This report provides helpful information on the current business environment in Estonia. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Republic of Estonia

Contents

RBC Royal Bank®

Important to Know

Official language

- Estonian

Currency

- Estonian kroon (EEK); Euro (EUR) as of January 1, 2011 with Estonia's entry into the Eurozone.

Bank holidays

2011	
January	1
February	24
April	22
May	1
June	23, 24
August	20
December	24–26
2012	
January	1
February	24
April	6
May	1
June	23, 24
August	20
December	24–26

Source: www.goodbusinessday.com.

Types of Business Structure

Under Estonian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

A/S (*aktsiaselts*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum paid up share capital of EEK 400,000 (EUR 25,565).

Private limited liability company

OÜ (*osaühing*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of EEK 40,000 (EUR 2,556). There are no restrictions on the number of shareholders. (Single shareholder companies are permitted under Estonian law.)

General partnership

TÜ (*täisühing*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

UÜ (*usaldusühing*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Sole proprietorship

FIE (*füüsilisest isikust ettevõtja*). Any individual person may be a sole proprietor. A sole proprietor may be entered in the Commercial Register at the sole proprietor's request. However, if the sole proprietor is registered with the Tax and Customs Board as a taxpayer pursuant to the Value Added Tax Act, the sole proprietor must be entered in the Commercial Register.

Cooperatives

(*Tulundusühistu*). A cooperative (commercial association) is a legal entity formed by a minimum of five individual or legal entities for the financial benefit of its members. This requires a minimum share capital of EEK 40,000 (EUR 2,556). 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 liable for the obligations of the association with all of their assets or are liable to the extent determined by the articles of association.

Other organizational types

Estonian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Estonian companies are entitled to establish a branch in Estonia. A branch's activities are subject to Estonian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. Representative offices do not need to be registered with the Commercial Register. They are not recognized under Estonian law.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated under Estonian law.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EEK) accounts outside Estonia and foreign currency accounts both within and outside Estonia.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder.
- For identification purposes, an Estonian legal entity must submit a copy of the registry card from the Commercial Register. A foreign entity must submit an extract from its national register or a transcript of its registration certificate. The document must specify: the business name; area of activity; address of the undertaking; the registration number; and the names, residences and personal identification codes of the members of the management body.
- Beneficial owners of funds or assets must be identified and, where the customer is a legal entity, all owners, controllers and signatories must be verified.
- All credit and financial institutions have to identify clients for occasional or linked transactions exceeding EEK 200,000 (EUR 12,782) or occasional or linked foreign currency transactions exceeding EEK 100,000 (EUR 6,391).

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Estonia, financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are a relatively new payment instrument in Estonia and are used primarily by utility and insurance companies to collect domestic payments. Cheque usage is not common in Estonia.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2009/2008	Traffic (value) (EUR billion)		% change 2009/2008
	2008	2009		2008	2009	
Cheques	0.01	0.004	– 60.0	0.003	0.003	–
Credit transfers	97.57	94.80	– 2.8	345.79	326.57	– 5.6
Direct debits	17.85	18.67	4.6	2.16	2.00	– 7.4
Payment cards	154.58	157.58	1.9	3.02	2.73	– 9.6
Total	**270.02**	**271.05**	**0.4**	**350.97**	**331.30**	**– 5.6**

*Exchange rate: EEK 15.6466 = EUR 1.

Source: Bank of Estonia, April 2010.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account, to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (EEK-denominated)	Value dating rules	Cut-off time(s) in local Eastern European Time (EET)
High-value and urgent domestic credit transfers	Real-time settlement, immediate finality	18:00 EET
High-value and urgent intra-EEA credit transfers denominated in EUR	Real-time settlement, immediate finality	18:00 EET
Non-urgent, low-value domestic consumer payments	Settlement same-day	18:00 EET
Non-urgent intra-EEA credit transfers denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 23:00 EET for next-day settlement Individual credit transfers = 15:30 EET for same-day settlement SEPA credit transfers = 14:00 EET for same-day settlement or 02:00 EET for overnight/next-day settlement Consumer direct debits = 12:00 EET for same-day settlement B2B direct debits = 13:00 EET for same-day settlement

Central Bank Reporting

The Bank of Estonia requires that all transactions between residents and non-residents across resident accounts with a value above EEK 200,000 (EUR 50,000 from January 1, 2011) be reported.

This information must be submitted every 15 days, together with supporting documentation, for all transactions above EEK 200,000 (EUR 50,000 from January 1, 2011).

