GLOBAL TAX SERIES

European Tax Handbook 2021

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Why this book?
The 2021 European Tax Handbook includes surveys on 49 countries and jurisdictions. The surveys have been updated to reflect the laws applicable in 2021.

A chapter on the European Union (together with the most important tax directives) and descriptions of seven of the most important Swiss cantons are included.

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Preface

IBFD is pleased to present the *thirty-second* edition of the *European Tax Handbook*.

The 2021 *European Tax Handbook* covers surveys on 49 countries and jurisdictions. All information on the European tax systems has been updated to reflect, as much as possible, the laws applicable in 2021.

As before, the *European Tax Handbook* includes in addition to the country level surveys, a chapter on the European Union (together with the most important tax directives), as well as descriptions of seven of the most important Swiss cantons, i.e. Basel-Stadt, Bern, Geneva, Schwyz, Vaud, Zug and Zurich.

All the chapters of this book are also available in the online collection Country Surveys of the IBFD Tax Research Platform, which contains descriptions of the tax systems of 53 European countries and, in addition, descriptions of the tax systems of all 26 Swiss cantons. The online title is *European Tax Explorer (Plus)*. It also includes the texts of income tax treaties concluded by all European countries. The online collection Country Surveys has quarterly updates; the chapters are revised as new information becomes available.

More comprehensive coverage of the majority of the jurisdictions can be found in the online collection Country Analyses. A combination of Country Surveys, Country Analyses and the texts of income tax treaties concluded by countries worldwide is offered via the online title *Global Tax Explorer Plus* and regional subsets of this title on Africa, Asia-Pacific, Europe, Latin America and the Caribbean, and the Middle East. Countries in North America can easily be ordered via the online title *Tax Explorer – Country Select*, which enables you to choose the exact countries for which you need coverage on the essentials on international tax. It also offers the possibility to extend this with the very detailed Country Analyses on major economies like Canada and the United States.

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The Editors

April 2021

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Abbreviations

Abbreviation	English definition	Armenian definition
ETL	Property Tax Law	Գույքահարկի մասին օրենք
LTL	Land Tax Law	Հողի հարկի մասին օրենք
NTC	New Tax Code	Հարկային Օրենսգիրք

Introduction

Corporate taxpayers are subject to a national corporate income tax. Other taxes relevant for companies include VAT, excises and real estate taxes.

Armenian tax legislation does not include a definition of the territory of Armenia; nor are there areas to which the description does not apply. In practice, the definition included in the Armenian tax treaties is followed. According to this definition, the territory of the Republic of Armenia means the territory over which the Republic of Armenia exercises its sovereign rights and jurisdiction under its internal legislation and in accordance with international law.

On 1 January 2015, Armenia acceded to the Eurasian Economic Union.

On 1 January 2018, the New Tax Code (NTC) entered into force, which replaced all previously applicable tax laws, and became a single consolidated tax document governing the taxation in Armenia.

A ring-fencing regime applies to companies that are subject to the micro company regime (*see* section 3.2.). The currency is the Armenian dram (AMD).The tax and customs authorities with the State Revenue Committee of Armenia are responsible for the administration and collection of taxes.

1. Corporate Income Tax

1.1. *Type of tax system*

The Armenian corporate income tax (profit tax) system is an imputation tax system in which corporate profits are fully taxed and dividends distributed from after-tax profits are not subject to further taxation in the hands of resident companies. For dividends paid to non-residents, *see* section 6.3.1.

Tax is levied annually on the worldwide profits.

1.2. *Taxable persons*

Corporate income tax is imposed on all resident companies and individual entrepreneurs (article 103 of the NTC). Non-resident companies carrying out activities in Armenia through a permanent establishment (*see* section 6.2.1.) and on non-resident legal entities without a permanent establishment receiving taxable income from sources in Armenia (*see* section 6.3.) may also be subject to this tax; In the following text, the term "company" is used to refer to all entities subject to corporate income tax, unless indicated otherwise.

Any corporate body formed under the legislation of another state is recognized as an independent legal person irrespective of whether it has the status of a legal person in the foreign state where it was formed. Partnerships are subject to corporate income tax (article 22 of the NTC).

This survey is restricted to Armenian incorporated companies as well as foreign-incorporated entities of a similar description, whether resident in Armenia or not. These entities will be referred to as "companies".

