

investment guide



estonia. for digital and knowledge- based business

World-class human capital, unique digital capabilities, and a competitive business environment make Estonia a smart, agile location for businesses with global ambitions.

estonia at a glance

OFFICIAL NAME: Republic of Estonia

CAPITAL CITY: Tallinn

OFFICIAL LANGUAGE: Estonian

TOTAL AREA: 45,339 sq. km.

POPULATION: 1,318,700 (2017)

NATIONAL FLAG: 

CURRENCY: Euro (€)

GOVERNMENT: Parliamentary democracy

MEMBERSHIP: EU, NATO, OECD,
WTO, Eurozone, Schengen Area

CALLING CODE: +372

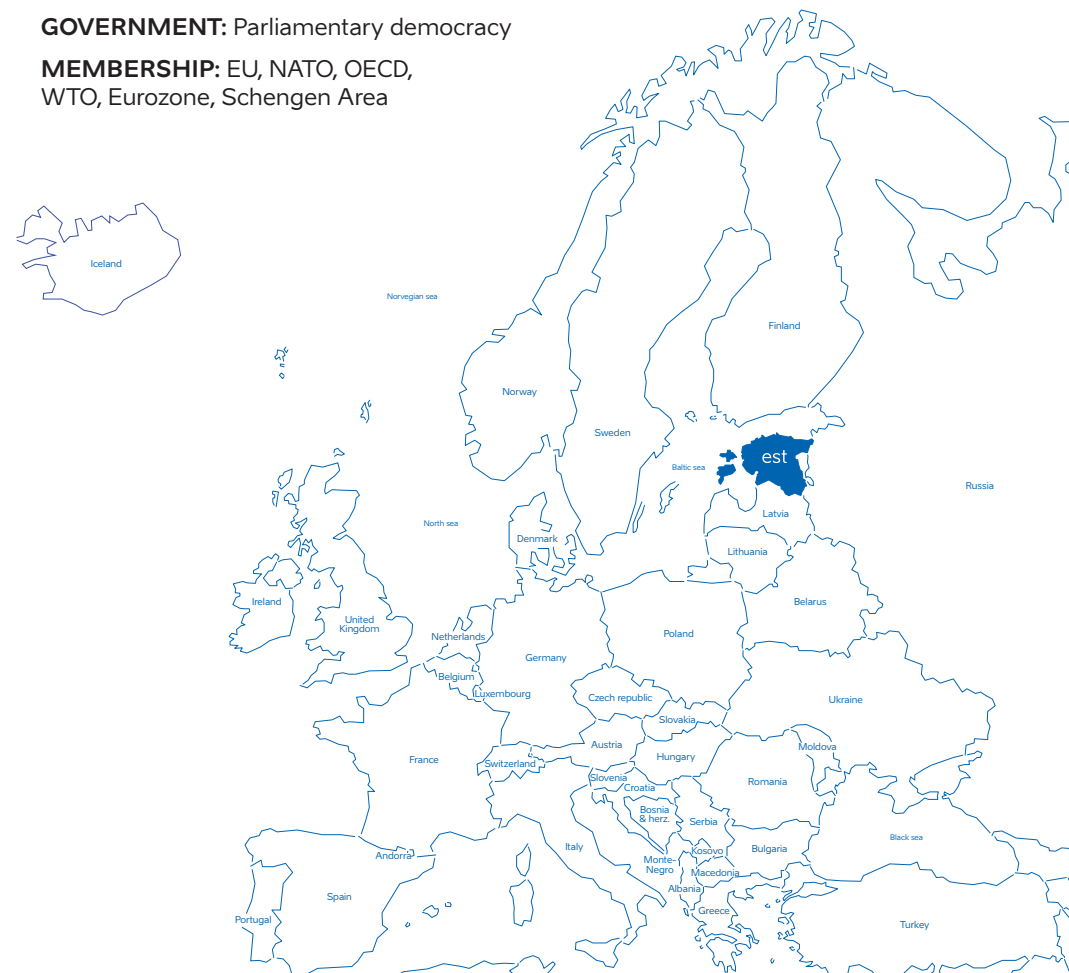
TIME ZONE: UTC+2

UNITS OF MEASURE: Metric system

ELECTRICITY: 220 V

DRIVING: On the right

EMERGENCY NUMBER: 112



a competitive and transparent economy

Estonia consistently ranks as one of the most open, competitive and transparent economies in the world. This success is due to a commitment to low red tape, the rule of law, and significant investment in infrastructure and human capital. This creates an environment that allows solutions and services to be researched, developed, and delivered globally.

Estonia's R&D ecosystem and digital capabilities make it an innovation hotspot. Successful start-ups include Transferwise, Skeleton Technologies, and Adcash, to name a few. Global giants like Ericsson, Arvato, Kuehne+Nagel, and NATO all conduct R&D in Estonia. As IT becomes the value driver across all industries, Estonia is uniquely positioned as the choice for digital- and knowledge-based businesses.

