”, i.e. not subject to 20/80 corporate income tax, as they are deemed profit distributions, provided that the payment serves a business purpose and provides a benefit to the payer, is at arm’s length, and is substantiated by sufficient documentation (see also section 10.5).

Payments to foreign affiliates may also be subject to various withholding taxes. Certain payments to affiliates located in “tax havens” are always subject to 20/80 corporate income tax or 20% withholding tax.

Taxes

All taxes paid are “deductible” for income tax purposes. In certain circumstances domestic or foreign taxes may be creditable against the 20/80 corporate income tax charge under domestic law or an applicable tax treaty.

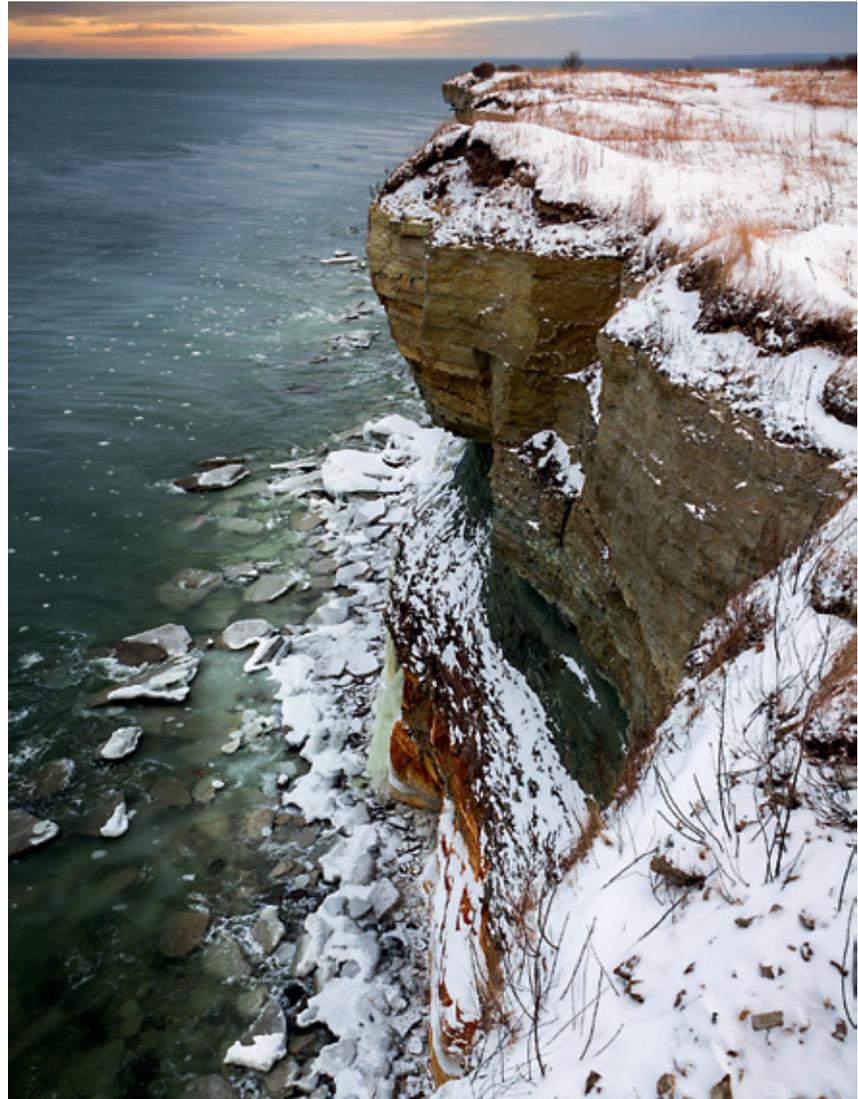
Fringe benefits

Employers operating in Estonia (including foreign companies that have a permanent establishment or employees in Estonia) are liable to Estonian taxation on any fringe benefits granted to their employees (including directors).

Fringe benefits are subject to special tax treatment in Estonia, as it is only the employer who has the obligation to pay taxes on the fringe benefits furnished to the employee. Taxable fringe benefits received by a resident employee are in general not included in the taxable income of the employee for Estonian tax purposes.

Fringe benefits are subject to 20/80 corporate income tax and 33% social tax.

For example, where the amount of the benefit is 100, the income tax due by the employer would be 25 (20/80 x 100) and the social tax due 41.25 (0.33 x 125), making up



a combined total fringe benefit tax charge of approximately 66.

Gifts, donations and representation expenses

Corporate income tax of 20/80 is generally due on gifts and donations. Gifts and donations made to certain qualifying recipients are only subject to 20/80 corporate income tax if such expenses exceed one or both of the following two limitations:

- 3% of the calculated social tax base for the existing calendar year, or
- 10% of the profit of the last financial year according to statutory financial statements.

Representation expenses are generally subject to 20/80 corporate income tax only if they exceed the

threshold of EUR 32 per month plus 2% of the calculated social tax base of the calendar month in which the expenses are paid.

Other significant items

Corporate income tax of 20/80 is generally due on expenses and payments which do not have a business purpose and which are therefore regarded as being profit distributions. These may include, for example, late payment interest on tax arrears, penalties imposed by law, bribes, purchases of services or settlements of obligations not related to the taxpayer’s business, and acquisitions of assets not related to the taxpayer’s business.

Furthermore, there are specific anti-tax haven rules treating certain transactions and dealings with “tax haven” companies as deemed profit

distributions, which are therefore subject to 20/80 corporate income tax. These include:

- acquisition of securities issued by a tax haven entity (exception for certain listed securities);
- acquisition of an ownership interest in a tax haven entity;
- payment of fines or penalties to a tax haven entity, unless settled by court or arbitration;
- granting loans or making prepayments to a tax haven entity or otherwise acquiring a claim against a tax haven entity.

9.5 Related party transactions

Transactions between related parties (both resident and non-resident) and between a head office and its permanent establishment(s) should be conducted at arm's length terms.

Transfer pricing adjustments are treated as deemed profit distributions, which should be declared on a monthly basis and which are subject to 20/80 corporate income tax.

Five transfer pricing methods listed in the regulation are also accepted in the OECD guidelines: comparable uncontrolled price, resale price, cost-plus, profit-split and the transactional net margin method. Estonia has also introduced special transfer pricing documentation requirements for certain taxpayers in line with the EU Transfer Pricing Documentation Code of Conduct.

9.6 Foreign exchange

Foreign exchange gains and losses are tax neutral, as in the absence of annual taxation of net profits all undistributed corporate profits are tax-exempt.

9.7 Tax computations

See section 9.3 above. There is no form of consolidation or group taxation for corporate income tax purposes.

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9.8 Other taxes

Real estate and land tax

Land is subject to annual land tax that is calculated on the assessed value of land at rates between 0.1% and 2.5%, depending on the municipality. The tax is paid by the land owners, or sometimes by the users of the land, generally in two instalments, by 31 March and by 1 October. There is no property tax, i.e. tax on the value of buildings.

