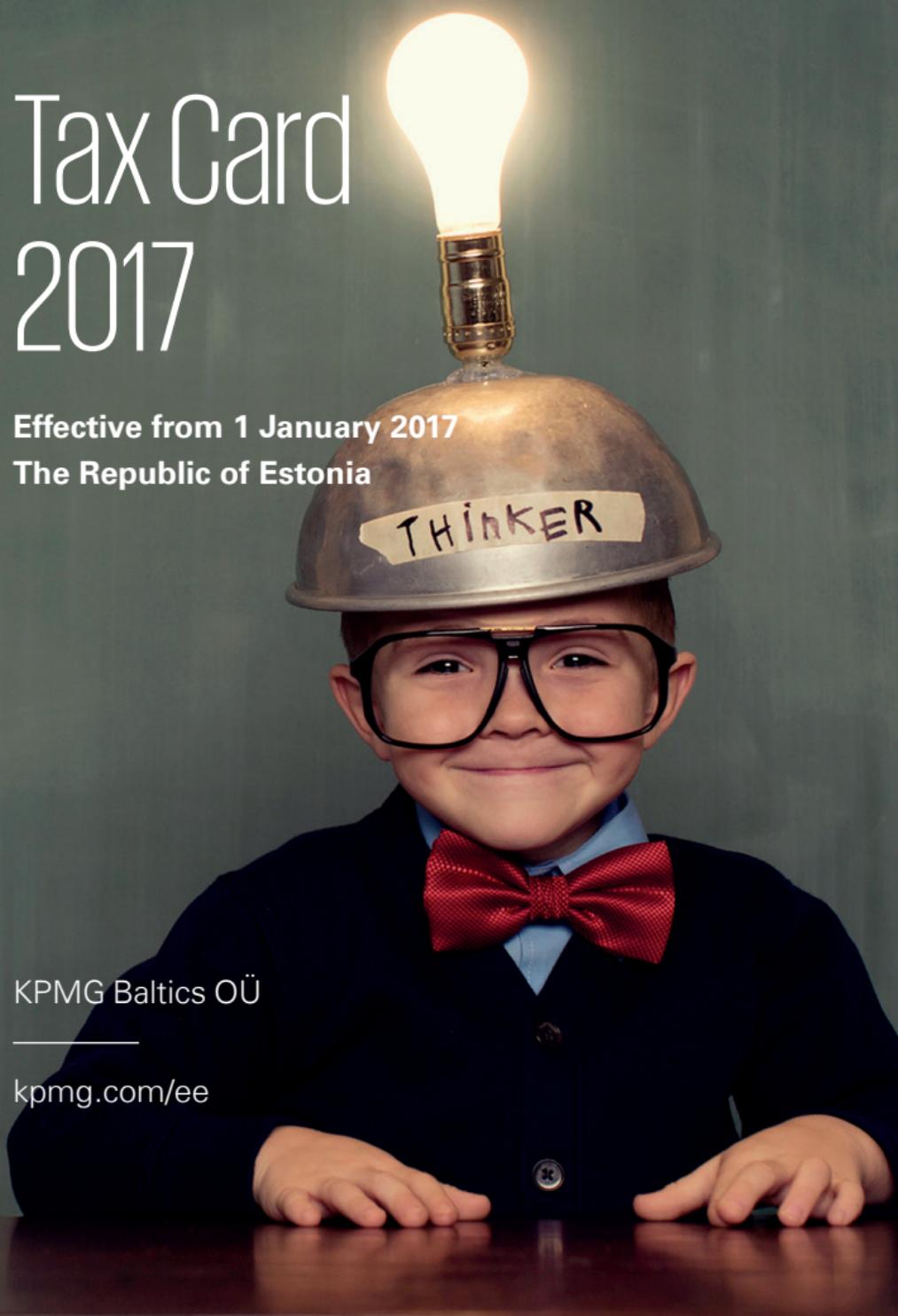




Tax Card 2017

Effective from 1 January 2017
The Republic of Estonia



KPMG Baltics OÜ

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CORPORATE INCOME TAX

According to the corporate income tax system applied in Estonia, undistributed profits are not subject to tax. Instead, income tax at the rate of 20% is charged on gross dividends. However, tax is calculated as 20/80 of the net dividend. Taxable expenses are also subject to 20/80 corporate income tax.

