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# ***Global Mobility Services: Taxation of International Assignees Country – Estonia***

*People and  
Organisation*

*Global Mobility  
Country Guide (Folio)*

**pwc**

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This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

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Additional Country Folios can be located at the following website:  
**Global Mobility Country Guides**

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# ***Introduction:***

## **International assignees working in Estonia**

This booklet is intended to help both the foreign employee as well as the employer in a planned effort to avoid any tax problems that are related to employment in Estonia.

This booklet reflects tax law and practice in Estonia as at January

2018. It should be noted that the laws and regulations in Estonia are subject to rather frequent changes. Accordingly, this booklet is intended to be a guide to the tax system and areas where problems may arise. We strongly advise our readers to seek professional advice

from AS PricewaterhouseCoopers before any definitive actions are taken.

Further information may be obtained from our contacts listed in Appendix D.

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# *Step 1:*

## Understanding basic principles

### ***The scope of taxation in Estonia***

1. An individual who is a resident of Estonia is generally liable to income tax on worldwide income, irrespective of the origin of the income. Non-residents are taxed on their Estonian-source income according to Estonian domestic law and tax treaties, if applicable.
2. Employers operating in Estonia are liable to social tax and unemployment insurance contributions on certain payments of employment income to individuals. Fringe benefits furnished to employees are in general subject to corporate income tax and social tax only at employer level and as such, not included in the gross income of a resident employee for Estonian income tax purposes.
3. Employers must withhold income tax and employee unemployment insurance contributions, as well as contributions to compulsory accumulative pension scheme from certain payments, including payments of

taxable employment income to individuals.

4. Foreign companies, who do not have a subsidiary or a registered permanent establishment in Estonia, but whose employees are working in Estonia, may be required to register in Estonia for payroll taxation purposes.

### ***Tax residence***

5. 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, or if they are Estonian public servants assigned abroad. An individual may be deemed to have become tax resident from the date of his arrival to Estonia. A summary of regulations covering residence permits and work permits is given below in Step 3.
6. 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 the individual will be taxed as a non-resident in Estonia regardless of the above-mentioned Estonian domestic rule.

### ***The tax year***

7. The tax year for personal income taxation is the same as the calendar year. In general, individual taxpayers are taxed on cash basis.

### ***Methods of calculating tax***

8. In general, resident individuals must file a personal income tax return by 31 March following the year in which the income arises. Electronic filing of tax returns becomes available from 15 February each year. 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.
9. Non-residents will not receive a tax assessment from the tax authorities. For non-residents, the tax withheld at source at domestic or treaty rates generally constitutes final tax as regards their

Estonian source income and in that case they do not have any tax reporting requirements in Estonia. 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. Such types of income include certain capital gains, profits derived from business conducted in Estonia and other items of taxable Estonian source income from which tax was not withheld

but should have been withheld.

10. Non-resident individuals of another EEA member state are allowed under certain conditions to file tax returns as resident individuals in order to benefit from deductions available for Estonian residents. EEA member states are all EU countries, Norway, Liechtenstein and Iceland.

#### ***Payment of tax***

11. 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 or capital gains in his tax return must pay the final amount of income tax due by 1 October of the year following the period of taxation.

12. In general, non-residents must pay the income tax due to the tax authorities within 3 months from the deadline of submitting the tax return.

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# Step 2:

## Understanding the Estonian tax system

### *General principles*

13. 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.
  14. The gross income of resident individuals includes their worldwide income from all sources, irrespective of the origin of the income. This includes both active incomes, 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 and 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.
  15. For resident individuals, there exist numerous items of tax exempt income (excluded from gross income). Some of the more important items of tax exempt income include
    - qualifying foreign employment income, domestic dividends, qualifying foreign dividends, qualifying bank interest and certain qualifying capital gains.
  16. 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.
  17. 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 on certain conditions.
- ### *Employment income and fringe benefits*
18. Employment income is taxed on a gross basis, mainly through payroll withholding, and includes salaries, fees for personal services and directors’ fees.
  19. Reimbursement of business trip expenses and daily allowances (per diems), as well as compensation paid for the business use of a private car is tax exempt within certain limits in accordance with the conditions prescribed by the Government (see appendix C).
  20. For resident individuals, foreign source employment income (incl. fringe benefits) is exempt from Estonian income tax if the following two conditions are met:
    - The individual is present in a foreign country for employment purposes for more than 182 days during any 12-month period; and
    - Foreign employment income is taxable in the foreign country and this can be substantiated by written documentation which has to indicate the amount of the related foreign income tax (even if this is zero).