A variety of international organisations have acknowledged the Estonian economy as very open and competitive:

#1 OECD TAX COMPETITIVENESS INDEX 2018

#1 ENTREPRENEURIAL ACTIVITY
World Economic Forum 2017

#1 INTERNET FREEDOM
Freedom House 2017

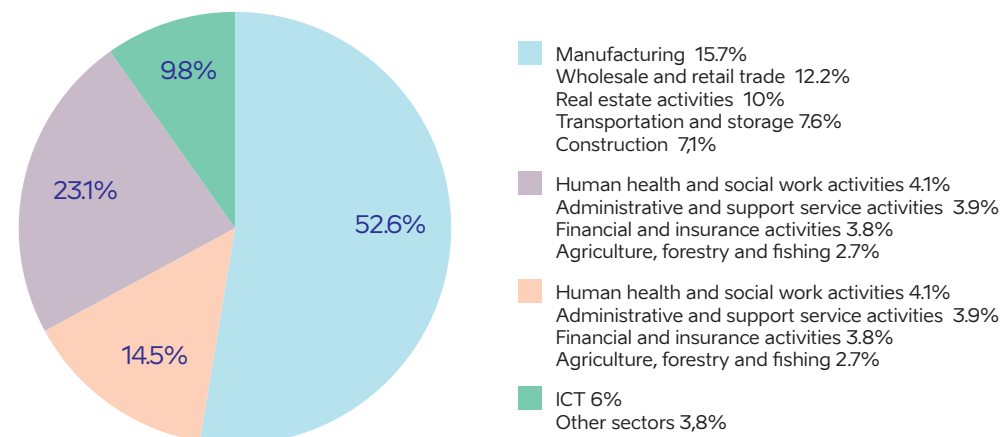
#1 DIGITAL DEVELOPMENT INDEX
Barclays 2016

#7 INDEX OF ECONOMIC FREEDOM
The Heritage Foundation 2018

#12 EASE OF DOING BUSINESS
World Bank 2018

Extensive IT usage across the economy creates significant efficiencies, scalability, and real-time data

Estonian GDP by Economic Activity (2017)



The Estonian Government demonstrates flexible and needs-based legislation with a priority on the facilitation of entrepreneurship. This has resulted in a simple, transparent, and nimble business environment that is one of the key drivers of foreign direct investment in Estonia.

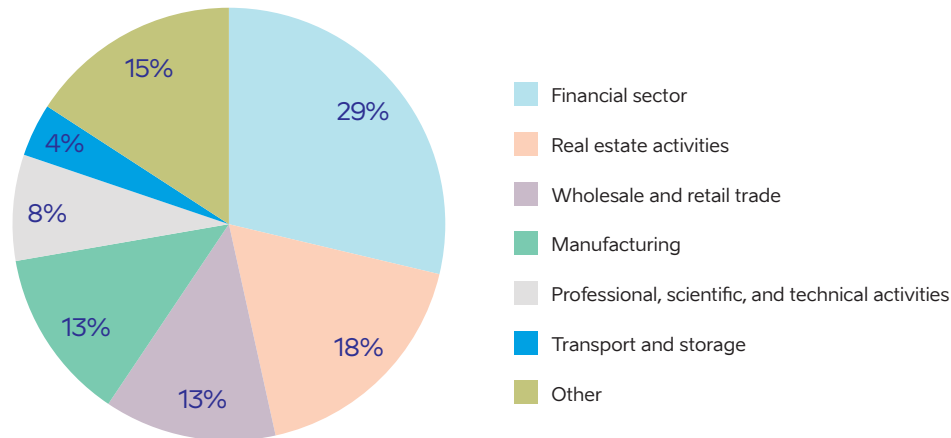
In Central and Eastern Europe, Estonia is among the leading countries regarding foreign direct investment per capita. By January 2018, Estonia has accumulated a total of 19.9 billion EUR worth of investments.

Estonia has some of the highest international credit ratings in the region

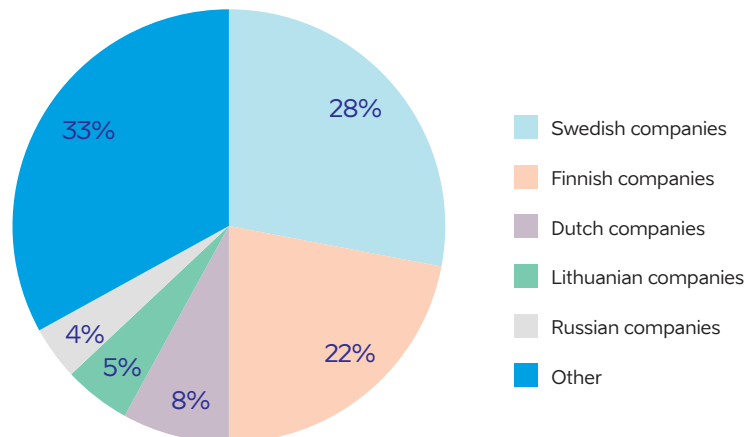
Standard & Poor's: AA-
Moody's: A1
Fitch IBCA: A+

establishing a company

FDI stock by sector (2017)



FDI stock by origin (2017)



Modern e-solutions make setting up and running a business in Estonia quick and easy. Signing up a new company in the e-Business Register takes only minutes. In a few hours, the company is up and running.

e-Services supporting businesses in Estonia:

- **e-Business Register** — An advanced and secure tool allowing registration of a new company online, management of a company's data, filing of annual reports, and enquiries about other companies, etc.
- **e-Tax** — The electronic service of the Estonian Tax and Customs Board, enabling businesses to declare taxes online, as well as make customs declarations.
- **e-Financials** — State-provided simple web-based accounting software that assists companies in managing their bookkeeping.
- **Digital signatures** — Enables the signing of documents electronically with validity equal to handwritten signatures (Estonian ID-card or e-Residency card required).
- **e-Banking** — User-friendly online banking and invoicing services are available 24/7, accessible from anywhere in the world. The main service providers in Estonia are Swedbank, SEB, Nordea, LHV, and Danske Bank.