Property transfers are generally subject to state and notary fees.

Heavy goods vehicle tax

Heavy goods vehicle tax is paid for the following classes of vehicles that are registered with the Estonian National Motor Vehicle Register and intended for the carriage of goods: (1) lorries with a maximum authorised weight or gross laden weight of over 12 tons; (2) 'road-trains' made up of trucks and trailers with a maximum authorised weight or gross laden weight of over 12 tons. The tax is paid by the owners or users of the vehicles.

Gambling tax

A gambling tax is imposed on amounts received from operating games of skill, totalizators, betting and lotteries. Tax is also charged on gambling tables and slot machines used for games of chance located in licensed premises. The tax is paid by the authorised operators.

Local taxes

Local taxes can be imposed by local municipality or city councils in their administrative area in accordance with the Local Taxes Act. However, the fiscal significance of local taxes is extremely low, as very few local municipalities have introduced

local taxes. Local taxes include advertisement tax, road and street closure tax, motor vehicle tax, a tax on keeping animals, entertainment tax and parking charges.

Environmental taxes

Estonia does not impose any environmental taxes. However, there are certain pollution charges, charges for the use of natural resources and environmental insurances (insurance against pollution risk).

9.9 Branch versus subsidiary

As a general rule, branches and subsidiary companies are subject to similar tax rules in Estonia. In both cases, the retained earnings remain exempt from corporate tax until the distribution of profits to the head office or parent company, respectively. Upon distribution, a 20% monthly corporate tax will be due. There is no branch profits tax (on top of the corporate tax payable upon distribution) in Estonia.

Compared with a branch, in the case of a subsidiary which is a private or public limited company, there may be more tax planning opportunities for the tax efficient repatriation of profits from Estonia.

The Estonian branch of a foreign company is not subject to statutory audit requirement, but it must submit an annual report from the head office to the Commercial Register, and its own annual report to the local tax authorities within six months from the end of the financial year. The subsidiary company must submit its annual report only to the Commercial Register.

9.10 Holding companies

Estonia has a favourable corporate tax regime whereby all undistributed corporate profits are exempted from taxation and this provides for numerous opportunities to use Estonia as a location for holding, financing or trading activities by multinational companies.

10 Taxation of Individuals

Investor considerations

A flat 20% income tax applies to taxable income of individuals starting from 1 January 2015.

Estonian resident individuals are subject to taxation on their worldwide income. Non-resident individuals are subject to taxation on the listed Estonian source income.

Tax on employment income is collected by employers



95%

submitted via the internet

10.1 Territoriality and residence

Individuals are considered residents of Estonia if they have a permanent residence in Estonia, or if their stay in Estonia during any 12-month period exceeds 182 days. An individual may be deemed to have become a tax resident from the date of his arrival to Estonia.

If the tie-breaker article in an applicable double tax treaty allocates the residence of a dual-resident individual to a foreign country (most often if the home and family of the individual remain abroad during an assignment to Estonia), then generally the individual will be taxed as a non-resident in Estonia regardless of the Estonian domestic rule.

10.2 Taxable income

Estonia has a proportional (i.e. flat) tax rate of 20% which applies to all items of income derived by a resident taxpayer. Certain pension payments are subject to 10% income tax.

The gross income of resident individuals includes their worldwide income from all sources, irrespective of the origin of the income.

Taxable income includes both active income such as employment and business income, as well as passive income, such as capital gains, rents and royalties, interest, dividends, certain insurance proceeds, pensions, scholarships, grants, prizes, lottery winnings, etc.

This list is not exhaustive and therefore any income derived by a resident individual not falling within the above categories is taxable, unless a tax exemption is available.

In general, individual taxpayers are taxed on a cash basis. Exceptionally, the Estonian CFC (anti-deferral) rules attribute undistributed profits

of foreign “tax haven” companies to resident individual taxpayers if such companies are controlled by Estonian residents.

Most items of personal income are taxed on a gross basis, mainly through withholding at source, whereas business income and capital gains are taxed on a net basis subject to certain conditions.

Individuals are allowed to defer their income tax liability on the income earned from the transactions with certain financial assets when using a specific investment account system. In order to enter the system, an individual has to have an ‘investment account’ which is an ordinary current account in a bank operating in a country that is a member of European Economic Area or OECD. The number of investment accounts per individual is not limited. Payment of income tax can be deferred if qualifying financial assets are purchased for the money



in the investment account and income from the transactions is immediately transferred to the investment account. All transfers in and out of the investment account(s) must be reported in an individual annual income tax return. Income tax at 20% is paid only when the payments out of the investment account exceed the amount paid in.

10.3 Non-taxable income

For resident individuals, there are numerous items of tax exempt income (excluded from gross income). Some of the more important items of tax-exempt income include domestic dividends, qualifying foreign dividends, qualifying foreign employment income, current account interest received from EEA banks (including Estonian banks), alimonies and certain qualifying capital gains.

As an exception from the general rule, foreign employment income is exempted from Estonian income tax for a resident employee (including withholding requirement), provided that:

- an employee has spent at least 183 days in a 12-month period in a foreign country for the purpose of employment; and
- the foreign employment income is treated as taxable income in the foreign country (which must be proven by documentary evidence) and the employee can produce a certificate stating the amount of income tax paid on the employment income (even if the tax amount is nil).

Tax exempt foreign employment income must be declared in the annual income tax return of the resident individual.

10.4 Deductions

Business deduction

If an individual is carrying out business activities through the form of sole proprietorship, he/she is

allowed to deduct business expenses from the business income.

Non-business deductions (including personal allowance)

Resident individuals and certain qualifying EU resident individuals are allowed to make certain deductions from their gross income.

These include the annual basic personal allowance of € 2,160 and certain additional personal allowances, as well as certain deductible documented expenses, which fall into two categories.

The first category includes certain mandatory payments which can be deducted without any limitations, including unemployment insurance contributions, contributions to compulsory accumulative pension schemes and certain obligatory contributions to foreign social security schemes.

The second category includes deductions which are allowed for tax policy reasons and which have various limitations on deductibility. The second category includes certain bank and leasing interest paid in relation to acquiring personal residence, certain educational expenses, certain gifts and donations





and certain payments to personal pension schemes.

Tax credits

Estonian resident taxpayers who have received foreign-source taxable income are generally allowed to credit foreign income tax against their Estonian income tax liability. The tax credit is limited to 20% of foreign taxable income and is calculated separately for each foreign country.

10.5 Taxation of non-residents

Non-residents are only taxed on their Estonian-source income. For non-residents, income tax withheld at source at domestic or treaty rates generally constitutes final tax. Non-residents are generally not obliged to submit a tax return in Estonia for income so taxed.

However, for certain types of Estonian-source income, non-residents are liable under Estonian domestic law to self-assess their Estonian tax and submit a tax return to the Estonian tax authorities. Such types of income include:

- employment income on which income tax has not been withheld in Estonia;
- certain capital gains;
- profits derived from business conducted in Estonia without a registered permanent establishment;
- other items of income from which tax should have been withheld but was not.

