Estonia – A Prime Location for International Business

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Estonia is a country with a well-developed IT sector, a stable economy and an advanced banking system. This article on the Estonian financial sector outlines the main advantages of Estonia in international tax planning. In future issues we will describe the opportunities the country has to offer in more detail.

The most important advantage of the Estonian tax system is the fact that there is no corporate income tax in the classical sense. The corporate income tax is applicable only if profits are distributed, for example, in the case of the distribution of dividends. But if the profits are lent out, reinvested etc., the corporate income tax will not apply. This creates excellent tax deferral opportunities for trading income, as retained earnings can be lent out, invested in real estate, precious metals, foreign exchange, the stock market and so on. Because of that, numerous Estonian companies do not pay any corporate income tax at all for a long period of time.

In addition, there is no withholding tax on outbound dividends or interest in Estonia. This applies even in the case when dividends are paid to zero- or low-tax offshore companies or trusts: no withholding tax is charged. Furthermore, the withholding tax on royalties is also not applicable if the recipient of the royalty is a resident company of the European Union or Switzerland, on the condition that shareholding is at least 25%. Consequently, foreign investors have the opportunity to invest in business or holding company structures in Estonia without having to pay additional withholding taxes.

Full participation exemption on dividend income is granted, if the dividend is based on the payment from an EU resident company or a resident company of the Swiss confederation and there is a shareholding of at least 10%. Full participation exemption is also available in the case when the dividend is based on the payment from a non-EU resident company, if income tax has been charged on such profit (even in the case of a low tax rate). This provides great opportunities to create holding company structures in Estonia.

The Estonian tax system is quite simple and there are no thin-capitalization rules or working controlled foreign companies (CFC) rules. There are no restrictions regarding the foundation of companies in Estonia using loan capital for tax planning purposes. Because of that, it is easy for foreign investors to adapt to Estonian taxation rules. Unlimited carry forward of losses and unlimited depreciation for tax purposes is also available.

At the same time, Estonia is a full member of the European Union, the Eurozone and the OECD. The euro was adopted as official Estonian currency in 2011. Estonia uses e-residency and digital signature solutions. E-residents can digitally sign documents and contracts, establish Estonian companies online, administer the companies from anywhere in the world, use e-banking and declare Estonian taxes online. Estonian digital signatures are legally equal to normal signatures. This makes it particularly easy to conduct business in Estonia from abroad.

In addition, Estonia has tax treaties with 56 different countries, and all the directives of the European Union are available, which offers more options for the selection of better tax planning structures. There are no restrictions on the free movement of capital or any transfer tax. Foreign and domestic investments in Estonia are treated equally under the law.

There are no tax obstacles to hold funds in Estonia by foreign investors. Inheritance tax, estate tax, net wealth or net worth taxes are unknown in Estonia. The land tax rate is only 0.1 to 2.5%.

The personal income tax rate in Estonia is 20%, including capital gains. The dividends received by physical person from Estonian companies do not attract personal income tax. Personal income tax is also not charged on dividends, if income tax has already been paid on the share of profit on the basis of which the dividends are paid or if income tax on the dividends has been withheld in a foreign state.

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