Estonian tax brief (April 2017) (3/17/17)

In March 2017, the Estonian parliament amended the Taxation Act with effect from 1 April 2017. This article provides an overview of the main changes.

Obligation to publish information on the number of employees and revenue

Summary information on paid state taxes is currently posted on the website of the Tax and Customs Board, including details of payroll taxes. The tax office now has the power to publish even more information, such as information provided to the Employment Register, in particular the number of employees on the last day of the quarter and summary information on taxable supplies made during the quarter.

More information gathered by the tax authorities

The Audit Unit of the Tax and Customs Board now has the power to gather individual and bulk data on taxpayers by filing an information request with one of the national registers (e.g. the Traffic Register, the Land Register, the Cadastral Register, or the Population Register). Gathering this information does not necessarily mean that a tax review or audit will be launched.

An annotation to the Taxation Act explains that this information is necessary for conducting effective risk analyses before tax reviews and audits and for identifying potential violators of tax laws since the information available from the Register of Taxpayers is frequently insufficient. Comparing the information collected from other registers with existing data makes it possible, for example, to determine whether the taxpayer has failed to declare income arising on a taxable property transaction, timber sale, or property lease. This information also helps identify connections between affiliated persons under section 8 of the Income Tax Act. The tax office can approach other registers for information relating to ownership or possession of assets, economic activities, and the nature of related goods, services and logistics.

Country-by-country reporting for large corporations

In March 2017 the Estonian parliament amended the Tax Information Exchange Act and the Taxation Act to require that large corporations should file country-by-country reports. An Estonian tax-resident corporation is considered a reporting entity[1] if its consolidated revenue exceeds €750 million and it undertakes cross-border activities, i.e. at least one member of the group is tax resident in another jurisdiction (including through a permanent establishment). The reporting entity is usually the ultimate parent of the group.

The country-by-country report consists of information on the group's tax calculations for each jurisdiction in which its members carry on business. This information will help the tax office determine whether taxes were paid in the same jurisdiction where profits were earned. Information is only exchanged with the tax office of the country of residence (the Tax and Customs Board in the case of an Estonian group), who then shares this information with other interested countries. The new rules require that the first report on the financial year 2016 should be filed by the end of 2017.

Proposals for amending the Income Tax Act

The Ministry of Finance has drafted proposals for excluding certain accommodation and transport costs borne by the employer from the definition of a fringe benefit in order to enable employers in need of labour to recruit people living far away from the workplace. The proposals are awaiting approval.

The proposals allow the employer to cover an employee's housing costs free of tax, as long as the accommodation is in the employer's interests, the costs do not exceed statutory thresholds (up to €200 a month for someone employed in Tallinn or Tartu, and up to €100 elsewhere), and the employee lives at least 50 km from the border of the area where they work and does not own any real estate that could be used as an abode in the area where they work.

There are also plans to amend section 48(51) of the Income Tax Act to exclude trips between an employee's home and workplace meeting certain conditions from the definition of a fringe benefit. More exceptions are being introduced: the employer may reimburse an employee's transport costs free of tax if the employee lives at least 50 km from the border of the area where they work, or if the employer uses a category M2 or M3 vehicle (bus) as a means of transport.

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[1] According to the explanatory memorandum, fewer than ten groups meet the criteria in Estonia.