98% OF COMPANIES
ESTABLISHED ONLINE

99% OF BANKING
DONE ONLINE

96% OF TAX DECLARATIONS
FILED ONLINE

e-Residency

Estonia is the first country to offer e-Residency – a transnational digital identity available to anyone in the world. e-Residency offers the freedom to easily start and run a location-independent business online using the convenient digital business services of Estonia.

e-residents can:

- Establish a company online.
- Manage a company from anywhere in the world using online tools exclusively.
- Access business banking and online payment service providers.
- Be the owner of your company. No local director needed.

Manage the company remotely:

- Sign and authenticate documents anywhere.
- Encrypt and send documents securely. No more scanning and posting!
- Declare Estonian taxes online.

Apply for e-Residency:
e-resident.gov.ee

Achieve location independence:

- Continue to operate your company online while traveling.
- No need to re-establish your company after moving abroad.
- Avoid paperwork.

e-residents receive a digital ID card that provides:

- a government-issued digital identity
- secure access to e-services
- the power to digitally sign and authenticate documents

The digital ID card and e-services are built using state-of-the-art technological solutions, including a 2048-bit public key encryption and a two-stage PIN system. The digital ID card is not a physical identification or a travel document and does not display a photo.

legal forms of companies

According to the Commercial Code, there are five forms of business entity:

- private limited company
- public limited company
- general partnership
- limited partnership
- commercial association

Private Limited Company (OÜ)

A private limited company is a company that has its share capital divided into private limited company shares. A private limited company is liable for the performance of its obligations with all of its assets, but a shareholder is not personally liable for the obligations of the company. The minimum nominal value of a share is €1 and the share capital must be a minimum of €2,500. If the founders are private persons and the share capital is less than €25,000, they may opt not to fund their share in cash when the company is established. But until the whole sum has been funded in cash, the founders are still personally liable for the obligations of the company for the balance of the missing contribution. A private limited company must have a management board – a directing body that represents and directs the company. The management board may have one member or several members, and they must be natural persons with active legal capacity without the obligation to hold shares in the company. If more than half of the board members do not permanently reside in Estonia, the company must

give the Commercial Register a contact name and address in Estonia where documents may be sent. A foreign owner must provide the Commercial Register with his/her address and e-mail address.

Public Limited Company (AS)

One or more natural or legal persons with or without a share subscription may found a public limited company, and its share capital is divided into public limited company shares. A public limited company is liable for the performance of its obligations with all of its assets, but a shareholder is not personally liable for the obligations of the public limited company. Share capital must be a minimum of €25,000 and the minimum nominal value of a share is €0.10. Shares must be registered and entered in the Estonian Central Register of Securities. The rights attached to registered shares belong to the person who is entered as the shareholder in the share register. A public limited company must have a management board and a supervisory board. The supreme management body of the public limited company is the general meeting of shareholders. The supervisory board must have at least three members, unless the Articles of Association prescribe a greater number. A member of the supervisory board must be a natural person with active legal capacity. If more than half of the board members do not reside in Estonia, the company must give the Commercial Register a contact in Estonia where documents may be sent. A foreign owner must provide the Commercial Register with his/her address and e-mail address. A public limited company must have an appointed auditor.

The most common forms of business entities in Estonia are the private limited company (OÜ) and public limited company (AS)