1.2.1. Residence

Resident companies are all legal entities established in Armenia (i.e. registered into the Armenian company register and with the tax administration), except for branches of non-resident companies (article 22 of the NTC).

1.3. *Taxable income*

1.3.1. General

Resident companies are taxable on their worldwide income (article 22 of the NTC). The taxable income is the difference between gross income and deductible expenses. Gross income is the total income derived by a taxpayer during the taxable period. For investment funds, taxable income is the value of the net assets.

The corporate income tax computation is based on the profit and loss account, as adjusted in accordance with tax law provisions (articles 106 and 107 of the NTC).

The following is regarded as taxable income (article 107 of the NTC):
– proceeds from the sale of goods and services;
– capital gains (*see* section 1.4.);
– dividends, royalties and interest; and
– rents and other similar payments. The accrual method is used in calculating taxable income.

1.3.2. Exempt income

Domestic dividends received by resident companies from after-tax profits are exempt from corporate income tax (article 123 of the NTC). *See* section 2.2.

In addition, income from the sale of agricultural products and equipment for agricultural production (subject to certain limitations) and from the sale of hand-made carpets is exempt from corporate income tax.

1.3.3. Deductions

In principle, all expenses related to business operations of a taxpayer are deductible (article 110 of the NTC). Deductions are allowed in a tax year during which the corresponding income is generated. Expenses which were incurred in the previous tax year and are related to the taxable income of the current year are also deductible.

Expenses are deductible if they are duly substantiated.

1.3.3.1. Deductible expenses

Deductible expenses include in particular:
– costs of raw materials, fuel, energy, etc.;
– expenses on the repair and maintenance of fixed assets;
– advertising and sponsorship expenses;
– royalties;
– taxes (except corporate income tax), duties and other obligatory payments which are not subject to compensation, as well as conservation (ecological) payments by companies who use natural resources;
– employees' remuneration;
– service and management fees; and
– interest payments on loans or other borrowings (*see*, however, section 1.3.3.3.).

1.3.3.2. Non-deductible expenses

Non-deductible expenses include dividends, entertainment expenses and expenses related to exempt income (article 112 of the NTC).

1.3.3.3. Limited deductible expenses

The following expenses are deductible subject to limitations (articles 120 and 123 of the NTC):
– donations, up to 0.25% of gross income;
– expenses for foreign trips, up to 5% of gross income; and for local trips, per diems up to AMD 12,000 per day;
– interest paid for loans, up to the amount calculated by applying twice the official bank rate of the Central Bank of Armenia;
– interest paid for non-banking loans, (i) for companies, up to double the amount of net assets at the end of the calendar year and (ii) for bank and loan offices, up to nine times the amount of net assets at the end of the calendar year; and
– representative expenses, up to 0.5% of gross income, but not more than AMD 5 million.

1.3.4. Depreciation and amortization

Fixed assets and non-tangible assets are depreciated using the straight-line method (*see* section 1.3.4.1.) (article 121 of the NTC).

Before 1 January 2018, a "group method" of depreciation applied to fixed assets acquired (constructed) on or after 1 January 2014 (*see* section 1.3.4.2.).

Non-depreciable assets include land, museum collections, architectural monuments, works of art, constructions in progress, public roads, assets used for investment projects, items related to film archives, inventory and property that is fully deducted in the current year and publicly used property.

Depreciation is compulsory, even in loss-making years (*see* section 1.5.1.).

For certain categories of assets, accelerated depreciation is allowed.

In the case of disposal of assets, the surplus value of the disposed assets over their net book value is included in the aggregate annual income.

1.3.4.1. Straight-line depreciation

Straight-line depreciation may be taken at the following rates (article 121 of the NTC):

Type of asset	Rate (%)
Buildings and construction	5
Hotels	10
Assembly lines and automated equipment	33.33
Manufacturing equipment	20
Computers, other calculating devices and communication equipment	100
Other fixed assets	12.5

The depreciation period for intangible assets is established by a taxpayer on the basis of the expected useful life. If the expected useful life cannot be established, the depreciation is taken over a period of 10 years.

The right to use assets as part of a concession agreement is considered an intangible asset for purposes of corporate income tax.

Assets, whose value does not exceed AMD 50,000, may be depreciated in the first year of operation.

Due to the COVID-19 pandemic, the depreciation period of assets, purchased or imported in the period from 1 July 2020 to 31 December 2021, is established by the taxpayer, but cannot be less than 1 year.