10.6 Tax compliance

The period of taxation is a calendar year. In general, individuals must file a personal income tax return by 31 March following the year in which income was received. As an exception, where gains were derived from a transaction with real estate, non-residents must submit a tax return within one month from the receipt of such gains.

Electronic filing of tax returns becomes available from 15th of February each year. Married resident taxpayers may select filing their tax returns jointly or separately.

A resident individual will receive an income tax assessment based on his

return as filed at least 30 days before the tax payment is due.

Non-residents are liable to self-assess their Estonian tax and submit a tax return to the Estonian tax authorities regarding the income which is taxable but has not been subject to withholding. Non-residents will generally not receive a tax assessment from the tax authorities.

Based on the tax assessment received from the tax authorities, resident individuals must pay the final amount of income tax due by 1 July of the year following the period of taxation. The resident taxpayer who reported business income, foreign income or capital gains in his/her tax return must pay the final amount of income tax due by 1 October of the year following the period of taxation.

In general, non-residents must pay income tax due within three months from the deadline of submitting the tax return.

11 Value added tax (VAT)

Investor considerations

Estonian VAT legislation is based on the EC VAT Directive (2006/112/EEC).

The standard VAT rate is 20% and the reduced rate is 9%.

Estonia applies extended reverse charge mechanism.

An option to tax is available in respect of certain domestic exempt supplies.



reduced VAT rate:



11.1 Introduction

The current VAT Act was introduced effective from 1 May 2004 when Estonia joined the EU. VAT as such was introduced in Estonia effective from 1992 and is known in Estonian as “käibemaks”.

VAT applies to the supply of goods and services performed by a taxable person in the course of its business activities in Estonia.

A taxable person is a person who is engaged in business, which is independent economic activity in the course of which goods or services are supplied, and is registered or required to register for VAT.

The standard 20% rate applies to all supplies of goods and services not qualifying for a reduced 9% rate or exemption. A reduced rate applies to accommodation, books, certain periodicals, listed pharmaceutical products and medical devices. The VAT rate on the export of goods, intra-Community supply of goods and certain services is 0% (i.e. exemption with credit).

VAT and all other taxes are administered by the Estonian Tax and Customs Board (www.emta.ee).

The information covered in this chapter can also be found on www.globalvatonline.com, PwC global website that provides a comprehensive guide to global VAT information from over 70 countries worldwide.

11.2 Scope of VAT

The following transactions are subject to Estonian VAT:

- the supply of goods and provision of services with a place of supply in Estonia;
- the import of goods into Estonia;
- intra-Community acquisition of goods in Estonia;

- the supply of goods or services specified in the Estonian VAT Act, if the taxable person has opted for taxation of those.

11.3 Zero-rating

Certain supplies are subject to a 0% rate (i.e. exemption with credit or zero-rating), including but not limited to:

- export of goods;
- intra-Community supply of goods;
- the products listed in the Annex V of the VAT Directive, which can be placed into a licensed VAT warehouse;
- supply of services which are not deemed to be supplied in Estonia

11.4 Exempt supplies

Supplies that are exempt without credit include but are not limited to the following activities of a social nature:

- certain universal postal services;
- listed health services;
- listed social welfare services;
- general education services, including learning materials, except for business purposes.

The following supplies are also treated as exempt without credit:

- insurance services, including reinsurance and insurance mediation;
- leasing or letting of immovable property or parts thereof;
- immovable property, except for the supply before the first occupation of buildings or their parts as well as renovated buildings or their parts;
- listed financial services;
- transactions in securities.

Of the above exempt supplies, an option to tax is available in respect to the following:

- disposal of immovable property, except residential housing;
- lease of or establishment of a usufruct on immovable property or its parts, except residential housing;

- listed financial services and transactions in securities, unless such a service is provided to the taxable person (or taxable person with a limited liability) of another EU member state.

11.5 Taxable amount

The general rule is that the taxable value of a supply, or of the intra-Community acquisition of goods or services, is the sales price of the goods or services and other amounts which the purchaser of the goods, the recipient of the services or a third party is to pay to the seller of the goods or the provider of the services for the goods acquired or services received.

The taxable value of imported goods is comprised of the customs value of the goods and all duties payable upon import, as well as other costs related to the carriage of the goods to the destination, such as commission, packing, transportation and insurance costs which have not been included in the customs value, up to the first place of destination in the territory of Estonia.

The taxable value may be subject to adjustment only when the transaction is carried out between related parties, and the resulting price “distortion” would give rise to a reduction of VAT revenues to the state budget. As a general rule, the open market value will represent the taxable value. When there are no comparable sales of goods or services, then the tax base will be the purchase price or the cost price for goods and the full cost for services.

11.6 Non-deductible input VAT

In principle, a credit for VAT incurred in the course of business, except for VAT on tax exempt supplies, is given against the output tax due to the authorities.

No deduction is allowed for input VAT incurred on the purchase of goods and services used for:

- the reception of guests; or
- the provision of meals or accommodation for employees (except input VAT on accommodation services used during business trips by employees).

Only 50% of input VAT on acquisition of company passenger cars or other related costs, including running and maintenance, can be deducted used both for business and private use.

Passenger cars are defined as vehicle of category M1 (including M1G) used for the carriage of passengers and which have eight seats at the most in addition to the driver’s seat and whose maximum weight does not exceed 3.5 tons.

The vehicles outside this category (including N1 and N1G, also known as pick-up trucks) are not considered as passenger cars and therefore not affected by the change in legislation.

There are some exceptions allowing deduction of whole input VAT paid in relation to car related costs. These exceptions comprise passenger cars purchased for resale or hire, passenger cars mainly used as a taxi or for driving lessons and passenger cars exclusively used for business purposes. There are no specific rules in the Estonian VAT law as to how ‘the exclusive use of a company car for business purposes’ should be proved, but upon a tax dispute the taxpayer has to defend its position by presenting relevant evidence.



Private use of a company passenger car free of charge is outside VAT scope.

11.7 VAT incentives

Under certain conditions, importers registered for VAT purposes in Estonia are able to account for VAT on imported goods, including capital goods, in their monthly VAT returns.

11.8 Simplification measures

Estonia has elected to extend the reverse charge mechanism to all local supplies of goods and services if the supplier is a foreign taxable person, who is not established (i.e. does not have a fixed establishment) and is not registered for VAT purposes in Estonia. The liability to pay tax is shifted to the customer (the recipient of goods or services), who is registered for VAT in Estonia. In this situation, a non-established foreign taxable person will not have to register for VAT in Estonia. Also, Estonia has introduced VAT warehousing. The products listed in Annex V of the VAT Directive can be put into a licensed VAT warehouse.

11.9 Specific reverse charge

For the purposes of preventing VAT evasion, reverse charge mechanism applies to domestic transactions in waste metal, certain precious metals, certain real estate and investment gold opted for VAT, between Estonian VAT registered parties.