21. Taxable employment income of a resident individual does not include fringe benefits, which are taxable at employer level. Fringe benefits not taxable at employer level are included in the gross income of the resident individual.
22. 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. Fringe benefits are subject to an exceptional 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. 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 41.27 (0.33 x 125), making up a combined total fringe benefit tax charge of approximately 66.25. The value of fringe benefit is generally calculated on the basis of market value.
23. Fringe benefits include any benefits in-kind that have monetary value and which are provided by employers to their employees (including directors and certain individual service providers) for their personal services under an employment or service contract. Fringe benefits granted to a parent, spouse or child of an employee is subject to the same tax treatment. Fringe benefits may include:
- Compensation of housing expenses;
  - Non-business use of a company car or other employer's property free of charge or at a preferential cost;
  - Insurance premiums paid by an employer for the employee, unless prescribed by law;
  - Reimbursement of business trip expenses and daily allowances (per diems), as well as compensation paid for the business use of a private car above applicable limits;
  - Charging interest on a loan below the official minimum interest rate established by the Minister of Finance (currently 0.0% per annum);
  - Transfer of property or services free of charge or below market value, including the securities/shares transferred in the course of an employee stock option program, unless the program qualifies for exemption from fringe benefit taxation;
  - Purchase of property or services above market value;
  - Release of a monetary claim, unless the estimated reasonable costs of collection would exceed the claim; and
  - Covering of certain educational expenses.
- Business income**
24. Business income includes income from independent economic and professional activities. It may include rents and royalties but cannot include trading with own securities. In general, business income is taxed on a gross basis. If an individual is registered as a sole proprietorship in Estonian Commercial Register ('Äriregister'), business income is taxed on a net basis, meaning that qualifying business expenses may be deducted from business income. Tax on net business income is collected by assessment. Sole proprietorships are in general required to make three

advance payments of income tax per year, each amounting to ¼ of the income tax paid on business income in the previous calendar year, which are credited against the final annual income tax burden. Net business income is also subject to 33% social tax (in 2018, the annual amount of social tax paid by sole proprietors is capped at 18,612EUR). Losses may be carried forward for seven years and can only be offset against business income. For income tax purposes, sole proprietorships must follow cash basis accounting for their income and expenditure.

### **Capital gains**

25. Capital gains are generally taxed on a net basis (acquisition costs and documented expenses directly linked with the transaction may be deducted from the value received) as part of personal income, there is no separate capital gains tax. Certain capital losses may be carried forward indefinitely and can only be offset against capital gains. Certain qualifying capital gains are exempt from income tax, such as the gain from the sale of personal residence. Upon certain conditions, the tax liability on the gain from the sale of shares/securities can be

deferred through using the specific investment account scheme.

### **Rents and royalties**

26. Rents and royalties generated from the use of certain assets are generally taxed on a gross basis as part of personal income, unless the taxpayer elects for net basis taxation as part of business income.

### **Investment income**

27. Investment income is generally taxed on a gross basis as part of personal income. For resident individuals, this may include for example certain foreign dividends and interest. Upon certain conditions, the tax liability on investment income can be deferred through using the specific investment account scheme.
28. Domestic dividends are tax exempt for resident individuals. Foreign dividends are tax exempt provided that either the underlying profits out of which dividends are paid have been subject to foreign income tax or if income tax was withheld from dividends received.
29. As of 1st of January 2018 7% withholding tax (WHT) on domestic dividends that have been taxed at 14% at the level of the distributing company instead of 20%.

30. Interest paid from certain current accounts by EEA (incl. Estonian) banks or EEA (incl. Estonian) branches of non-EEA banks to resident individuals is no longer exempt from income tax as of 1st of January 2018.

### **Tax deductions**

31. Resident individuals and certain qualifying EU resident individuals are allowed to make certain deductions from their gross income.
32. These include the basic personal allowance 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 scheme and certain obligatory contributions to foreign social security schemes.
33. 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.

### **Basic personal allowance**

34. As of 1st January 2018 the amendments to the Income Tax Act (ITA) come into force, according to which the general tax allowance 6000 EUR per year (500 EUR per month) is applicable only if the annual income of the resident taxpayer is up to 14,400 EUR (incl.). The current rate of 2,160 EUR (180 EUR per month) is significantly lower, however, it applies to all irrespective of the annual income. If ITA had not been amended, the tax exempt income would have been 2,280 EUR (190 EUR per month) in 2018. Due to the abovementioned, current tax allowance on pensions and compensations for accidents at work will be also abolished as of 1st of January.
35. In case the annual income exceeds 14,400 EUR, the tax allowance shall be gradually reduced using the following formula:  $6,000 - 6,000 \div 10,800 \times (\text{annual revenue} - 14,400)$ . The formula was introduced to the ITA on June 19 when the Parliament passed a number of laws amending the ITA and other laws (458 SE)
36. In case the annual income exceeds 25,200 EUR, the tax allowance is zero due to the fact that by applying the formula, the tax allowance would be lower than zero and therefore is considered to be equal to zero.
37. For example in case the annual income is 22,400 EUR, the calculation of tax allowance is as follows:  $22,400 - 14,400 = 8,000$   $6,000 \div 10,800 = 0,5555$  (quotient is not rounded)  $0,5555 \times 8,000 = 4,444.44$   $6,000 - 4,444.44 = 1,555.56$  EUR (tax allowance, rounded up to two decimals points)
38. The following income declared in the income tax return of an individual is included in the annual income:
- taxable income, including taxable income from abroad, such as income from work, employment income and other remunerations received under the Law of Obligations Act, business income, profit from disposal of property, lease and rental income, interests, scholarships, pension etc;
  - the following income from abroad not taxed in Estonia:
    - o the salary received from employment abroad, management board fees and other remunerations received under the Law of Obligations Act;
    - o dividends from a foreign legal person;
    - dividends from Estonian companies;
    - disbursement of equity received from an Estonian company (which are subject to taxation at company level);
    - income subject to taxation under the Law for the Simplified Taxation of Business Income less the social tax paid Under the same law.
39. Annual income does not include income that is not subject to declaration in individuals' income tax return.
40. The following revenues are excluded from the annual income:
- tax exempt compensations (compensation for