1.3.4.2. Group method depreciation (abolished from 2018 onwards)

Under the group method, depreciation could be taken at the following rates (article 12.1 of the former Corporate Tax Law):

Type of asset	Rate (%)
Buildings and construction	7.5
Hotels	15
Assembly lines and automated equipment	50
Computers and calculating devices	100
Other fixed assets	30

The depreciation period for intangible assets was established by a taxpayer on the basis of the expected useful life. If the expected useful life could not be established, the depreciation was to be taken over a period of 5 years.

1.3.5. Reserves and provisions

Generally, no deduction of amounts allocated to reserves and provisions is allowed, with a few exceptions.

A deduction is permitted for allocations to provisions for bad debts (article 123 of the NTC). Receivables recognized as bad debts are deductible up to the amount of recognized income from the sale of goods, performance of work or rendering of services, on the condition that they have not been paid within 1 year according to the limits set by government. Remaining debt can be deducted based on a court decision. The deductions should be supported by relevant documentation.

Insurance and reinsurance organizations can deduct amounts allocated to (re)insurance reserve funds.

Banks and organizations licensed to carry out certain types of banking transactions are also allowed to deduct provisions or reserves for similar bad and doubtful assets and contingent obligations.

1.4. *Capital gains*

There is no separate capital gains tax. Gains from the disposal of assets are included in the taxable income.

A capital gain may also arise upon:
- the disposal of depreciable assets;
- the disposal of non-depreciable assets;
- the transfer of an enterprise as a going concern;
- a transfer of non-depreciable assets as a contribution to the share capital of an entity; and
- a disposal of non-depreciable assets as the result of reorganization through a merger, combination, demerger or division.

A capital gain is usually determined as the positive difference between the sales price and the historical cost.

1.5. *Losses*

1.5.1. Ordinary losses

Losses may be carried forward for up to 5 years (article 123 of the NTC). Losses derived from mergers, acquisitions and other transformations of a legal entity may not be carried forward. No carry-back of losses is permitted. For foreign losses, *see* section 6.1.1.

Depreciation expenses are deductible in a loss-making year.

1.5.2. Capital losses

Capital losses on fixed business assets are deductible from ordinary business income.

1.6. *Rates*

1.6.1. Income and capital gains

Starting 1 January 2020 resident companies are taxed at a flat rate of 18%. Previously the corporate income tax rate was 20% (article 125 of the NTC). For investment funds, income tax is levied at the rate of 0.01% of their net assets.

Armenia does not have a separate tax on capital gains. Capital gains are included in ordinary income and taxed accordingly.

For certain types of business activities, an alternative tax regime is available; *see* section 3.2. For reduced rates, *see* section 1.7.

1.6.2. Withholding taxes on domestic payments

Payments made to resident companies are not subject to withholding tax.

For rates on payments to non-residents, *see* section 6.3.1.

1.7. *Incentives*

1.7.1. Allowance for wages of disabled employees

Companies employing disabled persons are permitted to deduct 150% of the wages and other payments made to such employees (article 123 of the NTC).

1.7.2. Incentives for free economic zones

The annual income of a resident company in a free economic zone, or the operator of such a zone, is exempt from tax (article 126 of the NTC).

1.7.3. Incentives for listed public companies

Before 1 January 2013, companies whose shares are listed on the Armenian stock exchange were granted a 50% corporate income tax exemption, up to AMD 300 million per year, provided that (i) free float of shares was more than 20%, (ii) the number of shareholders exceeded 100, and (iii) the company had published financial reports according to IAS and IFRS standards.

1.7.4. Government-approved projects

Resident companies involved in business projects (excluding projects in the field of trade and finance) that are approved by governmental decree are granted a corporate income tax exemption equal to 100% of the salary paid for newly established jobs (article 127 of the NTC). The exemption cannot, however, exceed 30% of the corporate income tax payable for the current tax period.

The exemption applies for a period of five full reporting years following governmental approval.

1.7.5. Information technology (projects)

Resident companies involved in IT projects certified according to the Law of Armenia "[o]n IT sector state support" are granted a corporate income tax exemption for revenues from IT activities (article 8 of the CTL; this article from the former Corporate Tax Law is still in force for this exemption).

With effect from 8 April 2017, newly registered IT companies with up to 30 employees are exempt from corporate income tax for a period of 5 years. The salaries paid to the employees of these companies are taxed at a flat rate of 10%.