Ensuring fair competition and combat VAT fraud in the metal sector, as of 01.01.2017 the reverse

charge mechanism also applies to certain metal products with specific CN-codes.

11.9 Simplification measure for importation

- VAT is not imposed on the import of goods upon the placing of non-Community goods under the customs procedure of release for free circulation, provided that the following conditions are met:
- the importer of the goods is an Estonian taxable person;
- immediately after the goods have been imported, they are transported, in the same condition, to another Member State where such goods will be received by a taxable person or a taxable person with limited liability of the other member state;
- intra-Community supply is created as a result of the transport of the goods to another Member State;
- upon importation of the goods, the importer confirms the intention to transport the goods to another member state where such goods will be received by a taxable person or a taxable person with limited liability registered by the other member state and, after the goods have been transported, provides the customs authority with documentation of proof of the intra-Community supply of the goods;
- a security is required in order to guarantee the performance of the tax liability which may arise as a result of the failure to perform the above described tax obligation. The security is given, released, used and calculated pursuant to the procedure provided by the customs rules.

11.10 VAT compliance

Registration

If the taxable supplies of Estonian businesses or fixed establishments of foreign businesses in Estonia exceed EUR 16,000 in a calendar year, VAT registration is required. The threshold for obligation to register as taxable person for VAT purposes is planned to be raised to 40 000 euros as of 01.01.2018.

Voluntary registration is also possible, even if the threshold is not reached.

VAT registration is effected within five working days. The Estonian VAT number starts with a prefix EE which is followed by nine digits: EE123456789.

Self-billing is allowed in Estonia. Each self-bill must be accepted by the supplier. The terms and procedure shall be fixed by the parties in a written agreement.

Certain transactions of foreign businesses require Estonian VAT registration without any threshold (e.g. intra-Community supply of goods from Estonia).

Generally, a VAT representative is only required for the registration of non-EU businesses.

Accounting requirements

VAT taxpayers have an obligation to keep records on:

- the amounts of input VAT ascribed to taxable and exempt supplies;
- taxable supplies by rate and tax exempt supply;
- the amount of output VAT by rate;



- the amount of deductible input VAT; and
- all other particulars necessary to prepare a VAT return.

Specific regulations are laid down by the Ministry of Finance regarding the content and form of the VAT accounting.

The VAT legislation lays down a retention obligation for a period of seven years. This retention period applies to the documents that should be kept according to Estonian VAT Law (i.e. copies of invoices and credit invoices issued by or on behalf of the taxable person, original invoices for goods and services received by taxable persons, and customs declarations certifying the import of goods).

Books, registers and records may be archived in any form provided that the chosen data carrier allows retrieving of the stored information. VAT invoices need to be archived in the form guaranteeing the integrity of the content.

A taxable person may choose the place at which invoices are stored on condition that the person makes the invoices or information stored therein immediately available to the tax authority upon request.

Information in a VAT invoice

The following information is required to be stated on the VAT invoice:

- the name, address and the VAT registration number of the supplier;
- the serial number and the date of issue of the invoice;
- the name and address of the recipient of goods and services;
- the name or a description of the goods or services;
- the quantity of the goods or extent of the services;
- the price of the goods or services exclusive of VAT and any discounts, if these are not included in the price;
- the taxable amount divided by different VAT rates together with the applicable VAT rates or the amount of tax exempt supply;

- the amount of VAT payable in Euros;
- the date of dispatch of the goods or provision of services and/or an earlier date of receipt of full or partial payment for the goods or services if the date can be determined and differs from the date of issue of the invoice.

In certain cases reference to the relevant clause of the VAT Act or the article of the EC VAT Directive shall be added. The invoice has to be submitted to a recipient within seven days after the date of the taxable event which is the dispatch of goods or the provision of services, or receipt of partial or full payment. In case of intra-Community supply of goods and provision of B2B services the invoice has to be issued by the 15th day of the following month.

If the liability to account for VAT is shifted to the recipient of goods or services, i.e. reverse charge VAT applies, a clear reference on the invoice shall state so.

Invoicing in a foreign language and currency is allowed. However, the VAT amount must be presented in Euros.

Returns and payment

The VAT accounting period is generally a calendar month. VAT should be declared and paid by the 20th day of the following month.

In the annex ('KMD INF') to the VAT return the information about invoices exceeding EUR 1 thousand per transaction partner must be reported. The annex consists of two parts in which the part A is for invoices issued and the part B for invoices received. As the purpose of the form is to compare transactions conducted in Estonia, it does not include cross-border transactions. KMD INF has to be filed together with the VAT return by the 20th day of the month following the taxation period.

VAT refund to foreign businesses

The EU business is entitled to a refund of Estonian VAT, if:

- it is registered for VAT purposes in its home country;
- the VAT to be refunded would be recoverable to the EU business also in its home country;
- the VAT to be refunded would be recoverable by Estonian VAT liable persons under the same conditions; and
- the VAT refund application is submitted via the electronic portal set up by home country at the latest on 30 September of the calendar year following the refund period.

Input VAT paid on representation costs and provision of meals to and accommodation of employees of the applicant, except the accommodation during the business trips by employees, is not refunded.

The non-EU business is entitled to a refund of VAT paid in Estonia if:

- it is registered for VAT purposes in its home country;
- the VAT to be refunded would be recoverable by Estonian VAT liable persons under the same conditions; and
- the respective non-EU country grants reciprocal rights for VAT refunds to Estonian residents.

VAT refund applications can be submitted by EU businesses for a period of not less than three months within a calendar year and the minimum VAT amount to be refunded must be at least EUR 400.

In cases of annual submissions of refund applications, the minimum VAT amount must be at least EUR 50 and for non-EU business, the minimum VAT amount must be at least EUR 320.

Generally, the VAT refund for EU businesses is granted within four months of the date of submitting electronically the official refund application and VAT invoices. For non-EU businesses, the VAT refund is granted within six months and the VAT refund application must be accompanied with the original VAT invoices and the VAT registration certificate (issued by the VAT Authorities of the home country).

12 PwC in Estonia

At PwC, our purpose is to build trust in society and solve important problems. We're the largest professional services network, uniting more than 223,000 people from 157 countries who are committed to delivering quality in assurance, advisory, tax and legal services.

In Estonia we are proud to offer services to more than 500 clients, including leading domestic and multinational companies and public services institutions. Our clients range from the largest and most complex organisations to start-ups and innovative entrepreneurs.

PwC serves significantly more than half of the largest companies in Estonia. We tailor our services to match the needs and requirements of each client, considering their size and specific needs.

While we have experience working with all industries represented in Estonia, we have built particularly strong expertise in areas such as mergers and acquisitions, banking, private equity, insurance, real estate, data protection, energy, telecommunications and infrastructure.

More than 150 specialists provide daily professional assurance, tax, legal and business advisory services to clients in Estonia by making use of their industry-focused expertise and international competence.