- usage of personal vehicle for business purpose.);
- tax exempt scholarships (scholarship paid by a non-profit organization);
  - tax exempt income from disposal of property (e.g. profit from disposal of benefits from the sale of housing or movable property held in personal consumption);
  - fringe benefits that are taxed at the level of the employer.
41. Tax allowance can be applied on a monthly basis only by one withholding agent based on a written application of the beneficiary (the same principle as now). Usually the withholding agent is the employer who pays the salary. If there are several employers, the employee has to choose which one of them applies the tax allowance. Without an application the tax allowance cannot be applied to a specific payment.
42. Therefore, the employer's activity to apply the tax allowance on a monthly basis is based on a written application from the employee (e-mail is acceptable). If an employer files an application in which he asks to apply the tax allowance to the extent provided by law, then before calculating the amount of the income tax to be withhold, the employer deducts the tax allowance from the gross income in accordance with § 42 (1) of the ITA using the following formula:  $500 - 500 / 900 \times (\text{payment} - 1,200)$ . The payment in the formula is a gross amount.
43. The formula was introduced to the ITA on June 19 when the Parliament passed a number of laws amending the ITA and other laws (458 SE). By law the tax allowance may not be less than zero.
44. For example
- the gross salary per month up to 500 EUR is tax exempt;
  - the gross salary per month 501-1,200 EUR, the tax allowance is 500 EUR;
  - the gross salary is in the range of 1,201-2,100 EUR, the rate of tax allowance can be found using the formula and it depends on the volume of the income (decreasing as it grows);
  - the gross salary per month is more than 2,100 EUR, the tax allowance is equivalent to zero based on the formula.
45. The recipient of the income may in his application to the withholding agent express his will to use lower tax allowance that calculated using the formula (a certain amount) or fully waive the right to apply tax allowance on a monthly basis. However, it is not allowed to apply higher tax allowance than calculated using the formula.
46. If the tax allowance applied is higher that allowed based on the formula, the individual is required to pay additional tax in his income tax return.
47. It is recommended to submit one application per year to the selected withholding agent. Upon receiving additional unforeseeable income (for example dividends in significant amount or taxable gain from disposal of land or non-residence) the application may be amended or withdrawn in order to apply lower tax allowance than calculated using the formula or to fully waive the right to apply tax allowance on a monthly basis. The application can be amended once a month
48. Individuals can check their tax allowance rate in the

middle of the year from E-Tax/E-Customs subdivision „Data from employers” -> „Data from form TSD” -> „Väljamaksete andmete vaatamine”

49. We also recommend to check the guidelines prepared by the Tax and Customs Board for further details:

- <https://www.emta.ee/et/eraklient/tuludeklareerimine/maksuvabatulu-alates-1-jaanuarist-2018>
- <https://www.emta.ee/et/ariklient/tulukukaivekasum/maksuvabatulu-arvestaminemaksudeklaratsioonil-tsd-alates-1>

### **Tax credits**

50. Estonian resident taxpayers who have received foreign source taxable income are allowed to credit foreign income tax against their Estonian income tax liability if certain conditions are met. The tax credit is generally limited to 20% of foreign taxable income and is computed separately for each foreign country.

### **Taxation of non-residents**

51. Non-residents are liable to Estonian income tax on their Estonian-source income according to Estonian

domestic law and tax treaties. The tax is collected either by withholding at source or by self-assessment. There is no withholding tax on any dividend distributions. Tax exemption also applies to interest payments which are made by Estonian resident credit institutions or Estonian branches of non-resident credit institutions.

52. Payments made by Estonian withholding agents (including 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) to non-residents (excluding foreign entities with a registered permanent establishment) are subject to withholding tax as follows:

- There is no withholding tax on interest payments to non-residents. Interest payments to resident individuals are subject to a 20% withholding tax rate.
- Royalties (including payments for the use of industrial, commercial or scientific equipment) paid by Estonian residents, registered permanent establishments of

foreign entities, the Estonian State and local governments to non-residents are generally subject to 10% withholding tax under domestic law, but reduced rates may be available under double tax treaties. Certain royalty payments to associated EU and Swiss companies that meet 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.
- Payments to non-residents for services provided in Estonia, including management and consultancy fees, are subject to 10% withholding tax under