Exchange Arrangements and Controls

Estonia applies no currency exchange controls.

Cash and Liquidity Management

Managing cash on both a domestic and regional (Scandinavian and Baltic*) basis is relatively straightforward, although there are a few restrictions.

* Scandinavian countries comprise Denmark, Finland, Norway and Sweden; Baltic countries are Estonia, Latvia and Lithuania.

Physical Cash Concentration

Physical cash concentration is available from all large local and international banks. Different legal entities are permitted to participate in the same structure. Resident and non-resident companies can participate in the same domestic cash concentration structure.

Pools can be denominated in local currency (EEK) and some foreign currencies. Some banks offer cross-border, cross-currency physical cash concentration, particularly on a regional level.

Notional Cash Pooling

Notional cash pooling is available from local and international banks, although it is not widely used. Where domestic notional cash pools are available, resident and non-resident companies can participate in the same structure.

As an alternative, some banks have developed interest rate optimization or enhancement products, particularly for Scandinavian and Baltic companies, which can include resident and non-resident accounts, for cross-border, cross-currency use.

Short-term Investment

Bank instruments

Interest-bearing current accounts are available from some banks. Banks offer sight deposit accounts, typically denominated in EEK, EUR and USD. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one month to a year.

Non-bank instruments

Some Estonian companies issue commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods and domestic CP is usually issued for three to six months.

The Estonian government does not issue Treasury bills.

Estonian companies have access to European-based money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Estonia to both resident and non-resident companies. Banks will usually charge a margin over Euribor (the Euro Interbank Offered Rate) for facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Local companies can issue CP.

Factoring (disclosed and undisclosed) is available.

Taxation

Corporate Taxation

- Resident companies and permanent establishments (PEs) of non-resident companies registered with the Estonian authorities are not subject to corporation tax on their income. They are subject to tax on any profit distributions made, for example dividends paid, profits distributed in the course of share capital reduction or liquidation and gifts and expenses not related to the business of the payer. Fringe benefits (benefits in kind) are also taxed at the company's (employer's) level, although being part of the employment income of an employee. Any resident company or PE of a non-resident is subject to tax on the payments described above at a rate of 21/79 of the net amount (equal to 21% of the gross amount distributed).

- Dividends paid by Estonian resident companies are not subject to withholding tax.
- Incoming dividends remain tax exempt, even in the case of any further distribution, if they are received from:
  - a subsidiary where the resident company or Estonian PE of a non-resident owns at least 10% of the shares or votes; or
  - a foreign PE of a resident company.
- The above exemption automatically applies to dividends received from the EEA or Switzerland, unless the payer of the dividend is from a low tax territory or exempt from corporate income tax in the country of residence. The Estonian tax exemption also applies to dividends received from any other country, but only if the dividends have been subject to foreign withholding tax or if the underlying profit has been subject to tax.
- If an Estonian company or Estonian PE of a non-resident owns less than 10% of the subsidiary, the credit method applies. This means that dividends received become taxable upon subsequent redistribution by the parent company in Estonia. Foreign tax withheld from dividends can be deducted from Estonian distribution tax payable.

Financial instruments

- There are no specific tax rules for financial instruments.

Interest and financing costs

- As the Estonian corporate income tax system is different from the classical corporate income tax system, where the tax is paid at the moment of raising the profits, deductibility is irrelevant in Estonia. However, if the Estonian tax authority finds that certain costs are not related to business, corporate income tax will be immediately assessed on the whole non-deductible amount.

Foreign exchange

- There are no specific tax rules for foreign exchange.

Advance Tax Ruling Availability

- Binding advance tax rulings are available.

Withholding Tax (subject to tax treaties and other exemptions)

