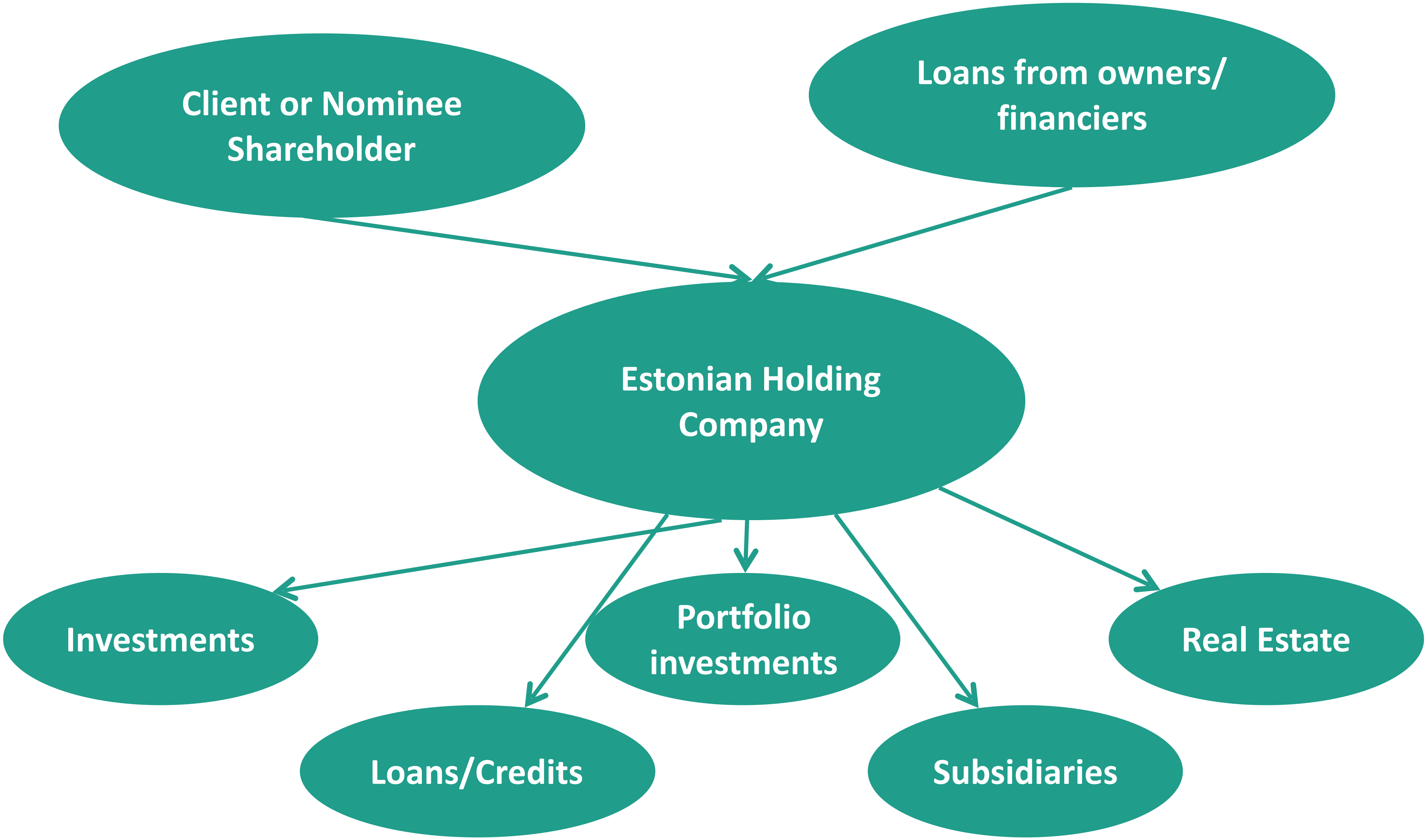
Estonian company

How to use Estonian company

Holding structure



Summary Holding

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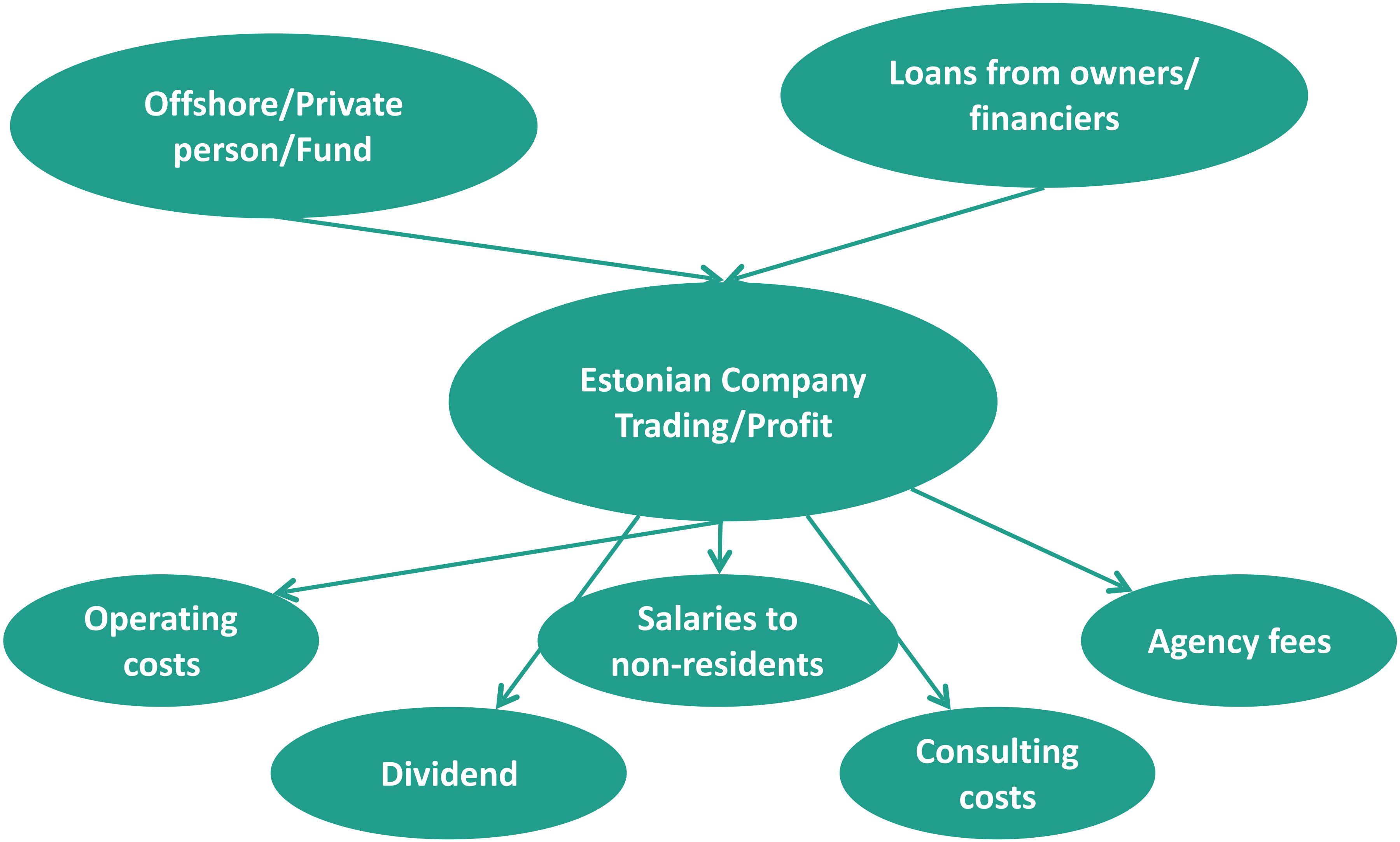
- The Estonian company is owned by Client or using the **nominee services**, that way the Client can retain **anonymity**
- The Company's activities can be financed from owners/financiers structures with high margin loans and reduce tax liabilities in Estonia
- The Company can reinvest the earnings from economic sources into various activities, including lifestyle investments (these have to be considered carefully)
- The Estonian company can also act as a private investment fund
- The income tax is only paid when dividend are distributed
- The Nominee Director service is available
- Redistribution of profit
  - Dividends from foreign subsidiaries can pass through without taxation in Estonia.
  - No income tax on capital gains
  - Capital gains earned by holding company are not separately taxed
- Lending and interest
  - Lending is non taxable as long as it is arm's length and compatible with business logic
  - Outbound arm's length interest is not subject to CIT

Trading structure



Summary Trading

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The profits from trading can be distributed in several ways, our approach is to combine the possibilities like:

A) Operating costs – travelling costs, transportation, car rental, accommodation etc.
B) Dividends – a part of profit will be paid out to owners as dividend and will be subject to 20% of corporate income tax
C) Salaries – can be paid out without withholding any taxes to non-residents. The non-resident will pay income tax in the country of residency.
D) Consulting and other business related costs – paid out to companies registered in favourable tax jurisdictions

E) Agency fees, royalties etc.