- domestic law, but exemption may be available 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.
  - Salaries and service fees are subject to Estonian income tax if the place of performing personal services is in Estonia and the remuneration is paid by an Estonian employer (including non-residents having a permanent establishment or acting as employers in Estonia), or if the individual has been present in Estonia for employment purposes for more than 182 days during any 12-month period.
  - Payments for the activities of non-resident artistes or sportsmen carried out in Estonia are subject to 10% withholding tax.
  - Certain pensions, insurance benefits, scholarships, prizes, lottery winnings, etc. are subject to 20% withholding tax under domestic law.
53. The withholding tax must be reported and paid by the 10th day of the month following the payment by the withholding agent. For non-residents, the tax withheld from the above payments at domestic or treaty rates generally constitutes final tax as regards their Estonian source income and the non-resident recipient is generally not liable to submit a tax return to the Estonian tax authorities for income so taxed. The Estonian withholding agent may provide a withholding certificate to the recipient of income upon his/her request. The certificate for the calendar year is issued by February 1st of the following year.
54. 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 the following.
- Capital gains realized from the sale or exchange of certain types of assets:
    - Immovable property located in Estonia (unless personal residence exemption applies);
    - Movable property subject to registration in Estonia;
    - Real right or claim connected with immovable property or building located in Estonia;
    - Shares in Estonian companies, if shares are transferred in a company in which the non-resident shareholder has, at the time of the sale, at least 10% shareholding, and, at the time of the sale, or at any time during the two financial years before the (year of) sale, over 50% of the Estonian company's

- assets, directly or indirectly, consisted of real estate or buildings located in Estonia.
- Capital gains realized upon liquidation or partial liquidation (redemption of shares or reduction of formal share capital) of Estonian companies, unless already taxed at the level of the Estonian company.
- Capital gains realized upon the migration of a resident company (such as Societas Europaea) if the company is de-registered without liquidation proceedings and discontinues economic activities in Estonia.
- 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.

### **Income tax treaties**

55. Estonia has concluded a number of double taxation avoidance agreements, which override Estonian domestic

law. The effective agreements are shown in Appendix B.

56. In order to benefit from an exemption or relief from Estonian withholding tax under an applicable double tax treaty, the application form TM3 or a residence certificate meeting certain requirements issued by a foreign tax office must be filed prior to making a payment.

### **Social security**

57. As a general principle, an individual is covered by the Estonian social security system if he lives and works in Estonia. This includes state pensions, unemployment benefits, sickness compensations, state care benefits and compensations, health insurance and work injuries compensations. However, the EC regulation 883/2004 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 home country before moving to Estonia. Besides the EC

regulation, Estonia has concluded social security treaties with Ukraine, Canada and Australia which include the provisions of social security coverage for assigned employees similarly to the EC regulation 883/2004.

58. Employers (including resident and non-resident companies and individuals acting as employers in Estonia) must pay social tax at the rate of 33% (whereof 20% is used for financing public pension insurance and 13% for financing public health insurance). Employers' social tax is not capped and mainly applies to salaries, directors' fees and service fees paid and fringe benefits granted to individuals. The period of taxation is a calendar month; the tax must be reported and paid to the local tax authorities by the 10th day of the month following the taxable payment or expense.
59. The net business income derived by individuals registered as sole proprietorships is also subject to 33% social tax (capped). The period of taxation is a calendar year. Sole proprietorships are required to make quarterly advance payments of social tax in fixed amounts, which are credited against the final annual social tax liability.

60. In addition to social tax, employers are also required to pay and withhold unemployment insurance contributions. Employers must pay 0.8 % and employees must pay 1.6% (collected by employers through payroll withholding). The contributions mainly apply to salaries and service fees paid to individuals.

61. Resident employees born after 31 December 1982 are obliged to join the compulsory accumulative pension scheme (so called second pillar) and make 2% contributions to the scheme (mostly collected by employers through payroll withholding). The contributions mainly apply to salaries, directors' fees and service fees, but also to net business income of sole

proprietorships. For resident employees born before 1983, joining the pension scheme is voluntary, but after joining, it becomes compulsory and the employees may not subsequently leave the scheme. In addition to the 2% contribution made by the employee, 4% of the social security contribution payable by the employer (33%) will be transferred to the employee's pension account by the state.

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# Step 3:

## What to do before you arrive in Estonia

### Visa requirements

62. As of 21 December 2007, Estonia is a part of Schengen visa area.
63. The nationals of the member states of EU, the EEA and any third-country national holding a residence permit of a Schengen State are free to enter Estonia. These States include Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, United Kingdom and Switzerland.. Required travel document for them to enter Estonia is personal ID card or passport.
64. The holders of passports of the following countries do not need a visa to enter Estonia for stays of no more than 90 days in a 180-day period: Albania\*, Andorra, Antigua and Barbuda, Argentina, Australia, Bahamas, Barbados, Bosnia and

Herzegovina\*, Brazil, Brunei Darussalam, Canada, Chile, Costa Rica, Colombia, Dominica, El Salvador, Georgia\*, Grenada, Guatemala, Honduras, 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, Saint Kitts and Nevis, Saint Lucia, Taiwan\*\*, Tonga, Timor-Leste, Trinidad and Tobago, Tuvalu, Ukraine\*, United States of America, Uruguay, Vanuatu and Venezuela.