€25,000 – minimum share capital of a public limited company

€2,500 – minimum share capital of a private limited company

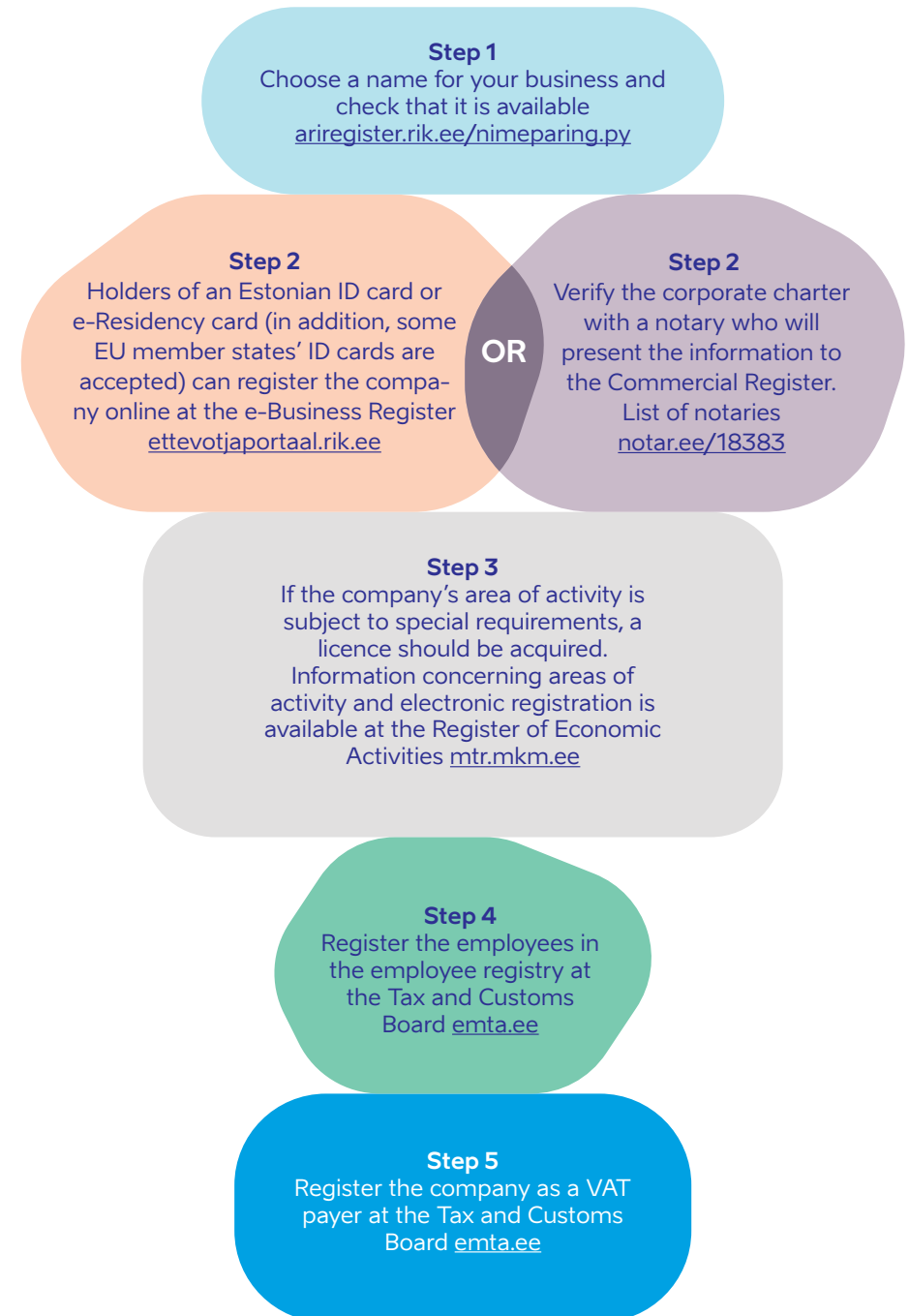
In addition to the possibility of establishing a business entity, it is possible for any natural person to conduct business as a sole proprietor (FIE). The sole proprietor must be entered in the commercial register before commencing with permanent business activity. Foreign companies may also offer their

goods or services by establishing a branch. The branch must be registered in the Estonian Commercial Register by submitting an application and required documentation. It should be considered that a branch is not a business entity, and the foreign enterprise is liable for obligations arising from the activities of the branch.

Additional information:

The Estonian Commercial Code
riigiteataja.ee/en

Establishing a Private Limited Company – as Easy as ABC



the estonian tax system

0% corporate income tax on retained and reinvested profits

The Estonian tax code ranks first in the OECD Tax Competitiveness Index (2017)

The Estonian tax system is known for its simplicity, broad tax base, and low tax rates. The aim of the Estonian Government is to shift the tax burden from labour to consumption.

Easy administration — all taxes can be declared via e-tax/e-customs.

Beginning January 1, 2018 — the corporate income tax rate on regular profit distributions will be lowered from 20% to 14%, but only in cases where dividends are paid to legal persons

Corporate Income Tax

Estonian resident companies and permanent establishments of foreign entities (including branches) are subject to 20% income tax only in respect to all distributed profits (both actual and deemed), including:

- corporate profits distributed during the tax period
- gifts, donations and representation expenses

- expenses and payments not related to business
- transfer of assets of a permanent establishment to its head office or to other companies

Fringe benefits are taxable at the level of the employer. The employer pays income tax and social tax on fringe benefits.

Dividends paid to non-residents are no longer subject to withholding tax, irrespective of participation in the share capital of the distributing Estonian company. However, withholding taxes may still apply to other payments to non-residents if they do not have a permanent establishment in Estonia or if tax treaties otherwise provide. Since the tax period for corporate entities is one month, income tax must be returned and paid monthly by the 10th day of the following month.

Labour Taxes

The social tax rate is 33% (20% social security plus 13% health insurance). In addition to social tax, unemployment insurance tax at a rate of 0.8% must be paid on gross salaries (an additional 1.6% is withheld from employees' salaries).

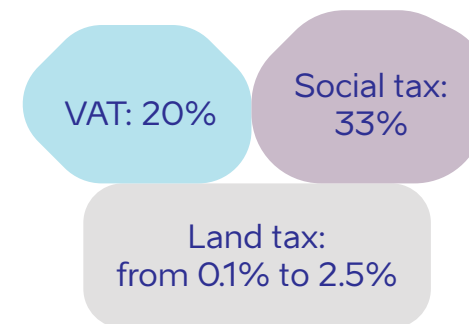
Employers registered in Estonia (including the permanent establishments of foreign entities) must pay social tax on all payments made to employees, except on those specifically exempted by law. Fringe benefits and the income tax thereof are also included in the taxable base.