Corporate social responsibility

We know that it takes more than just nice words and good intentions to make the world a better place to

live. Making a lasting contribution requires one to deliver real actions. It may come in various forms - a monetary support, an environmentally responsible behaviour or advising those in need are only a few of the possibilities.

Therefore, on top of continuously striving to fulfil and exceed our clients' expectations, we feel a wider responsibility – what we do every day helps to increase the transparency and reliability of the Estonian business environment and contributes to alleviating the problems in the society.

We take pride in conducting our own business in an honest and ethical manner, we participate in vocational associations and legislative drafting as well as share our knowledge in training sessions and seminars.



We believe everyone has the right to a good education to build a foundation for a successful future. For this, we support the educational aspirations of bright young people from foster homes and orphanages, offering scholarships for their university studies complemented with the advice of a personal mentor.

We help those in greater need. We participate in various charity initiatives, including supporting the Estonian Food Bank. In addition to offering funding, our employees act as volunteers to make a contribution of their time and know-how.

We care about those we work with – respect and value our colleagues, share work-related knowledge and experience, appreciate healthy ways of living and promote sports and active lifestyle. Our ongoing efforts to offer great working conditions and benefits together with the positive, supportive atmosphere and feeling of equality has resulted in us earning the honourable number 2 position in the Dream Employer competition in 2016.

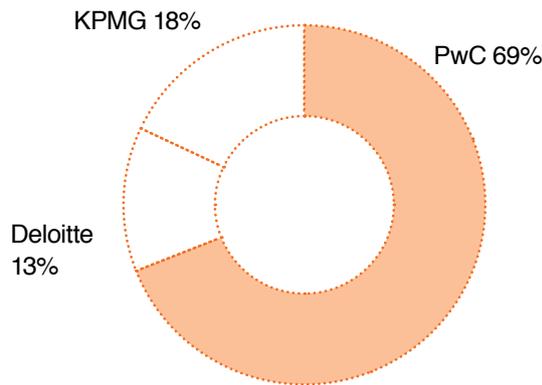
We think and act green - both in the office and outside, being conscientious about the environment around us.

12.1 Assurance services

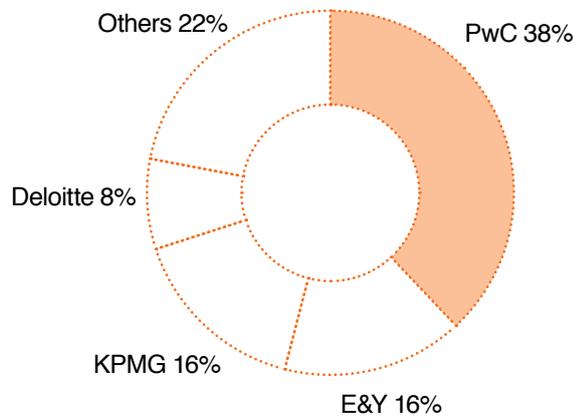
PwC is the leading audit and assurance services provider in Estonia. Having the highest quality audits is the key to success and the foundation of our brand.

Our audit approach, at the leading edge of best practice, is tailored to creating value for any type and size of organisations.

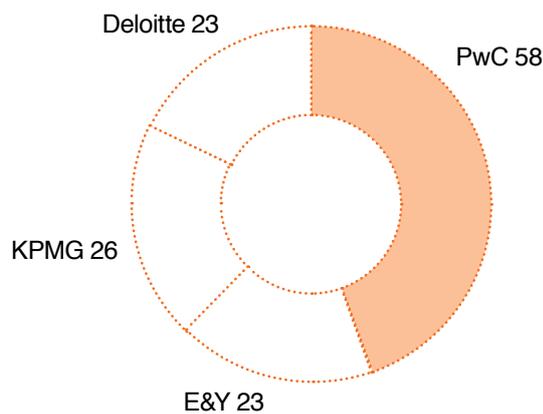
We audit two thirds of the companies listed at Tallinn Stock Exchange and more Estonian top 100 companies than any of our competitors, but our client portfolio includes also numerous small and mid-size businesses, subsidiaries of international corporations, as well as regional and local players.



PwC provides audit services to more than two thirds of the companies listed at Tallinn Stock Exchange



PwC has the largest market share in auditing Estonian leading companies (business daily Äripäev TOP 50 Estonian companies by turnover)



58 public interest entities have appointed PwC as their auditors

Our audit explores and thinks more widely about our clients' businesses as a whole, enabling us to offer new solutions to the problems, helping the clients to gain important insights for addressing both present and future challenges.

Our audit and assurance services include:

- audit of financial statements prepared in accordance with IFRS;

- audit of financial statements prepared in accordance with the generally accepted accounting principles in Estonia;
- review of financial reporting;
- agreed-upon procedures;
- expert opinions on accounting technical issues;
- training on accounting and financial reporting;
- assistance with various accounting-related matters.

12.2 Tax services

The purpose of the Tax Services practice of PwC in Estonia is to assist clients in finding tax-efficient business solutions and managing tax risks.

We work closely with our colleagues in other PwC offices worldwide and use our access to international knowhow and long-term experience to quickly and efficiently solve tax issues that arise both locally and in foreign jurisdictions.

We provide tax services mainly in the following areas:

- practical implementation of Estonian tax law;
- international taxation and tax structuring;
- transfer pricing;
- tax due diligence;
- administration of tax audits and tax disputes;
- preparation of requests for advance clearances and binding rulings;
- individual taxation and preparation of personal tax returns.

We also provide tax training courses both generally and in response to specific client requests.

12.2.1. Tax management and accounting services

Where a company has decided to expand its business to Estonia through its local subsidiaries, branches or permanent establishments and there is no finance function support available the following functions can be assigned to PwC Estonia:

- Accounting: Day-to-day bookkeeping and preparation of the annual accounts.
- Tax compliance: Monthly tax return preparation/submission, including indirect tax (VAT return/EC Sales listing/Intrastat) and direct tax (corporate income/payroll taxes compliance).
- Payroll compliance: Monthly payroll administration and general advice on employment matters.

- Company administration: Registrations (PE, VAT, foreign employer), other ongoing administrative activities (i.e. opening a bank account, set-up of e-services for tax return filing purposes, providing mailbox function, assistance in recovery of taxes etc).
- Tax review: Periodic (annual, quarterly) tax review of the monthly indirect, direct and/or payroll tax returns submitted to Tax and Customs Authorities etc.

12.3 PwC Legal

PwC Legal offers a wide range of legal services in Baltics to support the private and public sector in close cooperation with PwC audit, tax and business advisory services.

PwC Legal operates within the global network of firms, uniting more than 3,500 lawyers working in 95 countries worldwide. This allows us to provide complex professional services with wide geographical coverage through a single point of contact. With its unique approach, PwC Legal offers a seamless service of the highest professional standards across continents in both its legal services and the related tax, advisory, consultancy and audit services.



3,500

lawyers
in

95

countries
worldwide

Our lawyers combine legal expertise with a practical business approach based on our international experience.