\* Only for the biometrical passports holders

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

65. In addition the following countries' citizens holding diplomatic-, service- or special passport do not need a visa to enter Estonia for stays of no more than 90 days in any 180-day period: Armenia, Azerbaijan, Bolivia, Cabo Verde, Jordan, Georgia, Kazakhstan, Kuwait, Kyrgyzstan, Mongolia, Morocco, People's Republic of China, Philippines, Russia, Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, Holders of the Laissez-Passer issued by the United Nations.
66. Citizens of countries not mentioned above require a visa to enter Estonia. In the presence of the sufficient financial resources an alien is not required to have a sponsor.

### Residence permit– EU citizens

67. Citizens of the European Union, the European Economic Area, as well as the citizens of Switzerland (“an EU citizen”) may stay in Estonia without a residence permit for up to three months as of the date of his or her arrival in Estonia.

68. In order to obtain the right of temporary residence an EU citizen must contact the local government authority nearest to his place of residence in Estonia and register his residence within three months from the date of entering Estonia. The right of temporary residence is granted for the period of five years.
69. An EU citizen must, within the period of one month from the acquisition of the right of temporary residence, personally contact the customer service centre of the Estonian Police and Border Guard Board to apply for an identity card which certifies his/her right of temporary residence.
70. Identity cards can be collected from the customer service centre within a period of one month from the date of submission of the application.
71. The ID number enables you to obtain health insurance through the Estonian Health Insurance Fund when employed by an Estonian organisation and receive social support. The ID card can be used as identification and for giving digital signatures, and it carries the data concerning the right of residence. ID cards can be used for a wide range of electronic services. It also gives you the right to vote in local government elections and the European Parliament elections
72. The right of temporary residence is automatically extended for the period of five years if the registered place of residence of the EU citizen is continually in Estonia and if the right of temporary residence of the EU citizen has not been expired or terminated. If the period of validity of an EU citizen's identity card has expired he/she has to apply for a new identity card.
73. Family members of an EU citizen can apply for residence permits for the purpose of settling with a citizen of the EU. The period of validity of a residence permit is up to 5 years. Family members can apply for residence permits with the same period of validity as the residence permit of the EU citizen. An applicant or his legal representative must submit an application for a residence permit at a representation of the Republic of Estonia or at a customer service centre of the Migration and Citizenship Office of the Police and Border Guard Board.
- Residence permit for employment – citizens of third states***
74. Short term employment can be registered for 270 days, but for a longer time, up to 365 days, if one does research work or is a teacher or lecturer at HEI. Your employer must register you at the Citizenship and Migration Bureau (CMB). Short term employment must be registered by the employer before you start working and before you apply for a long-stay visa. You must append the document confirming your registration for short term employment to your long-stay visa application. The registration process at the CMB takes up to 10 days. The best way is to register short term employment by mail before arriving in Estonia.
75. In expedited procedure, short-term employment shall be registered no later than on the working day following the day of the submission of the application if the following bases for employment exist:
- for employment as a teacher or a lecturer;
  - for research work;
  - for employment as a top specialist;
  - for employment with a residence permit of an employee transferred within a company of another EU member state;
  - for employment at a start-up;

- for participation in seasonal work if you have been employed as a seasonal worker in Estonia during the last five years and your registration of short-term employment has not been declared invalid.

76. In the case of registration of short-term employment, you can set to work in Estonia starting from the same calendar date when the employer registered your short-term employment in Estonia with the Police and Border Guard Board. In the case of for registration of short-term employment, the registration of short-term employment shall not be refused. The conformity of the application and the compliance with the requirements shall be checked after the registration of short-term employment, and, if necessary, the registration shall be repealed.

77. If you are a posted worker then you do not have to register your employment. A posted worker is a natural person who usually works in a foreign state on the basis of an employment contract and whom the employer has posted to work in Estonia for a specified period of time for the provision of a service. In this case, the employer is obligated to register its workers posted to Estonia in

the Labour Inspectorate of Estonia electronically by sending the e-mail to the address: [posting@ti.ee](mailto:posting@ti.ee).

78. You may apply for residence permit for employment with an employer registered in Estonia and for scientific or research works on following grounds:

1. With the consent of the Estonian Unemployment Insurance Fund and by fulfilling the salary criterion
2. Without the consent of the Estonian Unemployment Insurance Fund and not fulfilling the salary criterion
3. Without the consent of the Estonian Unemployment Insurance Fund but by fulfilling the salary criterion, if an applicant shall settle to work as an expert, advisor or consultant
4. Without the permission of Estonian Unemployment Insurance Fund but fulfilling the salary criterion, if you settle to work in a sphere listed in an order of the Government, in which there is a need to reduce labour shortages

5. Without the permission of the Estonian Unemployment Insurance Fund but with fulfilling the salary criterion, if you shall settle to work for the purpose to perform managerial or supervisory functions of a legal person registered in Estonia on the following conditions:

- The company must have been registered in Estonia at least 5 months, it must have conducted actual business activities during the last 5 months and the granting of the residence permit must significantly contribute to achieve the purpose of the granting of residence permit for employment
- Residence permit for the purpose to perform managerial or supervisory functions of a legal person may be granted to a partner of general

- partnership and limited partnership, member of management or supervisory board of private limited company, public limited company, foundation and commercial association, member of management board of non-profit association, procurator, liquidator, bankruptcy trustee, auditor, tax auditor, member of audit committee and director of foreign company branch
- 6. on the basis of the European Union blue card
- 7. for scientific research
- 8. for employment as top specialist
- 9. employed as a temporary agency worker
- 10. working at a start-up
- 11. working as an employee transferred within an undertaking

- 79. A residence permit for employment is issued for a period of guaranteed employment in Estonia by an employer with a period of validity of up to 2 years and it can be extended for up to five years at a time.
- 80. An alien, who is applying for a residence permit, is subjected to the immigration quota of Estonia for aliens, which shall not exceed 0,1% of Estonian permanent population in one year. An alien shall not be subjected to the immigration quota, if he or she is:
  1. a citizen of the United States of America or Japan;
  2. Applying for residence permit for the purpose of making a research or study.