VAT

The standard VAT rate is 20%; the reduced rate is 9%, and 0% in some cases.

VAT is charged on the supply of goods and services in the course of business activities and the self-supply of goods and services. A taxable person is an individual engaged in business and registered as a taxable person. The threshold for obligatory VAT registration is €16,000 per year in turnover. The threshold for a taxable person with limited liability in the case of the acquisition of goods is €10,000 per year. There is no threshold in the case of the acquisition of services.

The taxable period is one calendar month, and VAT returns must be submitted to the tax authority by the 20th day of the month following the taxable period.



20% income tax rate
applies to both companies
and individuals

Unemployment insurance:
2.4% of gross salaries

No property tax

Personal Income Tax

Residents pay tax on their worldwide income. Taxable income includes:

- income from employment (salaries, wages, bonuses, and other remuneration)
- business income
- interest, royalties, rental income
- capital gains
- pensions and scholarships (except scholarships financed from the state budget or paid on the basis of law)

Taxable income does not include dividends paid by Estonian or foreign companies when the underlying profits have already been taxed. Non-residents pay personal income tax only on their income received from Estonian sources. Taxable income in Estonia includes:

- income from work under a labour contract or contractor's agreement in Estonia
- income from business carried out in Estonia

- interest income received in Estonia (only if it is substantially higher than that of similar debt claims)
- royalties
- income from the lease of assets located in Estonia
- gains from disposal of assets located in Estonia
- directors' fees paid by Estonian enterprises
- income of a sportsman or an artist from his or her activities in Estonia
- pensions and scholarships

Personal income tax is withheld from employees' gross salaries every month and paid by the employer.

Paying Taxes

All taxes in Estonia may be declared via e-Tax, which is the electronic tax filing system set up by the Estonian Tax and Customs Board.

e-Tax services include:

- individual income tax claims
- an enterprise's declarations of income tax, social tax, unemployment insurance and contributions to the mandatory pension fund
- value-added tax returns
- alcohol excise, tobacco excise, fuel excise, and packaging excise duty returns
- INF declarations
- customs declarations

Non-residents may choose a tax representative. The tax representative of a non-resident is a person to whom the Tax and Customs Board has issued a corresponding activity licence and is authorised to represent the non-resident for the performance of obligations arising in Estonia.

Each year, around 95%
of all tax declarations in Estonia
are filed electronically

It takes
approximately 3 minutes
to file taxes online

Additional information:

Estonian Tax and Customs Board
emta.ee/en

Ministry of Finance
fin.ee/en

labour market and finding suitable staff

The Estonian labour market is characterised by:

- a highly-skilled workforce
- 86% of adults speak at least one foreign language
- low unionisation
- simple and straightforward labour legislation

Potential sources for finding suitable staff:

- the Estonian Unemployment Insurance Fund (free-of-charge services to employers)
- private recruitment companies
- advertising in national and local papers
- career services departments in major universities
- online job listings

Additional information:

Work in Estonia
workinestonia.com

International House of Estonia
workinestonia.com/internationalhouse

Estonian Unemployment Insurance Fund
tootukassa.ee/eng

Career services of Tallinn
University of Technology
ttu.ee/en

Remuneration and working time

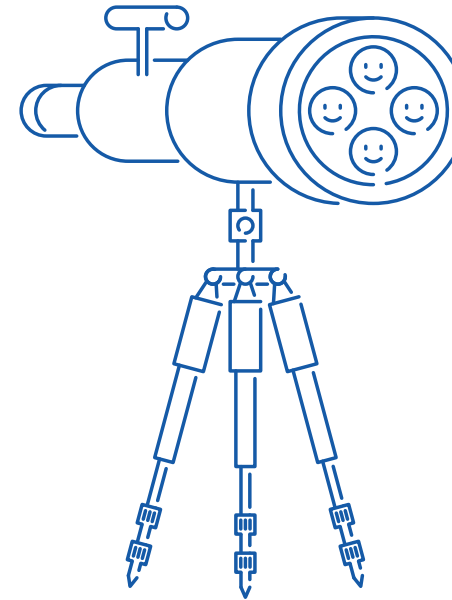
Regulations regarding employment and labour issues are regulated mainly by the Employment Contracts Act. The legislation is liberal and offers more flexibility for agreement on terms and conditions of employment.

Wages must be paid at least once a month, and it is the employer's obligation to calculate and withhold all payroll taxes. When hiring, the general standard is a four-month probation period with one day notice for termination of employment during the probationary period (as of 2018, a 15-day notice will be imposed). Long-term employees usually have a one month notice period for termination of employment. If working hours are at night (from 10:00 pm to 6:00 am), employers must pay wages exceeding the normal wages by a factor of 1.25, unless it has been agreed that wages include remuneration for working at night.

Career services of Tallinn University
tlu.ee/en

Career services of the University of Tartu
ut.ee/en

Career services of the Estonian
University of Life Sciences
emu.ee/en



€1,221 – monthly average
gross salary (2017)

€540 – monthly
minimum wage (2019)

Work during public holidays may be compensated either by offering time off or by paying 2 times the wages for the work.