Exceptions

Under certain conditions, redistribution of dividends is not subject to taxation. Income tax is not charged on dividends received from a subsidiary domiciled in an EEA Member State or Switzerland if at least 10% of the shares or votes in the subsidiary is held by an Estonian company. The exemption method applies to dividends received from a subsidiary domiciled in another country if an Estonian company holds at least 10% of the shares or votes in the subsidiary, and income tax has been withheld or paid. Also, in some cases the exemption method is applied to the dividend paid out of profit attributed to a resident company's permanent establishment. However, the exemption does not apply if dividends are received from companies in low tax jurisdictions.

Fringe benefits and expenses not related to business

Fringe benefits are subject to income tax of 20/80 at the employer's level and social tax at the rate of 33% (social tax is levied on the amount which includes both income tax and non-deductible VAT). With several exceptions expressly listed in the Estonian Income Tax Act, all benefits in kind provided to employees are taxed as fringe benefits. Incentive stock option programmes may be exempt from fringe benefit tax under certain conditions.

Expenses and payments not related to the company's business are subject to income tax of 20/80.

Gifts, donations and entertainment costs

A resident company has to pay income tax of 20/80 on gifts and donations made, with certain exceptions to non-profit

organisations. Expenses incurred while entertaining guests and business partners, i.e. expenses incurred in respect of accommodation, catering, transportation and cultural events, are also subject to tax if they exceed certain tax-exempt limits.

Transfer pricing

If the value of a transaction conducted between associated persons (including transactions carried out between the head office and its permanent establishment) differs from market conditions, the difference is subject to income tax (transfer pricing). Qualifying companies must document their transactions with associated parties to prove that the prices used are at arm's length.

Other distributions

Payments made by a resident company upon reduction of share capital or contributions, or upon redemption or return of shares or contributions are subject to income tax at the level of the company who makes the payment. Income tax is paid only on the amount which exceeds the actual contribution made to acquire a holding. Similarly, the portion of liquidation proceeds that exceeds the initial monetary or non-monetary contributions is subject to 20/80 corporate income tax.

Loss carried forward

Losses incurred by a company do not affect corporate taxation.

Thin capitalisation

No thin capitalisation rules are applied in Estonia.

Withholding tax on payments to non-residents

In Estonia, withholding tax is imposed on the following payments made to non-residents:

- | | |
|---|------------|
| • interest | 0%, 20% * |
| • royalties | 0%, 10% ** |
| • fees for services provided in Estonia | 10% |
| • rental payments | 20% |

* 20% rate applies to the interest exceeding the market interest rate.

** In certain cases, outbound royalty payments are exempt from withholding tax provided that the recipient is an associated company of the paying company and is resident in another EU Member State or Switzerland, or such a company's permanent establishment situated in another Member State or Switzerland.

Withholding tax rates may be subject to reduction under Double Taxation Treaties (see the list below).

Withholding tax is paid upon making the payment.

PERSONAL INCOME TAX

In Estonia, a flat rate of 20% is imposed on personal income.

Taxable income

Individuals are subject to general income tax of 20% on income derived from:

- employment (monetary payments);
- business (self-employed income);
- property/investment (rental income, royalties, interest, capital gains on disposal of business, movable and immovable property);
- other sources (certain pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds).

In certain cases, an income tax rate of 10% applies.

Fringe benefits are subject to taxation at the level of the employer.

Tax-exempt income

Under Estonian law, certain amounts of personal income and allowances are exempt from tax, such as:

- basic tax exemption of EUR 2,160 per year;
- an additional allowance of up to EUR 1,848 granted to a parent, starting from the second child aged 17 or less;
- additional deductions on housing loan interest, training expenses, gifts, donations, insurance premiums and acquisition of pension fund units, etc.

