

Estonian tax news (3/33/20)

In this article, you will find a summary of the latest developments in the Estonian tax system.

Feedback provided to taxpayers by the Estonian Tax and Customs Board ("TCB")

From the summer of 2020, a new e-service is available in Estonia through which a company receives feedback and information about its tax behaviour from the TCB. The service is based on an analysis of data that companies, including VAT-registered branches and sole proprietors, submit to the TCB and is called "an assessment of tax behaviour."

This e-service allows companies to significantly reduce the risk of being subject to tax audits and consequently the risk of additional tax liabilities being charged. Based on the analysis of the relevant indicators (ratings), the taxpayer might receive a notice from the TCB reading as follows: "You have reported payments on your income and social tax return to a person not entered on the employment register. Please check and adjust if needed." Once the deficiency is eliminated, the TCB's feedback will change, and the taxpayer will not fall into the category of companies likely to be subject to a tax audit. It is possible to track the history of rating changes. Taxpayers can subscribe to notification emails about changes in their ratings.

A tax behaviour certificate

An application run by the TCB enables companies to compile their tax behaviour certificate in Estonian, English or Russian, which contains confidential information, such as the taxpayer's tax compliance rating and the tax behaviour adequacy rating at the date of the certificate being issued.

This certificate may become a mandatory document in the future, e.g. one of the mandatory documents required for the due diligence process in M&A transactions, supporting the target's tax status to potential buyers or when it comes to choosing a new business partner.

The tax behaviour adequacy rating is based on the company's tax behaviour. Both assessments consist of six indicators, and each indicator is marked with what is considered in its calculation. The values of the assessments and their meanings are as follows:

- 3 (green) – Tax matters are in order;
- 2 (yellow) – Some deficiencies may exist;
- 1 (red) – Significant deficiencies exist.

For example, in a rating of "1/3," "1" is the rating value and "3" is the highest possible rating. A rating of "3/3" is therefore the maximum score.

Most taxpayers are likely to strive for green indicators, meaning that their tax matters are 99.99% in order, according to the TCB.

Indicators (a tax behaviour adequacy rating)

1. Tax arrears (if the rating is "3/3," there is no tax debt or it has been deferred);
2. Tax offences (whether there are effective tax and/or customs sanctions);
3. Tax audits;
4. Background of the responsible person (if the rating is "3/3" the background of the responsible person, such as a member of the board or a liquidator, is in order);
5. Average salary (comparison of the company's average salary with the average salaries of similar companies operating in Estonia);
6. Tax returns (the assessment is based on meeting deadlines and submitting correct data for the basic tax returns, such as VAT returns and income and social tax returns, the correctness of certain entries in the employment registry, and the timely submission of other returns).