Practice Areas

- Mergers and Acquisitions
- Banking, Finance and Insurance
- Employment
- Corporate and corporate secretarial services
- Public procurement
- Data Protection
- Insolvency and restructuring
- Competition law
- Intellectual Property Right
- Dispute settlement

12.4 Advisory services

PwC has a unique, dedicated and most experienced advisory team in Estonia that offers advice and support around key client issues. We bring the highest quality combination of financial, operational and commercial insight into servicing the needs of our domestic and international clients.

Our focus areas include:

- Consulting – helps in improving the efficiency and effectiveness of our clients' key business operations. Using our excellent skills in finance, risk management and compliance, IT systems and operations, we assist in the identification and implementation of cost saving initiatives, improvement of management and control, identification and management of risk and quality improvement.
- Deals - focuses on the deal continuum from strategy through execution to post deal integration, including due diligence and valuations, raising finance, helping corporates and investors to sell or buy businesses, negotiating and structuring deals, advising clients in Public Private Partnership and other large infrastructure projects.

Our team has a wide range of services tailored to the need of public sector clients and we extensive experience in business restructuring, dispute analysis and investigations and various other specialist areas.

Appendices



Appendix A

Tips for business visitors

Visas

Nationals of the European Economic Area (EEA) and any third-country national holding a residence permit of a Schengen State do not need a visa to enter Estonia. The holders of passports of the following countries and regions do not need a visa to enter Estonia for stays of no more than three months in a six month period: Albania*, Andorra, Antigua and Barbuda, Argentina, Australia, Bahamas, Barbados, Bosnia and Herzegovina*, Brazil, Brunei Darussalam, Canada, Chile, Costa Rica, Colombia, Dominica, El Salvador, Grenada, Guatemala, Holy See, Honduras, Hong Kong Special Administrative Region of China, Israel, Japan, Kiribati, Macao Special Administrative Region of China, Macedonia*, Malaysia, Marshall islands, Mauritius, Mexico, Micronesia, Moldova*, Monaco, Montenegro*, New Zealand, Nicaragua, Palau, Panama, Paraguay, Peru, Saint Vincent and the Grenadines, Samoa, San Marino, Serbia*, Seychelles, Singapore, Solomon Islands, South Korea, St Kitts-Nevis, St. Lucia, Taiwan**, Tonga, Timor-Leste, Trinidad and Tobago, Tuvalu, United Arab Emirates, United States of America, Uruguay, Vanuatu, Venezuela.

* Only for the biometrical ordinary passports holders

** Passports issued by Taiwan which include an identity card number

Business hours

The hours between 8 am and 6 pm are considered to be standard business hours.

Public holidays in 2016

- 1 January – New Year's Day;
- 24 February – Independence Day;
- 14 April and 16 April – Good Friday and Easter Sunday;
- 1 May – May Day;
- 4 June – Whit Sunday/Pentecost;
- 23 June – Victory Day;
- 24 June – Midsummer Day;
- 20 August – Day of Restoration of Independence;
- 24 December – Christmas Eve;
- 25 December – Christmas Day;
- 26 December – Boxing Day.

Credit cards

Major credit cards (Visa, Mastercard/Eurocard, American Express etc.) are widely accepted in shops, restaurants and hotels and most of taxis.

International time

GMT + 2 hours

Weights and measures

The International System of Units (abbreviated SI) is used in Estonia. The metric system is used in everyday commerce and in science.



Appendix B

Tax rates

Corporate income tax rates

20/80

Tax depreciation rates

There is no adjustment of accounting profits for tax purposes; distributable profits are determined based on financial statements drawn up in accordance with Estonian GAAP or IAS/IFRS.

Withholding taxes

5% / 10% / 15% / 20%

Individual tax rates

20%

Personal allowances (and/or credits)

The following deductions are available for resident (in certain cases also for non-resident) individual taxpayers:

1. The annual tax-exempt basic allowance for resident individuals is € 2,040
2. In 2016, an additional personal allowance (€ 1,848) is granted to one resident parent per each child starting from the second child.
3. An additional tax exempt basic allowance (€ 2,700) is available if an individual has received a state pension and/or a compulsory accumulative pension and/or a pension under the effective social tax treaties.
4. An additional tax exempt basic allowance (€ 768) is available, if a compensation payment for an occupational accident or occupational disease has been received. This exemption cannot be used, if such compensation is received as an insurance indemnity.
5. Interest on a loan and/or a finance lease for the purpose of acquiring a single-residence building or apartment. The deduction is given only for the one residential housing per tax period.
6. Education expenses paid to a licensed school or a foreign educational institution of equal status during the tax period are deductible for a resident individual if these are paid by the individual for himself, or for his certain family member who is under 26 years of age.
7. A resident individual may deduct charitable contributions from taxable income made to non-profit associations and foundations listed by the Government, as well as to cultural, sport, educational, health or social security institutions belonging to the state or local authorities and public universities.
8. Premiums to certain pension schemes and the expenses paid to buy shares of resident pension funds qualifying under the law may be deducted from taxable income. Such a deduction is limited to lesser of the two: € 6,000 or 15% of the income derived during the tax year from which business expenses (if any) have been deducted.
9. The 1.6% employee's unemployment insurance contributions and 2% (or 3%, if opted so in 2013) compulsory accumulative pension contributions.
10. Contributions to a foreign national social security scheme if such contributions were mandatory under the laws of the respective country and were paid from the income taxable in Estonia.

According to the restrictions imposed on deductions available to resident individuals from taxable income, the total amount of deductions, which includes the total of items 5 to 7 (see above) for a resident individual in 2016 cannot exceed the lesser of:

- 50% of the taxable income of the respective tax year, or
- € 1,200.

Non-resident individuals of another EU Member State who have taxable income in Estonia are allowed under certain conditions to file tax returns as resident individuals in order to benefit from deductions available to Estonian residents.

Tax on foreign nationals working in Estonia

20%

Wealth tax

Estonia does not levy a wealth tax.

Estate and/or inheritance and/or gift tax rates

Estonia does not levy estate, inheritance or gift taxes.

Capital tax

Estonia does not levy a capital tax.

Indirect taxes

9% and 20% VAT





Appendix C - Withholding taxes

The following WHT rates apply to dividends, interest, and royalties paid to a recipient or beneficial owner resident in a tax treaty country. The lower of the domestic or the treaty rate is given.