- Withholding tax is not applied to any payments made to resident companies (e.g. dividends, royalties and interest payments).
- As of 2009, withholding tax is not applied to dividend payments.
- Interest payments are not subject to withholding tax in Estonia, irrespective of whether the interest payments are made to non-residents located in a tax treaty or non-tax treaty country. In addition, there are no participation or holding requirements. However, there are anti-abuse provisions which require that interest paid to a non-resident company is subject to withholding tax at a rate of 21% if the loan interest rate significantly exceeds the market interest rate. Only the part of interest which exceeds market rate is subject to 21% withholding tax. Usually the 21% rate could be reduced under bilateral tax treaties if the parties are unrelated.
- Royalties are not subject to withholding tax if:
  - royalties are paid to a non-resident company within the EU or Switzerland and the recipient owns 25% or more of the payer's share capital for at least two years before the date of paying the royalties;
  - an Estonian company pays the royalty to its subsidiary within the EU or Switzerland and the payer owns at least 25% of the recipient's share capital for at least two years before the date of royalty payment; or
  - royalties are paid by an Estonian company to a non-resident company within the EU or Switzerland and a third company owns at least 25% of both the recipient's and the payer's share capital for at least two years before the date of the royalty payment.
- In circumstances other than those described above, royalties paid to a non-resident company are subject to withholding tax at the rate of 10%. If there is a tax treaty between Estonia and the recipient's country, then the withholding tax rate can be reduced to 5%, depending on the type of royalties paid.

Capital Gains Tax

- Capital gains are not taxed separately. Gains derived by a company are not taxed if retained. Upon distribution of the gain, the net distributed amount will be taxed at a rate of 21/79 (equal to 21% of the gross amount distributed).

Stamp Duty

- No stamp duty is levied on loan agreements.

Thin Capitalization

- There are no thin capitalization provisions in Estonia.

Transfer Pricing

- If the value of a transaction between a resident company and a related person, or between a non-resident PE and a related person, differs from the value that would be used for similar transactions between unrelated persons, the tax authorities may adjust the amounts to reflect those which would have been used by the unrelated persons under similar conditions. The methods applied are, among others, comparable uncontrolled price, cost-plus, resale price, profit split and transactional net margin. It is possible to use other methods if necessary. In general, Estonia follows the Organisation for Economic Co-Operation and Development (OECD) guidelines.
- A resident company or PE of a non-resident is obliged to compile detailed documentation (including a master file of the international group and a country-specific file of the Estonian company) describing transactions made with its related persons, if it meets at least one of the following criteria:
  - it is an Estonian resident credit institution or insurance company;
  - it is an Estonian resident company listed on a stock exchange; or
  - it is an Estonian resident company, or a non-resident with a PE in Estonia, which has, taking into account all the Estonian and foreign related entities:
    - at least 250 employees;
    - an annual turnover of at least EUR 50 million; or
    - consolidated assets of at least EUR 43 million.
- In addition, any other company that has entered into a transaction with a person situated in a low tax territory is also obliged to compile the documentation mentioned above.
- It is necessary to document cost-sharing arrangements.

Sales Taxes / VAT

- Resident companies with an annual turnover in Estonia exceeding EUR 15,978 are required to register for VAT. The same threshold is applicable for non-resident companies with a PE in Estonia.
- Non-resident companies generating local supply, which may not be reverse-charged by any Estonian client or intra-EU supply in Estonia, are required to register for VAT.
- VAT is levied on individuals and legal entities on the sale price of goods and services supplied by the taxpayer and on the customs value of imported and exported goods at the following rates:
  - 20% standard rate;
  - 20% on imported goods and services;
  - 9% on books, accommodation services, certain types of medicine and periodicals; and
  - 0% on exports.
- Exempt supplies of goods and services include medical services, certain training and education services, real estate rental services, postal services, insurance, financial services, securities, lottery tickets and the arranging of gambling.

Financial Transactions / Banking Services Tax

- There are no specific taxes relating to financial transactions or banking services.

Payroll and Social Security Taxes

- Employers in Estonia must make social security contributions on employment-related payments made to individuals. Social security contributions are also due by Estonian registered entities making payments to the members of their management and supervisory boards or to sole contractors who are not employees and who are not registered with the Estonian Commercial Register as self-employed individuals.
- Certain payments are specifically exempt from social security tax by law.

- The rate of social tax is 33% (20% to the state pension fund and 13% to the state health insurance).
- Only the employer is liable for paying 33% social tax and no ceiling exists in respect of employees. Unemployment insurance contributions must also be paid by both employers and employees. The liability to make contributions is not related to the tax residence of the employee. Therefore, contributions are due by non-resident employees working in Estonia as well as by employers having such non-resident employees. The law provides that the contribution rates are 2.8% for the employee and 1.4% for the employer. The exact rates are determined annually by the government.
- Where an employee has been assigned to the mandatory funded pension scheme (voluntary for persons born before 1983 and obligatory for those born on 1 January 1983 and after), the employer withholds the mandatory funded pension contribution from the employee's salary (2% of gross salary) and transmits this to the Estonian tax administration.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

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