Payment for overtime – additional remuneration per hour of overtime must be at least 50% according to the Employment Contracts Act.

Additional information:

Employment Contracts Act
riigiteataja.ee/en

financing a business

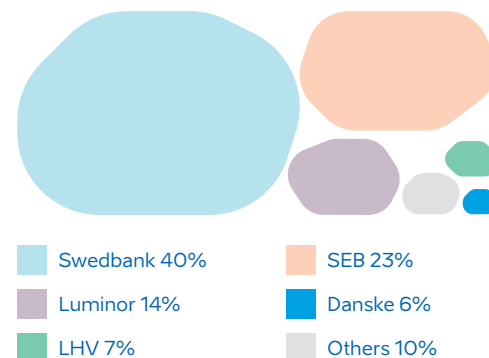
There is a variety of both national and EU grants available that support competitiveness, innovation, job creation, and much more. Since 2014, the Estonian government strategy has switched focus from technology and infrastructure investments to human capital and smart economy investments.

Emphasis is now on innovation and new business models in the following three smart-specialisation areas:

- information and communication technology — horizontally through all sectors
- health technologies and services
- more effective use of resources

Banks in Estonia offer a wide range of financial services from everyday banking to sophisticated wealth management, and are also the biggest providers of leasing and factoring services. The largest banks are subsidiaries and affiliates of Scandinavian banking groups.

Market share of banks in Estonia (2017)



Source: Estonian Banking Association

Additional information:

Estonian Entrepreneurship
Growth Strategy 2014–2020
kasvustrateegia.mkm.ee

Enterprise Estonia
eas.ee

EU Structural Funds
struktuurifondid.ee/eng

the legal system & foreign businesses

The Estonian legal environment favours entrepreneurship and the entrepreneurial mindset. Foreign investors share the same rights and obligations with local entrepreneurs. All foreign investors may establish a company and conduct business in Estonia in the same way as local investors; no restrictions apply.

Foreign investors and local entrepreneurs have equal rights

Estonia has concluded treaties for the protection of investments with 31 countries, including the USA, Germany, France, Finland, Sweden, Norway, and Switzerland. Also, agreements for avoiding double taxation have been made with 53 countries, including the EU. The legal system in Estonia is based on the Continental European civil law model and has been influenced by the German legal

system. Unlike in common law countries, Estonia has detailed codifications and issues are solved according to these. Estonian law is, at its basic level, divided into private and public law. Generally, private law consists of civil law and commercial law. Public law consists of international law, constitutional law, administrative law, criminal law, financial law, and procedural law.

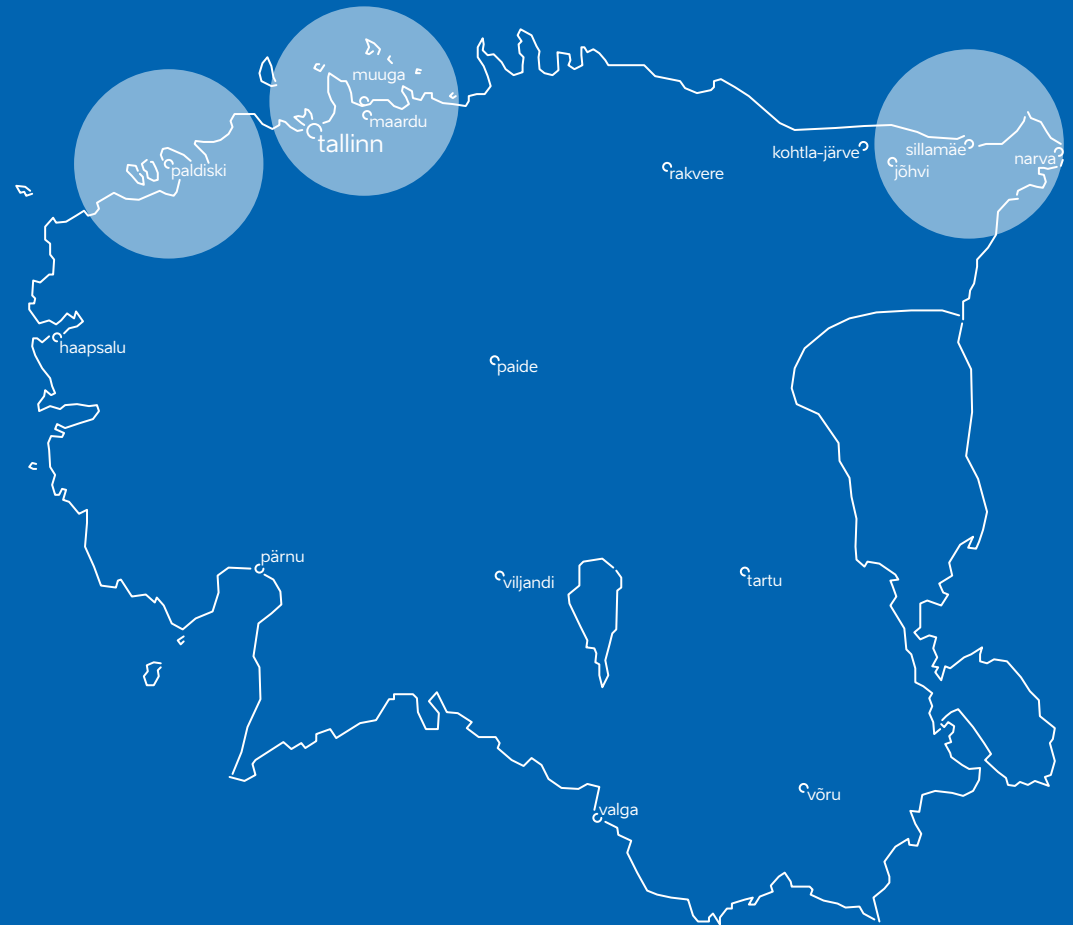
Flexible and needs-based legislation that supports entrepreneurship

