

Recent tax news from Estonia (3/20/18)

This article highlights recent proposals for amending the VAT Act and the Taxation Act expected to come into force on 1 January 2019.

The VAT Act

The place of a small supply of digital services

There are plans to amend the rules for determining the place of supply of cross-border digital services¹ to a final consumer in another member state and set a threshold of €10,000 for digital services in a calendar year. Taxable suppliers not exceeding the threshold would be permitted to comply with their national rules, unless they decide otherwise. Once the threshold is exceeded, the services would be treated as supplied in the country where the final consumer is located.

Treatment of vouchers

The Directive² governing the VAT treatment of vouchers is to be amended from 1 January 2019. The new rules target only vouchers that can be used to redeem goods or services, to the exclusion of various instruments that merely allow a discount.

Where a single-purpose³ voucher is sold, the VAT liability will arise on the day the voucher for goods or services is handed over to the purchaser (if a prepayment is received before the handover, the VAT liability will arise on the day the prepayment is received).

The Taxation Act

The Estonian parliament intends to amend the Taxation Act and related legislation with effect from 1 January 2019 in order to update the system of tax collection and make it more efficient.

Amendments relating to tax arrears

According to the proposed amendments, tax arrears include amounts refunded incorrectly as well as interest charged on overdue tax liabilities.

The threshold for issuing a certificate of no tax arrears is to be set at €100 including the amount of interest (up from €10 currently).

No late fee in some cases

According to the proposed amendments, the tax authority would waive late fees in certain cases, e.g. for the period of delay in a tax audit due to some activity carried out by the tax authority.

Tax proceedings

Differences between a tax review and a tax *audit* will be abolished, and the two categories will be replaced

by tax *proceedings*.

Automatic decisions and documents

The law is to define cases where the tax authority is permitted to issue their decisions and documents (e.g. warnings, tax notices, and certificates) created by an automated data processing system via e-Tax/e-Customs environment. Examples of such decisions include a decision about paying tax arrears by instalments subject to meeting certain conditions (over a period of up to one year with tax arrears capped at €20,000 etc), decisions about registering for VAT or registering a VAT group, and tax notices.

In practice, decisions about payment by instalments is already an automated process.

¹ Electronic communications and electronically supplied services are considered digital services.

² The purpose of the Directive is to simplify, update and harmonise VAT rules applicable to vouchers.

³ A voucher is considered a single-purpose voucher when the place of supply of goods or services and the VAT due on them are known at the time of issuing the voucher. All other vouchers are multi-purpose vouchers.