1.7.6. Renewable energy production

Licensed resident companies involved in production of electric energy from renewable sources are granted a corporate income tax exemption for revenues from electric energy sales (article 108 of the NTC).

The exemption applies to sales to licensed energy distribution companies.

1.8. *Administration*

1.8.1. Taxable period

The taxable period is the calendar year (article 129 of the NTC). Tax is levied on a current-year basis.

1.8.2. Tax returns and assessment

Companies are obliged to submit their tax returns and annual accounting reports by 20 April of the year following the reporting year (article134 of the NTC). Books must be kept for a period of 5 years after the end of a financial year.

Corporate income tax is administrated through a self-assessment system.

1.8.3. Payment of tax

Companies must make advance payments every quarter of the year by the 20th day of the third month of each quarter (article 135 of the NTC). The advance payments are equal to 20% of the corporate income tax reported by a company for the previous tax year or 2% of the revenue reported by a company for the previous quarter, whichever is the least. Until the amount of corporate income tax for the previous year is assessed, the advance payments are equal to 20% of the corporate income tax in the last reported tax year.

Due to the COVID-19 pandemic, taxpayers were exempt from the advance payment for the second quarter of 2020.

Investment funds are exempt from the obligation to make quarterly advance payments.

The balance of tax due must be paid by 20 April of the year following the reporting year (article 136 of the NTC). Excess tax is refunded or set off against other tax liabilities of a company. If the company appeals an assessment, it may be permitted to postpone payment of outstanding taxes.

1.8.4. Rulings

No advance rulings may be obtained in Armenia.

2. Transactions between Resident Companies

2.1. *Group treatment*

There are no special rules for group taxation in Armenia.

2.2. *Intercompany dividends*

Domestic dividends received by a resident company are exempt from taxation (article 123 of the NTC).

For foreign-source dividends, *see* section 6.1.1.; for dividends paid to non-resident companies, *see* sections 6.2.1. and 6.3.1.

3. Other Taxes on Income

There is no local income tax or business tax on income in Armenia.

From 1 January 2018, the presumptive tax regime and the simplified tax regime for jewellers have been abolished. Below is a description of the regimes as they operated before that date.

Presumptive tax regime

The presumptive tax regime was mandatory for legal entities and individual entrepreneurs engaged in certain businesses (the organization of lotteries, the organization of gambling (casinos), car transportation and retail sales of fuel and gas). The presumptive tax, which was payable on a monthly basis, depended on factors specific to the taxpayer's business activity, e.g. size of premises (territory) used, period of business activity, number of seats in a vehicle, etc. ("basic data").

Simplified tax regime for jewellers

Sellers of precious metals, stones or jewellery, with an annual turnover not exceeding AMD 115 million could opt to pay licence fees instead of the turnover tax.

The amount of the licence fee depended on the size of the jeweller's shop and its location. In Yerevan, for example, the licence fee started from AMD 35,000 per shop.

3.1. *Turnover tax regime*

An optional turnover tax regime is available for businesses whose annual turnover does not exceed AMD 115 million (articles 254 and 455 of the NTC). The taxable base is the revenue derived by the business, and is due on a quarterly basis. The rates depend on the type of business activity, and are payable at the following rates:

Activity	Rate (%)
Trade	5
Recyclable materials sales	1.5
Newspapers sales by publishers	1.5
Manufacturing	3.5
Rent, interest, royalties, alienation of assets	10
Notary services	10
Lottery revenues	25
Catering and restaurant services	6
Other activities	5

Turnover taxpayers engaged in trading activities are eligible for a tax credit of 4% of the purchasing costs of the imported goods destined for trading activities. The amount of tax payable on income received from trading activities is subject to a minimum of 1.5% of the total trade turnover. The unused portion of the tax credit can be used in future tax periods.

Turnover taxpayers engaged in catering and restaurant activities are eligible for a tax credit of 3% of the purchasing costs of the imported goods destined for catering and restaurant activities. The amount of tax payable on income received from catering and restaurant activities is subject to a minimum of 4% of the total trade turnover.

Taxpayers engaged in the following types of business are not eligible for the turnover tax regime:
– producers or importers of excisable goods;
– banking, loan, insurance, and investment companies;
– security market participants, pawnshops, currency exchange offices;
– casinos and gambling offices; and
– auditing companies.