Additional information:

Estonian Legislation in English
riigiteataja.ee/en

free-trade zones and industrial parks

There are three free-trade zones in Estonia and a number of industrial parks with pre-developed infrastructure that welcome manufacturing and logistics companies. Both free-trade zones and industrial parks are logistically in favourable locations near highways, railways, and ports.



→ **Paldiski Free-Trade Zone**,
Paldiski Northern Port
portofpaldiski.ee

→ **Muuga Free-Trade Zone**,
Port of Muuga
portoftallinn.com/muuga-harbour

→ **Sillamäe Free-Trade Zone**, Port of Sillamäe
silport.ee

→ **Ida-Viru Industrial Area**, Jõhvi
via.ee

→ **Port of Sillamäe Industrial Park**, Port of Sillamäe
silport.ee

→ **Muuga Industrial Park**, Port of Muuga
portoftallinn.com/muuga-industrial-park

→ **Port of Paldiski Industrial Park**,
Paldiski South Harbour
portoftallinn.com/paldiski-industrial-park

→ **Narva Business Park**
narvapark.ee/en

→ **Reola Business Park**
dtz.ee/reola

→ **Vahi Industrial Park**, Tartu
vtp.ee/en

→ **Loode-Pärnu Industrial Area**, Pärnu
investinparnu.com/en

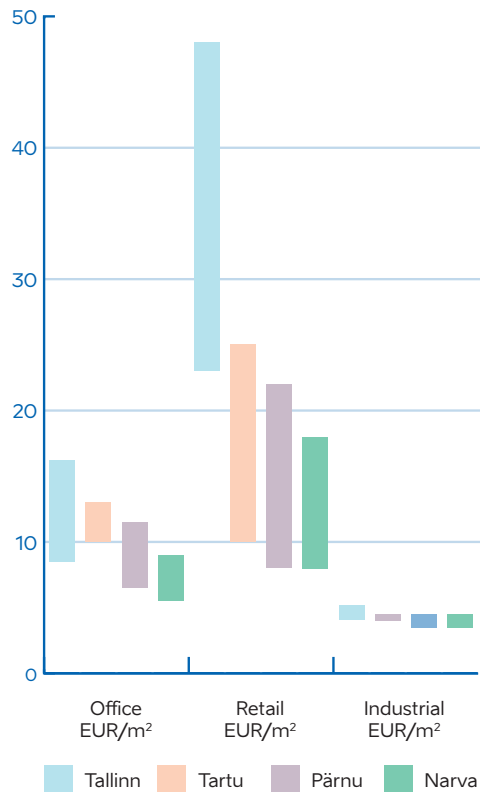
0% corporate tax
on retained and
reinvested profits
is also preserved in
free trade zones

Pre-developed
infrastructure,
great locations

Free-trade zones are established
by the Estonian government
and monitored by the Estonian
Tax and Customs Board.

Additional information:
Estonian Tax and Customs
Board emta.ee/eng

premises

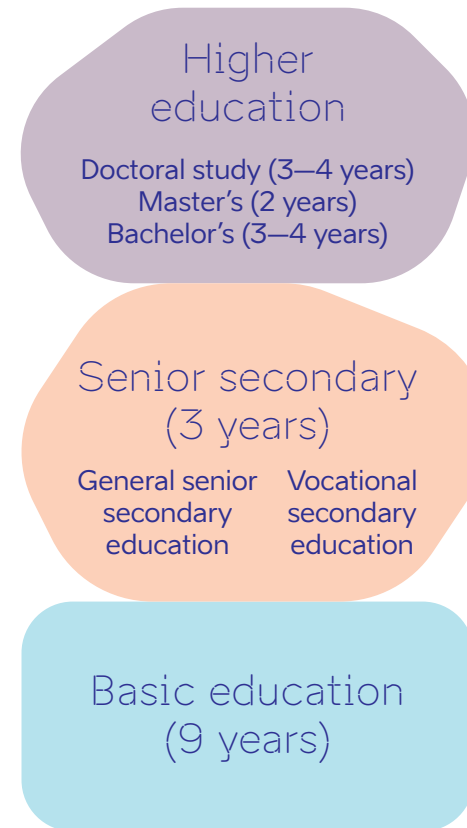


There are minimal restrictions for foreigners acquiring fixed assets in Estonia. Existing restrictions fall into two main types according to the Restrictions on the Acquisition of Immovables Act:

- restrictions arising from the acquisition of 10 hectares or more of agricultural or forested land
- restrictions arising from national defence reasons

The following graph shows the indicative range for rents (excluding VAT and operating expenses) in the major towns of Estonia for class A and B1 office premises, medium-sized retail units in major shopping centres, and new and renovated warehouses.

education and research



Education system:

Higher education

26 higher education institutions. Three levels: Bachelor's (3–4 years), Master's (2 years) and Doctoral study (3–4 years).