Recipient	Dividends (%) (1)	Interest (%) (2)	Royalties (%) (3)
Non-treaty	0	0	0/10
Treaty:			
Albania	0	0	5
Armenia	0	0	10
Austria	0	0	0/5/10 (4)
Azerbaijan	0	0	10
Bahrain	0	0	0
Belarus	0	0	10
Belgium	0	0	0 (7)
Bulgaria	0	0	0/5
Canada	0	0	10 (7)
China, People's Republic of	0	0	10
Croatia	0	0	10
Cyprus	0	0	0
Czech Republic	0	0	0/10
Denmark	0	0	0 (7)
Finland	0	0	0 (7)
France	0	0	0 (8)
Georgia	0	0	10
Germany	0	0	0/5/10 (4)
Greece	0	0	0/5/10 (4)
Hungary	0	0	0 (7)
Iceland	0	0	0 (7)
India	0	0	10
Ireland, Republic of	0	0	0 (7)
Isle of Man	0	0	0
Israel	0	0	0
Italy	0	0	0 (7)
Jersey	0	0	0
Kazakhstan	0	0	15
Korea, Republic of	0	0	5/10 (4)
Latvia	0	0	0/5/10 (4)
Lithuania	0	0	0/10
Luxembourg	0	0	0
Macedonia	0	0	5
Malta	0	0	0/10
Mexico	0	0	10
Moldova	0	0	10
Netherlands	0	0	0/5/10 (4)
Norway	0	0	0 (7)
Poland	0	0	0/10
Portugal	0	0	0/10
Romania	0	0	0/10
Serbia	0	0	5/10 (5)
Singapore	0	0	7.5
Slovakia	0	0	0/10

Slovenia	0	0	0/10
Spain	0	0	0 (7)
Sweden	0	0	0 (7)
Switzerland	0	0	0
Thailand	0	0	8/10 (6)
Turkey	0	0	5/10 (4)
Turkmenistan	0	0	10
Ukraine	0	0	10
United Arab Emirates	0	0	0
United Kingdom	0	0	0 (8)
United States	0	0	5/10 (4)
Uzbekistan	0	0	10
Vietnam	0	0	10/7.5 (9)

Notes:

- Under the domestic law, the rate is nil for all non-resident individual and corporate shareholders.
- As of 1 January 2014, under the domestic law, the rate is nil for all non-resident individual and corporate shareholders.
- The rate is nil for arm's-length royalties paid to an associated EU or Swiss company if certain conditions are met.
- The lower 5% rate applies to royalties paid for the use of industrial, commercial, or scientific equipment.
- The lower 5% rate applies to royalties paid for the use of copyright royalties, excluding software royalties.
- The lower 8% rate applies to royalties paid for the use of industrial, commercial, or scientific equipment.
- As of 1 January 2016, with relation to the enforcement of the Protocol Amending the Estonia – Switzerland Avoidance of Double Taxation Convention and the respective clause in this treaty, royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.
- As of 16 October 2015, with relation to the enforcement of the Protocol Amending the Estonia – Switzerland Avoidance of Double Taxation Convention and the respective clause in this treaty, royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.
- The lower 7.5% rate applies to fees paid for technical services.



Appendix D- Setting up in Estonia – a checklist

The most common type of legal entity being set up by foreigners in Estonia is the Private Limited Company “Osaühing, OÜ”.

The most common way of setting up a limited company would be to establish one with help from a professional firm. It is also possible to purchase a pre-registered company. Pre-registered companies are sold by numerous accounting and law firms. However, in addition to the stamp taxes, a fee will be charged by an intermediary (generally EUR 1,500-2,000). For registering a new Private Limited company, the steps below should be followed:

- The following documentation is prepared in Estonian:
 - Memorandum of Association**, setting out, among other things, the business name, address, area of activity, names and residences of the founders, the amount of share capital, the nominal value of the shares and their division among the founders and the members of the management board.
 - Articles of Association**, setting out, among other things, the name, address, business activity, share capital, procedure for payment of shares, reserve capital, and other terms and conditions for the company.
- The founders sign the documentation at the Notary Public.
- The Notary Public notarises the documentation.
- The founder(s) visit a bank to open a bank account in the name of the private limited company being founded, and share capital (minimum EUR 2,500) must be paid to a designated bank account. If non-monetary contributions are made, special rules apply. Private limited company may also be established without any minimum capital requirement, provided that all founders are private individuals only and the planned minimum capital does not exceed EUR 25,000. The capital of such a company will consist of claims against the shareholders, who are liable with all of their assets up to the amount they have promised to pay to the capital of the company.
- The management board submits an application petition to the Commercial Register together with the following documentation:
 - A notarised Memorandum of Association;
 - Notarised Articles of Association;
 - A bank notice concerning the payment of share capital;
 - The names and personal identification codes of the members of the supervisory board (if elected), and of auditors, if the company has auditors;

- 5) Information on the planned principal activity;
- 6) Contact details of the private limited company (telephone and fax numbers, e-mail and Internet home page address, etc.).

Using the features of the Estonian electronic identification system and digital signature, it is possible to register a company electronically with an expedited procedure in less than hour by founders who are using Estonian ID card or Mobile ID or E-resident's digi-ID or are the holders of Finnish, Latvian or Belgian ID cards.



Appendix E – Acquiring a business enterprise – a checklist

1. Business overview

Key business information

- Brief description of activities.
- Key performance and financial ratios overall and for each main activity.

Key historical events

- Brief history and significant events; major acquisitions and disposals, etc.

Entity organisation

- Legal structure, indicating main subsidiary undertakings.
- Organisational structure (if different).
- Key locations and premises.

2. Sales, products, customers and receivables

Market and sales

- Analysis of sales; sales by product/activity; sales by region; monthly sales.
- Description of main product lines and their characteristics.
- Analysis of sales by product in quantity and value; mix changes; seasonal patterns and shifts in patterns.
- Profitability by product, gross margin, trend, growth.

Customers

- Customer base concentration.
- Key customers and contractual arrangements.

Receivables

- General client terms of trade.
- Credit control; discounts allowed; factoring of debt; product warranties, provisions for credit notes/returns.
- Receivables analysis; ageing, roll forward of receivables reserve, major past due accounts; receivables day sales outstanding.

3. Purchases, vendors/suppliers and inventory

Cost of sales components

- Main cost of sales components: material, labour, overheads, other; cost of sales trends by product.
- Breakdown of manufacturing cost by product.
- Breakdown of manufacturing overheads by component.

Main vendors/suppliers

- Main vendors/suppliers; purchase contracts and commitments; currency of purchases.

Terms of trade and payables

- Terms of trade, days' purchases outstanding; ageing analysis; reason for delays in settlement.

Inventories

- Summary of inventories by category; monthly inventory levels.
- Location; method of valuation; treatment of overheads; inventory records and control.
- Inventory roll forward.
- Analyses of inventory reserve: raw material/finished goods ageing analyses, inventory turn; excess inventory (comparison with consumption/sales), lower of cost and net realisable value analysis.

4. Management and employees

Management structure

- Functional and line management charts for key functions.

Employees

- Headcount analyses by age, location and function; workforce age profile.

Labour cost analysis

- Analysis of all labour related costs; analyses by type of employee / by department / by location, average cost per employee; incentive schemes.

Severance plans and costs

- Redundancy payments (history and detail of any schemes); severance provisions, roll forward analysis, description of any existing plans.

Other labour issues

- Retirement schemes and other employees' benefits and related liabilities.
- Benefit schemes.

