



Tax Card 2010

With effect from 1 January 2010
Republic of Estonia

KPMG BALTICS AS



CORPORATE INCOME TAX

Undistributed profits are not taxed. The standard rate (flat) on gross dividends is 21% (net dividends are taxed at a ratio of 21/79).

Exceptions

Under certain conditions, redistribution of dividends is not subject to taxation. Namely, if these dividends have been taxed previously or income tax has been withheld abroad and the Estonian company owned, at the time the dividends were paid, at least a 10% holding in the company, an income tax exemption applies (except if dividends were received from companies in low tax jurisdictions). The withholding tax on dividends paid to non-residents was abolished in 2009. Credit is also available if the dividends are paid from profits earned before 2000 and if the income received by an Estonian company does not meet the conditions for exemption.

Fringe benefits, expenses not related to business and transfer pricing

Fringe benefits are taxable at the employer level with income tax at a ratio of

21/79 and social tax at 33% (social tax is also levied on the income tax amount). Basically all benefits provided to employees are taxed as fringe benefits.

Expenses and payments not related to business activity of a company are taxed at a ratio of 21/79. If the value of the transaction conducted between a resident company and its associated party differs from market conditions, the difference is subject to income tax (transfer pricing). As of 2007, qualifying companies must document their transactions with associated parties to demonstrate that the prices used are at arm's length.

Gifts, donations and reception costs

A resident company has to pay income tax at a ratio of 21/79 on gifts and donations made, with certain exceptions to non-profit organisations. Expenses incurred while receiving guests and business partners – i.e. accommodation, catering, transportation and cultural expenses – are also taxable if they exceed certain tax-exempt limits.

Other distributions

Until 2009 payments made by a resident company upon reduction of share capital, or contributions, or upon redemption or return of shares, were taxed at the recipient's level. As from 2009, the amount which

exceeds the actual contribution made to acquire a holding will be taxed at the payer's level (i.e. it will be regarded as the Estonian company's taxable income). Similarly, a company's taxable income will be increased by the amount the paid liquidation proceeds exceed initial monetary and non-monetary contributions.

Loss carry forward

Losses have no effect on corporate taxation.

Withholding taxes on payments to non-residents

Estonia imposes withholding taxes on the following payments made to non-residents.

• Interest	0%, 21%*
• Royalties	0%, 10%**
• Services provided in Estonia	10%
• Rental payments	21%

* 21% rate applies if the interest exceeds market interest rate.

** 0% rate applies if the recipient is resident of another EU country or Switzerland, owning more than 25% of the company paying royalties for more than two years and the royalty is at arm's length.

Withholding tax rates may be reduced by Double Taxation Treaties (see list at the end of this document).

Withholding tax becomes payable when the payer makes the payment.

PERSONAL INCOME TAX

Estonia imposes a flat rate of 21% on personal income.

Taxable income

Individuals are subject to general income tax at 21% on income derived in the calendar year from:

- employment (monetary payments)
- business (self-employed income)
- property/investment (rental income, royalties, interest on deposits and loans, royalties, capital gains on disposal of business, movable and immovable property)
- other sources (alimony and 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-free income

The law exempts certain types of personal income from tax and provides for the following tax-free allowances:

- Basic tax exemption of EEK 27,000 per year
- An additional allowance up to EEK 27,000 granted to a parent starting from the second child aged 17 or less
- Additional deductions applying to alimonies, housing loan interest, training expenses, gifts, donations, insurance premiums and acquisition of pension fund units, etc.

Social security

Mandatory social security contributions are payable in respect of gross employment income by the employer. There is no maximum threshold.

For employees working in Estonia, the social security and unemployment insurance contribution rates payable in 2010 are as follows:

- Employer's rate: 34.4%
- Employee's rate: 2.8%

Funded pension payments are withheld at a rate of 2% of gross salary payments to residents if the employee has joined the funded pension system. Payments of unemployment and pension insurance that are paid at the employee level are deductible from taxable income.

Since joining the EU, Estonia applies EU Regulation (EEC) No. 1408/71.

VAT

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

The following are examples of transactions subject to a VAT rate of zero (0):

- export of goods and intra community supplies
- international services
- goods placed into free zones or free warehouses, or certain goods listed in Annex V of the Directive 2006/112/EC placed into a VAT warehouse
- international transport services, international passenger services
- supply of aircraft operating 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 and services under diplomatic and consular arrangements.

The following are examples of VAT exempt transactions:

- securities and financial services (with an option to tax domestically)
- immovable property or parts thereof (with an option to tax)
- insurance transactions
- the leasing or letting of immovable property or parts thereof (with an option to tax)
- universal postal services
- betting, lotteries, and gaming
- certain education services
- health and welfare.

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

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

REAL ESTATE TAX AND LAND TAX

The only property tax imposed in Estonia is land tax. In general, the annual tax rate is between 0.1% and 2.5% of the taxable value of the land. The owner of the land is obliged to pay the tax.

TAXATION TREATIES

In 2010 Estonia has effective Double Tax treaties with the following countries:

Armenia	Finland	Italy	Portugal
Azerbaijani Rep.	France	Kazakhstan	Romania
Austria	Georgia	Latvia	Singapore
Belarus	Germany	Lithuania	Slovak Rep.
Belgium	Great Britain	Luxembourg	Slovenia
Bulgaria	Greece	Macedonia	Spain
Canada	Hungary	Malta	Sweden
Czech Rep.	Iceland	Moldova	Switzerland
China	Ireland	Netherlands	Turkey
Croatia	Isle of Man	Norway	Ukraine
Denmark	Israel	Poland	USA

INVESTMENT INCENTIVES

The Estonian tax system is the sole investment incentive available – retained or reinvested profits are not taxable; only distributed profits are subject to taxation.

REAL ESTATE TRANSFER DUTY

This duty is payable for the purchaser of immovable property. The rate is dependent on the purchase price of the property, but when that is not determined 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 2010 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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