To avoid transfer pricing risks – the client can also use Nominee Services

Property company

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Income tax on capital gains

Share deals: generally, capital gains derived by non-resident from the sale of shares of an Estonian company are not taxable in Estonia, except gain from sales of shares in real estate company

Asset deals: capital gains derived by Estonian company are not separately taxed

No withholding tax on market level expenses

Business-related, arm’s length expenses such as loan interest, service payments etc, are not subject to CIT

There is no withholding tax on licence fees paid to EU countries or Switzerland provided that the 25% participation rule is fulfilled

VAT

Recovery of VAT on services received presupposes that the services are used for the purpose of generating taxable supply. Sale of new building is subject to VAT.

Sale of plots of land and used buildings, rent and lease of immovable and financial services are mostly VAT exempt, and thus input VAT deduction is often limited. But there is option to tax transactions with immovable and financial services.

by Estonian company are not separately taxed

Company as Group Treasury

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- **Lending** is made simple by the fact that Estonia is in the euro zone and there are no thin capitalisation rules
- **Inbound interest** is tax neutral, irrespective of source or rate
- **Outbound** arm's length loan **interest** is not subject to CIT
- Distributing interest income as dividend: 20% CIT payable on dividend distribution may be decreased by the amount of tax withheld in another country from income (e.g. interest income)
- **Licence fees**: there is no withholding tax on licence fees paid to EU countries or Switzerland provided that the 25% participation rule is fulfilled
- **Service fee** payments are generally not subject to CIT
- As a rule, **financial services are exempt** from **VAT**

Key benefits

- Simple flat rate system
- Corporate Income Tax is payable only if dividend is distributed
- Company can pay high salaries to non-residents. Salaries for non-residents are not taxed in Estonia.
- Unprofitable or unsuccessful investments are considered as business costs
- All Estonian companies are Estonian tax residents
- No thin capitalisation or CFC rules
- No WHT on dividends, interests and royalties (subject to certain conditions
- No withholding taxes on market level expenses (Business related, arm’s length expenses such as loan interest, service payments etc are not subject to CIT)
- Transfer pricing regulation mainly follows the OECD guidelines
- Company residence is determined according to the place of registration
- VAT regulation in Estonia is mostly in accordance with Directive 2006/112/EC
- No taxation of flow-through dividends
- No exit taxes

Key benefits

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- Estonia is an EU and OECD member and "white list" country
- Maintenance of Estonian company is cheap compared to other white list countries and some offshore jurisdictions,
- Efficient tax compliance (cheap, quick, easy)
- VAT registration is easy compared to Western Europe
- The management/beneficial owners can apply Estonian e-Residency
- The possibility to file for temporary residence permit
- Tax treaties with more than 60 countries
- Low taxation of property
- Secure and modern banking facilities and e-governance
- Cooperative and accessible tax authorities

Taxes in Estonia

Principal taxes (Corporate)
Value added tax 20%
Social tax 33%
Unemployment tax 0,8%
Corporate Income Tax payable on dividend 20% (will be withhold in case the dividend is distributed - net 20/80

Tax Exempt Minimum
Monthly average 2016 and further 170.- EUR. **Total annual** 2040.- EUR.

Payroll Taxes

Initial data:
Social tax 33%
Individual income tax 20%
Unemployment insurance tax 1,6%

Taxes in Estonia

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Corporate Income Tax - **If dividend is received by**

An individual being (an Estonian resident or nonresident)

An Estonian legal entity,

Non-resident legal entity, who holds at least 20% of the shares of the company at the moment of payment of dividends, and whose country of residence is not deemed Low Tax Territory the dividend is taxed with income tax equalling to 20/80 of the dividend paid.

Capital Gains Tax

There is no separate capital gains tax in Estonia. Gains derived by resident companies or branches of foreign companies are exempt until a distribution is made.

Branch Profit Tax

There is no specific branch profits tax in Estonia. Branches of foreign companies are taxed under the same principles as resident companies, i.e. taxed on the distribution of profits.

Fringe Benefits Taxes

Fringe benefits are taxed as income, 20% income tax is levied on the gross value of the benefit plus 33% social security contribution.

Taxes in Estonia

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Determination of Taxable Income

As the income of Estonian-resident companies is exempt from tax, there is no requirement for determining trading income for tax purposes. Tax is levied on the payment of dividends and distributions of profit in other forms such as fringe benefits, gifts and other non-business related payments.

Foreign Tax Relief

Under Estonia's double tax treaties, foreign tax is mostly relieved by exemption.

Corporate Groups

Corporations are taxed separately in Estonia. There is no concept of consolidated tax returns.

Related Party Transactions

Related party transactions may be adjusted for tax purposes if the transactions are not at arm's length.

Withholding Tax

Withholding taxes must be deducted from interest, royalties and dividends paid to non-resident corporate shareholders. Withholding tax applies to the interest payments only if the interest rate is over the market rate and only to the proportion above the market rate.

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