Senior secondary

Divided into general senior secondary education and vocational secondary education. General senior secondary education: 3 years in a senior secondary school. Vocational secondary education: organised by vocational education institutions or higher education institutions. Besides vocational training, the student also acquires upper secondary education. In 2017/2018: 38 vocational educational institutions and 7 professional higher institutions that offer more than 160 specialities.

Basic education

Compulsory to all children in Estonia (including children from other countries) from age seven until grade nine, or the age of 17.

Estonia is among the world's best-educated countries in math, science, and ICT

No. 3 in science skills
OECD, PISA 2015

No. 9 in math skills
OECD, PISA 2015

Minimum general education that provides the right to acquire a senior secondary education or to enter working life.

Education is free, from basic to higher education

Estonia has an attractive environment for research with top-level infrastructure and highly qualified specialists. Most research and development in Estonia is performed at universities. The largest public research university is the University of Tartu, followed by Tallinn University of Technology (TalTech), Tallinn University, and Estonian University of Life Sciences.

University Of Tartu:

- one of the oldest universities in northern Europe
- largest university in Estonia
- 5th in the QS World University Rankings in Emerging Europe and Central Asia

Additional information:

Ministry of Education and Research
hm.ee/en

Study in Estonia
studyinestonia.ee

Tallinn University of Technology:

- the flagship of Estonian engineering and technology education
- one of the most modern campuses in Europe — winner of the Best Campus category in "Science and Education" (Oxford 2014)
- TalTech campus is home to more than 200 high-tech companies, such as Skype, Starship Technologies, and Cybernetica.

World-class environment for R&D, top-level infrastructure

High-level research is also carried out in the Research Centres of Excellence and Competence Centres that aim to bridge the gap between scientific and economic innovation. There are 12 Centres of Excellence and 8 Competence Centres.

Research in Estonia
researchinestonia.eu

Estonian Research Information System
etis.ee

healthcare services

Estonia has a state-provided healthcare system that is built on solidarity-based health financing. The medical service does not depend on the amount of social tax paid. Health insurance is administered by the Estonian Health Insurance Fund (Eesti Haigekassa).

State-provided health insurance funded by the social tax

An insured person is a permanent resident of Estonia or a person living in Estonia on a temporary residence permit or on the basis of permanent residence who pays social tax for himself/herself or for whom the social tax is paid. Children under 19 years of age and pregnant women hold equal status to insured persons. Everyone has the right to receive emergency medical care regardless of whether they have health insurance or not. Everyone has the

right to choose a family physician, the first person consulted in the case of illness. e-Health solutions allow Estonia to offer more efficient preventative measures, increasing the awareness of patients and also saving billions of euros. Each person in Estonia who has visited a doctor has his or her own online e-Health record, containing medical case notes, test results, digital prescriptions, and X-rays as well as a full log-file tracking access to the data.

95% of health data generated by hospitals and doctors is digitised

Additional information:

Work in Estonia
workinestonia.com/living-in-estonia/healthcare-overview

Estonian Health Insurance Fund
haigekassa.ee/en

residence permits

For Citizens of the EU, EEA, and Swiss Confederation

A citizen of the EU may stay in Estonia on the basis of a valid travel document or identity card for up to three months. In order to stay longer, the EU citizen must obtain the right of temporary residence. An EU citizen must register his/her stay at the local government authority nearest to his/her residence within three months from the date of entering Estonia. The right of temporary residence is granted for a period of five years. Generally, an EU citizen who has resided in Estonia permanently for five successive years on the basis of the right of temporary residence obtains the right of permanent residence.

For Third-Country Nationals

A residence permit may be temporary (with a period of validity up to five years) or long-term. A temporary residence permit may be issued to an alien:

- for settling with a spouse or close relative permanently residing in Estonia
- for study

- for work and business
- in case of substantial public interest
- as an extension of a residence permit when a source of legal income exists

Start-up founders and investors can apply for temporary residence permits for business

Temporary residence permit for business

A third-country national may apply for a residence permit for business:

- in the case of owning shares in a company or acting as a sole proprietor and having invested at least 65,000 EUR in business activities (at least 16,000 EUR in the case of a sole proprietorship)
- for conducting business in a start-up — by obtaining a Startup Visa
- as a major investor - direct investment of at least 1,000,000 EUR

A long-term residence permit may be issued to a foreigner who:

- has stayed in Estonia permanently on the basis of a temporary residence permit for at least five successive years
- holds a valid temporary residence permit
- has registered residence, health insurance, and permanent legal income for subsistence in Estonia
- has knowledge of the Estonian language at least at a basic level



Additional information:

Estonian Police and Border Guard Board
politsei.ee/en

Estonian Aliens Act
riigiteataja.ee/en

Work in Estonia
workinestonia.com

Startup Estonia
startupestonia.ee/visa

get in touch:
investinestonia.com

 @EstoniaInvest