### **Employment contracts**

- 81. An employment contract is required for every kind of employment and must be concluded in writing except for employment for a term of less than two weeks. The records of employment contract must be retained for ten years after termination of the contract. The non-compliance with the formal requirements does not bring about the voidance of the contract; instead the contract will be deemed concluded from the moment when the employee started working.

### **Remuneration packages**

- 82. Before your assignment you should carefully review the completeness and effectiveness of your remuneration package. Apart from the base salary, the following items may form part of your package:
  - Benefits in kind (e.g. private use of company car);
  - A bonus or premium (e.g. foreign service premium);
  - Allowances (e.g. cost of living, housing);
  - Reimbursements (e.g. personal income tax, school fees, home leave);
  - Pension arrangements (e.g. pension contributions by a foreign employer).

- 83. If an employee has stipulated a net salary in the contract, net payments and income tax paid by the employer form part of employee's gross income.

### **Personal effects and cars**

- 84. See Step 7 for considerations regarding the importation of personal effects and cars.

### ***Other issues***

85. The timing of payments and the timing of arrival should be carefully considered because these issues may have tax saving consequences.
86. Company pensions received by resident individuals are generally taxable in Estonia.
87. In general, money transfers from and to Estonia are unrestricted (generally no authorization is required; if the amount of transfer exceeds 15,000 EUR or transactions in cash exceed 10,000 EUR, the party executing the transaction has to be identified by the credit or financial institution).

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# **Step 4:**

## **What to do when you arrive in Estonia**

### **Registration**

88. A foreign national intending to reside and work in Estonia is liable to contact with the tax authorities in order to confirm his/her tax residence status. If a non-resident individual is engaged in business in Estonia, he must register at Estonian Commercial Register as a sole proprietorship if he wants to deduct business expenses from business income.
89. Registration within the employment register will generally be undertaken by an Estonian employer. Individuals registered as sole proprietorships must register personally.
90. In order to obtain the right of temporary residence, an EU citizen must contact the local government authority nearest to his place of residence in Estonia and register his residence within three months from the date of entering Estonia. The right of temporary residence is generally granted for the period of five years.
91. An EU citizen must, within the period of one month from the acquisition of the right of temporary residence, personally contact the customer service centre of the Citizenship and Migration Office of the Police and Border Guard Board to apply for an identity card which certifies his right of temporary residence.

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# Step 5:

## What to do at the end of the year

### **Annual income tax return and assessment**

92. The period of taxation is a calendar year. In general, resident individuals must file an individual tax return by 31 March following the year in which the income arises. While income tax returns can be filed on paper in the regional offices of the Estonian Tax and Customs Board, the most convenient and widespread is electronic submission through the E-Tax Board, where pre-filled forms are available from February 15 each year. Married resident taxpayers may select between filing their tax returns jointly or separately.
93. Non-resident individuals of another EEA member state are allowed under certain conditions to file tax returns as resident individuals in order to benefit from deductions available for Estonian residents and may also be allowed access to joint filing of tax returns for married taxpayers.

### **Non-residents**

94. For non-residents, the tax withheld at source at domestic or treaty rates generally constitutes final tax as regards to their Estonian source income and the non-resident is generally not liable 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 to self-assess income tax and submit a tax return to the Estonian tax authorities by the following deadlines.
- Taxable capital gains should generally be reported by 31 March of the year following realizing the gain. Capital gain from the disposal of immovable property located in Estonia should be reported within 1 month from realizing the gain.
  - Profits derived from business conducted in Estonia should generally be reported by 30 June of the

following year (or within 2 months if business activities in Estonia are terminated).

- Other items of Estonian source income from which tax was not withheld but should have been withheld should be reported by 31 March of the year following the year in which the income was received.

### **Payment of tax**

95. 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 and based on that, 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 tax return must pay the final amount of income tax due by 1 October of the year following the period of taxation.

96. Non-residents will not receive a tax assessment from the tax authorities. In general, non-residents must pay the income tax due to the tax authorities within 3 months from the deadline of submitting the tax return.

### ***Appeals***

97. Taxpayers generally have 30 days to submit an appeal to the tax authorities or to an administrative court.

### ***Violation of tax laws***

98. Late payment interest on tax arrears is 0.06% per day. Statute of limitations for assessing additional tax is generally 3 years, or 5 years in case of intentional tax avoidance. Violations of tax laws may be subject to administrative or criminal penalties, depending on the facts of the case.