3.2. *Micro company regime*

An optional regime (the micro company regime) is available for businesses whose annual turnover does not exceed AMD 24 million (article 267 of the NTC). Such companies are exempt from regular taxation (including corporate income tax and VAT). Instead, a fixed monthly individual income tax payment of AMD 5,000 applies for each employee of the company.

Taxpayers engaged in the following types of business are not eligible for this tax regime:
– trade companies in Yerevan city;
– banking, loan, insurance, and investment companies;
– currency exchange offices and pawn shops;
– lotteries and gambling office (casinos); and
– auditing, consulting, accounting, legal, advertising, engineering, designer, marketing, data processing companies.

4. Taxes on Payroll

4.1. *Payroll tax*

No payroll tax is levied in Armenia.

4.2. *Social security contributions*

From 1 January 2013, social security contributions to be paid by employers are no longer due.

Contributions to the (state) pension fund are due by certain categories of employees. *See* Individual Taxation section 3.

5. Taxes on Capital

5.1. *Net worth tax*

There is no net worth tax.

5.2. *Real estate tax*

5.2.1. Land tax

Taxpayers of land tax are owners of land, as well as permanent or temporary users of land (article 1 of the LTL).

For agricultural land, the tax is levied at the rate of 15% of the cadastral net value of the land. For non-agricultural land, the rates range from 0.5% to 1% of the cadastral value.

Land tax is deductible for corporate income tax purposes.

5.2.2. Property tax

Taxpayers of property tax are individuals and legal entities which own property located in the territory of Armenia (article 3 of the ETL). Armenian governmental bodies, the Central Bank and local authorities are exempt from the tax.

The following property is subject to tax:
– houses, apartments, cottages, garages and other buildings;
– cars;
– motorcycles; and
– means of water transport.

Property of historical or cultural value is exempt. Trucks older than 20 years are also exempt.

The taxable base for buildings is the value of the building. The taxable base for cars, motorcycles and means of transportation is the engine power.

The annual tax rates for buildings are as follows:
– 0.3% on public buildings;
– 0.25% on industrial buildings
– 0.2% on buildings used for parking of vehicles; and
– a progressive scale of up to 1.5% for cottages owned by individuals and on other buildings.

The annual rates for cars and means of transportation are as follows:
– for vehicles with ten seats or less: AMD 200 to 500 per horsepower and an additional AMD 1,000 per horsepower for each horsepower exceeding 150;
– for vehicles with more than ten seats: AMD 100 to 200 per horsepower;
– for motorcycles: AMD 40 per horsepower; and
– for water transport vehicles: AMD 150 per horsepower or AMD 204 per kWh.

If a motor vehicle is older than 3 years, the taxable base is reduced by an initial 10%, followed by a further 10% reduction for each additional year. The maximum deduction may, however, not exceed 50%.

Legal entities must submit quarterly property tax returns before the 25th day of the month following the reporting quarter. The payment of tax must be made within 5 days after submitting a tax return.

Property tax is deductible for corporate income tax purposes.

6. International Aspects

6.1. *Resident companies*

For the concept of residence, *see* section 1.2.1.

6.1.1. Foreign income and capital gains

Resident companies are subject to corporate income tax on their worldwide income. Foreign-source income, including capital gains, is fully taxable. Foreign interest and royalties are also included in the taxable income and fully taxable. Foreign-source dividends are exempt.

6.1.2. Foreign losses

Losses incurred by a foreign permanent establishment of an Armenian resident company are generally deductible for corporate income tax purposes at the level of the resident company.

6.1.3. Foreign capital

Foreign capital is not subject to land tax and property tax (*see* section 5.1.)

6.1.4. Double taxation relief

Armenia grants an ordinary credit for the foreign tax paid by companies on income from foreign sources (article 20 of the NTC). The credit cannot exceed the amount of tax assessable in Armenia in respect of the foreign-source income. Any excess may, however, be carried forward and set off against future corporate income tax liabilities.

Armenian tax treaties give tax credit relief for the tax incurred on foreign-source income. The credit is calculated on a per-country basis. For a list of tax treaties in force, *see* section 6.3.5.

6.2. *Non-resident companies*

Non-resident companies are legal entities (including partnerships) and enterprises without legal personality established outside Armenia.

6.2.1. Taxes on income and capital gains

Non-resident companies are subject to tax only on Armenian-source income, i.e. income from business activities carried out in Armenia. The following is considered as income derived from Armenian sources (article 104 of the NTC):

– business income (income from the supply of goods and services, intermediary activities, etc.); and
– passive income (dividends, royalties, interest, capital gains).