5. Historical results

Summary of results

- Sales; cost of sales and margins; gross profits; overheads; EBIT; EBITDA; ratio and trend analysis.
- Any significant change in accounting policies or practices or impact of inappropriate policies.

Overheads

- Main classes of overheads below gross margin by type of cost / by department; significant trends; stand-alone issues.
- Sales incentives; licensing; joint ventures.
- Promotion, advertising; exhibitions expenditure.
- Analysis and review of other overheads.

Non-recurring items and quality of earnings

- Adjusted EBITDA; reason for adjustments (review of management adjustments and further adjustments): nonrecurring revenue or costs, lost customers, accounting policy changes, reserve movements, other.
- Significant impact on results resulting from differences between target and buyer's accounting policies, if relevant.
- Non-operating items. Reconciliation of EBITDA to net results; appropriateness of items recorded as exceptional.

6. Balance sheets

Summary of balance sheets

- Statement of net assets.
- Comment on significant trends; change in accounting policies; any assets with a book value significantly different from market value.
- Any non-trading items.
- Significant off-balance sheet items.

Fixed assets

- Summary by type of asset and by location/activity.
- Basis of valuation; depreciation rates; profits / losses on disposals.
- Fixed assets held under finance leases.
- Fixed assets register; extent of physical verification.
- Nature of intangible assets; valuation; amortisation policy; own costs (research, development, other) capitalised.
- Goodwill; patents, copyrights; brands; capitalised research and development.

Other assets and liabilities

- Summary of other assets and liabilities; review unusual items; significant fluctuations.
- Adequacy of provision for outstanding liabilities; provision against guarantees and warranties given; after-sales service.
- Retirement and post-retirement benefits; severance payments.
- Litigation pending; claims not settled.
- Dividends payable / receivable; deferred consideration; other significant balances.
- Current and deferred taxation liabilities.

Net interest bearing debt

- Analysis of the net interest bearing debt by component and maturity (including cash and cash equivalents, bank overdrafts, loans, intra-group financing, finance leases, other interest bearing liabilities).

Shareholders' funds

- Movement in net assets; share capital; share option schemes; distributable/non-distributable reserves.

7. Cash flows

Summary of cash flows

- Reconciliation of EBIT, EBIDA and cash flows.

Working capital

- Analysis of working capital movements.

Seasonality

- Monthly analyses of cash flows; significant intra-month cash movements.

Capital expenditure

- Analysis of capital expenditure in value by activity/location and by purpose (for growth, maintenance, compliance / regulatory purposes).

8. Current trading and full year out-turn

Current trading

- Review of current year-to-date trading per latest management accounts.
- Compared to budget, previous year-to-date.
- Comment on reliability of management accounts.
- Identify and quantify key trends in results.

Full year out-turn

- Present current year-to-date trading and full year forecast and compare to budget and previous year in the same format.
- Comment on reliability of past budgets and forecasts.
- Extrapolate key trends and form a view on achievability of management's full year forecast.

9. Future results and cash flows

Projected results

- Summarise the projections, key lines in the profit and loss account, and compare to historic results and current year outturn.
- Confirmation that accounting policies are consistent with last accounts.
- Main assumptions underlying forecast and projections.
- Analysis of sales, product mix, volume/price changes assumptions; analysis of projected cost of sales, manufacturing overheads, sales and general administration overheads.
- Areas of vulnerability and upside.

Projected cash flows

- Reconcile projected cash flows with projected results.
- Projected working capital requirements compared with past trends; highlight any seasonality.
- Projected capital expenditure (for growth, maintenance, compliance/regulatory purposes); committed and planned expenditure.
- Compare capital expenditure projections with identified needs.
- Vulnerabilities and upsides in projected cash flows.

10. Stand-alone issues

Operational changes

- Significant changes required for the entity to operate on a stand-alone basis (quantified); nature of the changes required and related timing.

Pro forma results

- Effect on earnings if the entity had operated on a standalone basis over the past year(s).
- Reconciliation between reported results and pro forma stand-alone results.

11. Management information, controls and information technology

Management information

- Arrangements for management and accounting information; reliability and efficiency; reconciliation with financial accounts; year-end adjustments; quality of internal controls, auditors' management letters.

Accuracy of past budgets and forecasts

- Soundness and appropriateness of system; effectiveness of action taken on variances; frequency of updating; accuracy and reliability of past budgets and forecasts.
- Comparison of budgeted and actual results for previous years.

Information technology

- IT strategy; facilities; management of IT; contingency plans; costs of improvements/changes.
- Overview of principal software, systems and applications.

12. Taxation

Corporate taxation

- Analysis of tax charges; comparison of effective and nominal tax rates. Treatment of deferred tax assets / liabilities.
- Extent to which liabilities agree with the tax administration; outstanding issues; tax losses; tax planning; taxable distributable reserves.
- Overall assessment of risks.

Local taxes

- Nature of these taxes; extent to which liabilities are agreed; outstanding issues.

Value added tax

- VAT schemes (if applicable); inspections; outstanding issues.

Employment taxes

- Social charges; administration inspections; outstanding issues.

13. Insurance and risk management

Key insurance policies

- Descriptions of the key insurance policies (plant, property, employer's liability, loss of profits, key management life insurance), risks covered and associated costs; insurance brokers and any intra-group insurance policy; any uncovered significant risk.

Recent claims and losses

Analyses of recent claims with reconciliation of their impact on the results, balance sheet and cash flows.



Appendix F - Useful sources of information

State portal www.eesti.ee/eng

Gateway to Estonia www.estonia.eu

The Parliament of Estonia: <http://www.riigikogu.ee/?lang=en>

Estonian Government: <https://valitsus.ee/en>

Ministry of Education and Research: <https://www.hm.ee/en>

Ministry of Justice: <http://www.just.ee/en>

Ministry of Defence: <http://www.kaitseministeerium.ee/en/>

Ministry of Environment: <http://www.envir.ee/en>

Ministry of Culture: <http://www.kul.ee/en>

Ministry of Economic Affairs and Communications: <http://www.mkm.ee/en>

Ministry of Agriculture: <http://www.agri.ee/en>

Ministry of Finance: <http://www.fin.ee/?lang=en>

Ministry of Interior: <https://www.siseministeerium.ee/en>

Ministry of Social Affairs: <http://www.sm.ee/en>

Ministry of Foreign Affairs: <http://vm.ee/en>

Tax and Customs Authorities: <http://www.emta.ee/?lang=en>

Estonian Health Insurance Fund: <https://www.haigekassa.ee/en>

Citizenship and Migration Board: <http://www.politsei.ee/en>

Bank of Estonia: <http://www.eestipank.ee/en>

Confederation of Estonian Trade Unions: <http://www.eakl.ee/index.php?pid=418&lang=7>

Other useful addresses and websites

PwC Estonia: <http://www.pwc.com/ee/en>

www.pwclegal.ee

Enterprise Estonia: <http://www.eas.ee/en>

<http://www.investinestonia.com/en/>

Estonian Chamber of Commerce and Industry: www.koda.ee/en