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# *Step 6:*

## What to do when you leave Estonia

### *Departure procedures*

99. When you give up your Estonian residence, you must inform the Estonian tax authorities about the termination of your status in Estonia as a tax resident. This can be done by submitting a specific official form to the Estonian Tax and Customs Board.
100. Tax returns should be submitted by the taxpayer according to general requirements, as a resident and/or a non-resident, depending on the status of the taxpayer during the period of taxation.
101. Non-current payments for Estonian activities should be shifted into the year after departure if taxed at a lower rate.
102. Expenses for your move from Estonia back to your home country are not deductible in Estonia. Reimbursement of your personal costs by your employer is generally taxable.

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# Step 7:

## Other matters requiring consideration

### **Obtaining tax credits in home country**

103. If an individual needs to obtain a tax credit in his home country for Estonian taxes paid, he may obtain from the Estonian employer a certificate showing the income received and income tax withheld. The Estonian tax authorities may also provide, upon request, a certificate indicating the income reported by the taxpayer in Estonia and the amount of Estonian income tax.

### **Import duties**

104. The personal property of EU nationals is in general free from duties and VAT (except a new means of transport).

105. All the personal property brought to Estonia from a non-EU country must be cleared through the customs by way of submitting a declaration for their release for free circulation. The personal property of an individual coming from outside the EU may be granted relief from duty and VAT if the following

conditions are met before entering Estonia:

- The individual's normal place of residence has been outside EU for a continuous period of at least 12 months;
- The personal property has been in the possession and use of the individual for at least six months before the date of immigration;
- It is intended to use the property for same purpose in Estonia as it was used in a non-EU country; and
- If the intention of the immigration to Estonia can be proved by relevant documents (e.g. residence and/or work permit, lease agreement etc.)

106. Relief from the customs duty and VAT is granted only in respect of goods declared to the Customs for their release for free circulation within 12 months from the date of change of the normal place of

residence. During that period, the personal property may be imported in several consignments. Upon certain conditions, the personal property can also be shipped to Estonia up to 6 months prior to actual move to Estonia.

107. The personal property imported to Estonia free from duty and VAT cannot without prior notice be lent, deposited as a security, hired out, sold or otherwise transferred, whether for a consideration or not. This restriction is applicable for a period of 12 months starting from the date on which the property was accepted to be released for free circulation.

### **Vehicles**

108. In general, a resident of Estonia or a person holding a residence permit may use a foreign registered car in Estonia for a continuous period of 12 months after which the car should be entered to the Estonian Car Registry. However, it should

be noted that the legislation regarding the registration liability, as well as customs duties and VAT is rather complex and therefore professional advice should be sought before any specific decisions are made.

### ***Driving license***

109. Driving license issued in one of the EEA member states or Switzerland for a period longer than 10 years (or for an unspecified term) must be exchanged for a driving license of the Republic of Estonia within the period of 24 months as of being granted the right of residence or settling in Estonia. If you miss the right time, you must pass a theoretical and practical driving exam to exchange your driving licence for an Estonian one.
110. The owners of a new driving licence issued by EU

countries after 19th January 2013 are exempt from this rule. The new driving licences have the same look and feel: the licences are printed on a piece of plastic that has the size and shape of a credit card.

111. If you have a driving licence issued in a country other than EU, you should contact the Estonian Road Administration for further information.

### ***Land and property taxes***

112. 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 municipality. The tax is paid by the owners of land, or sometimes by the users of land, in one or two installments by 31 March and 1 October. As from 1 January 2013, there are certain relieves available for personal

residence owners. There is no property tax, i.e. tax on the value of buildings.

113. Property transfers are generally subject to state and notary fees.

### ***Local taxes***

114. Local taxes can be imposed by rural municipalities or city councils. The fiscal significance of local taxes is almost non-existent. Local taxes include advertisement tax, road and street closure tax, motor vehicle tax, tax on keeping animals, entertainment tax and parking charges. There are no local taxes on income.

### ***Other taxes***

115. Estonia does not have any wealth tax, gift tax or inheritance tax.

# Appendix A:

## Typical tax computation

**Resident individual's 2018 tax return if the annual income is up to 14,400 EUR per year.**

<i>Tax computation</i>	<i>EUR</i>	<i>EUR</i>
Salary	10,000	
Capital gains from securities	1,000	
Rental income	1,500	
Dividends received	1,500	
Interest on current account	<b>200</b>	
<i>Total income</i>		<b>14,200</b>
<i>Less – exempt income</i>		
Interest on current account	<b>(200)</b>	
Exempt income		<b>(200)</b>
<i>Less – Deductions:</i>		
Basic personal allowance	(6,000)	
Unemployment insurance	(80)	
Housing loan interest	<b>(1,920)</b>	
Total deductions		<b>(8,000)</b>
Taxable income		<b>6,000</b>
<i>Taxes payable</i>		
20% income tax	(1,200)	
1.6% unemployment insurance	<b>(160)</b>	
<i>Total taxes</i>		<b>(1,360)</b>
<i>Net cash</i>		<b>12,840</b>