The entire deduction provided is limited to EUR 1,200 (incl. EUR 300 in respect of housing loan interest); however, the amount deducted cannot exceed 50% of the taxable income per taxpayer during a period of taxation (i.e. a calendar year). Individuals have

to submit the personal income tax return annually by 31 March following the year of taxation.

Social security

An employer must pay mandatory social security contributions on gross employment income. No ceiling has been set on social security contributions. The minimum social security obligation per employee per month is EUR 141.90.

For employees working in Estonia, social security and unemployment insurance contribution rates are as follows:

- the rate charged to employers: 33.8% (33% + 0.8%);
- the rate charged to employees: 1.6%.

Funded pension contributions at the rate of 2% (or 3% for those who have opted for) are withheld on gross salary payments to residents if the employee has joined the funded pension system. The latter obligatory to an Estonian tax resident born on or after 1 January 1983.

After joining the EU, Estonia followed the rules stipulated in Council Regulation (EEC) No 1408/71. From 1 May 2010, Council Regulations No 1408/71 and No 574/72 were replaced by Regulations No 883/2004 and No 987/2009.

VAT

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

The following supplies are subject to a VAT rate of 9%:

- books and certain periodicals;
- drugs, medicines;
- accommodation services.

The following transactions are subject to zero-rated (0%)VAT:

- export of goods and intra-Community supplies;
- cross-border business to business services;
- goods placed into free zones or free warehouses, or certain goods listed in Annex V of Council Directive 2006/112/EC that are placed into a VAT warehouse;

- export and import related transport services, international passenger services;
- supply of aircraft used by an air carrier operating mostly on international routes;
- supply of sea-going vessels for navigation on high seas;
- provision of services on board vessels or aircraft during international transport;
- supplies of goods under diplomatic and consular arrangements;
- supplies of goods and services to institutions of the EU and NATO forces.

The following transactions are exempt from VAT:

- transactions involving securities and financial services (with an option to tax domestically);
- insurance transactions;
- transactions involving immovable property or parts thereof (with an option to tax);
- rental transactions involving immovable property or parts thereof (with an option to tax);
- universal postal services;
- lotteries and gambling;
- certain education services;
- transactions involving health and welfare.



ESTATE TAX AND LAND TAX

The only property tax imposed in Estonia is land tax. As a rule, the annual tax rate is between 0.1% and 2.5% of the taxable value of the land. The owner (or, in certain cases, the user) of the land is under the obligation to pay the tax. However, the patch of land under a taxpayer's home is exempt from tax.

TAX TREATIES

As on 1 January 2017, Estonia has effective Double Tax Treaties with the following countries:

Albania	Iceland	Serbia
Armenia	India	Singapore
Azerbaijan	Ireland	Slovakia
Austria	The Isle of Man	Slovenia
Bahrain	Israel	Spain
Belarus	Italy	Sweden
Belgium	Jersey	Switzerland
Bulgaria	Kazakhstan	Thailand
Canada	The Republic of	Turkey
The Czech	Korea	Turkmenistan
Republic	Latvia	Ukraine
China	Lithuania	The United Arab
Croatia	Luxembourg	Emirates
Cyprus	Macedonia	The United
Denmark	Malta	Kingdom
Finland	Moldova	The United
France	The Netherlands	Mexican States
Georgia	Norway	The United States
Germany	Poland	of America
Greece	Portugal	Uzbekistan
Hungary	Romania	Vietnam

INVESTMENT INCENTIVES

Only one investment incentive is available under the Estonian tax system – no tax is levied on retained or reinvested profits; however, distributed profits are subject to taxation.

REAL ESTATE TRANSFER DUTY

The duty is paid by an acquirer of immovable property. The rate of the duty depends on the purchase price of the property. However, when the purchase price cannot be established, the rate depends on the taxable value of the land plus the value of the building (in case of an improved immovable).

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This card was prepared in January 2017 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted.

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