**Resident individual's 2018 tax return if the annual income is between 14,400 to 25,200 EUR per year.**

<i>Tax computation</i>	<i>EUR</i>	<i>EUR</i>
Salary	18,000	
Capital gains from securities	2,000	
Rental income	2,000	
Dividends received	3,000	
Interest on current account	<b>200</b>	
<b><i>Total income</i></b>		<b>25,200</b>
<b><i>Less — exempt income</i></b>		
Interest on current account	<b>(200)</b>	
Exempt income		<b>(200)</b>
<b><i>Less — Deductions:</i></b>		
Basic personal allowance*	(1,258)	
Unemployment insurance	(144)	
Housing loan interest	<b>(1,920)</b>	
Total deductions		<b>(3,322)</b>
Taxable income		<b>21,678</b>
<b><i>Taxes payable</i></b>		
20% income tax	(4,336)	
1.6% unemployment insurance	<b>(288)</b>	
<b><i>Total taxes</i></b>		<b>(4,624)</b>
<b><i>Net cash</i></b>		<b>20,576</b>

\*Basic personal allowance is calculated using the formula:  $6,000 - 6,000 \div 10,800 \times (\text{income amount} - 14,400)$ .

**It should be noted that if annual income is above 25,200 EUR, basic exemption is 0 EUR.**

# Appendix B:

## Double-taxation agreements

*Countries with which Estonia currently has double-taxation agreements:*

<i>Country</i>	<i>Effective date</i>	<i>Country</i>	<i>Effective date</i>
Albania	01.01.2011	Latvia	01.01.2002
Armenia	01.01.2004	Lithuania	01.01.2006
Austria	01.01.2003	Luxembourg	01.01.2008
Azerbaijan	01.01.2009	Macedonia	01.01.2010
Bahrain	01.01.2014	Malta	01.01.2004
Belarus	01.01.1999	Mexico	01.01.2014
Belgium	01.01.2004	Moldova	01.01.1999
Bulgaria	01.01.2009	Netherlands	01.01.1995
Canada	01.01.1996	Norway	01.01.1994
China	01.01.2000	Poland	01.01.1995
Croatia	01.01.2005	Portugal	01.01.2005
Cyprus	01.01.2014	Romania	01.01.2006
Czech Republic	01.01.1996	Serbia	01.01.2011
Denmark	01.01.1994	Singapore	01.01.2011
Finland	01.01.1994	Slovakia	01.01.2007
France	01.01.1996	Slovenia	01.01.2007
Georgia	01.01.2008	Spain	01.01.2005
Germany	01.01.1994	Sweden	01.01.1994
Greece	01.01.2009	Switzerland	01.01.2005
Hungary	01.01.2005	Thailand	01.01.2014
Iceland	01.01.1996	Turkey	01.01.2006
India	01.01.2013*	Turkmenistan	01.01.2014
Ireland	01.01.1999	Ukraine	01.01.1997
Isle of Man	01.01.2010	United Arab Emirates	01.01.2011

Israel	01.01.2010	United Kingdom	01.01.1995
Italy	01.01.2005	United States	01.01.2000
Jersey	01.01.2012	Uzbekistan	01.01.2014
Kazakhstan	01.01.2001	Vietnam	01.01.2017
Korea, Republic of	01.01.2011		

\*In India effective from 01.04.2013.

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# *Appendix C:*

## Business trip costs and daily allowances

Employers must observe special rules when they reimburse business trip expenses and pay daily allowances (per diems) to their employees and members of management and supervisory boards. Travelling of employees who have employment of moving character (e.g. truck drivers) is not treated as a business trip.

A business trip has to be directly related with the duties of the employee and properly documented. Expenses can be reimbursed and daily allowances paid only on the basis of the written resolution of the employer, which stipulates the destination, duration and purpose of the business trip and rates of compensation.

Employers are obliged to reimburse all reasonable documented costs related to the business trip and pay daily allowances in accordance with the Government Regulation.

Tax exempt limits are set on daily allowances. Any amounts paid in excess of the tax exempt limits are treated as fringe benefits, which are taxable at employer level and as such exempt for resident individuals.

Daily allowances are paid if the destination of the business trip is outside of Estonia and at least 50 km from the border of the administrative unit where the principal place of employment is located. The maximum tax exempt daily allowance is 50 EUR per day, for the first 15 days, but not more than 15 days in calendar month, and 32 EUR per day for each subsequent day. An employer may reduce the rate of daily allowances by 70% if the employee is entitled to receive free meals during a business trip.

Transportation costs to and from the destination of the business trip and the related reservation charges and taxes can be reimbursed tax free on the basis of expense documents or travel tickets. Travel insurance costs and expenses related to obtaining a visa can be reimbursed tax free on the basis of expense documents or copies of the insurance policy and the visa. If a personal car is used for transportation, documented expenses directly linked with the business trip, excluding repair and maintenance costs, can also be reimbursed on a tax free basis.

Business trip expenses incurred in foreign currency should be converted into euros (EUR) in accordance with the official exchange rate of the European Central Bank of the working day following to the return from the business trip.

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# *Appendix D:* Estonia contacts and offices

## *Contacts*

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### **Erkki Paulus**

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