In principle, taxable income of non-residents is calculated and taxed according to the same rules and rates as for resident companies (*see* section 1.). All expenses related to business operations of a non-resident company in Armenia are deductible, with the exception of losses, dividends and assets disposed of without consideration. In addition, losses of a permanent establishment may not be carried forward.

Regarding capital gains, these are included in business income (and taxed as such) if the non-resident company has a presence in Armenia to which the gains can be allocated. If the non-resident company has no presence, such gains are subject to a withholding tax (*see* section 6.3.4.).

A non-resident carrying on a business in Armenia through a permanent establishment is subject to corporate income tax at the rate of 20% on income derived through that permanent establishment.

The definition of "permanent establishment" follows in general the definition in the OECD Model Convention, with some divergences.

Non-resident companies are subject to a final withholding tax provided that they do not operate in Armenia through a permanent establishment. However, dividends received by a permanent establishment are not exempt from withholding tax.

For withholding tax rates on dividends, interest and royalties, *see* section 6.3.

6.2.2. Taxes on capital

Land tax is payable by non-residents who own or use taxable plots of land in Armenia (*see* section 5.2.1.).

Non-residents who own property located in Armenia are subject to property tax (*see* section 5.2.2.).

6.2.3. Administration

The rules concerning the administration of taxes applied to non-residents are similar to those applicable to residents (*see* section 1.8., with some exceptions).

Non-resident companies are obliged to submit their tax returns and annual accounting reports by 20 April in the year following the reporting year (article 134 of the NTC):

Non-resident companies must make advance payments every 6 months and submit an annual tax return latest by 20 April of the year following the reporting year (article 134 of the NTC). Payment of income tax has to be made by 20 April of the year following the reporting year. A refund of tax is made within the same time.

6.3. *Withholding taxes on payments to non-resident companies*

6.3.1. Dividends

Dividends paid to non-resident companies are subject to a 10% final withholding tax (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies. Dividends paid by the Panarmenian Bank are exempt from withholding tax.

6.3.2. Interest

A 10% final withholding tax applies to interest paid to non-resident companies (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies.

Interest, bond coupon discounts, bond retirement and other similar income received by non-resident companies from Armenian government bonds that are denominated in foreign currency are exempt from withholding tax (article 125 of the NTC).

6.3.3. Royalties

Royalties are subject to a 10% final withholding tax (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies.

6.3.4. Other

Insurance fees and freight payments are subject to a 5% final withholding tax. A 10% final withholding tax is levied on capital gains (if the recipient does not have a presence in Armenia, otherwise *see* section 6.2.1.) and rental income. Capital gains from sales of shares are exempt from withholding tax.

Any other income from Armenian sources is subject to a 20% withholding tax (article 125 of the NTC).

6.3.5. Withholding tax rates chart

The following chart contains the withholding tax rates that are applicable to dividend, interest and royalty payments by Armenian companies to non-residents under the tax treaties in force as at the date of review. Where, in a particular case, a treaty rate is higher than the domestic rate, the latter is applicable.

To obtain tax treaty benefits, a non-resident must provide the withholding agent with a certificate of residence issued by the state in which he resides. The withholding agent may then apply the reduced (or exempt) rate accordingly.

A special procedure applies for the refund of excess tax paid if treaty relief was not applied at source. The special permission of the State Tax Service is issued upon the taxpayer's request for a refund of the excess tax paid. The request must be filed in a standard form stating the taxpayer's residence and be certified by the competent authorities of the taxpayer's state of residence.

The maximum withholding rates allowed under Armenian tax treaties in force are as follows:

	Dividends		Interest[1]	Royalties
	Individuals, companies	Qualifying companies[2]		
	(%)	(%)	(%)	(%)
Domestic Rates				
Companies:	10	10	0/10	10
Individuals:	5	n/a	10	10
Treaty Rates				
Treaty With:				
Austria	15	5[3]	10	5
Belarus	15	10[4]	10	10
Belgium	15	5[3]	10	8
Bulgaria	10	5[5]	5/10[6]	5/10[10]
Canada	15	5[7]	10	10
China (People's Rep.)	10	5	10	10
Croatia	10	0	10	5
Cyprus	5	0[8]	5	5
Czech Republic	10	10	5/10[9]	5/10[10]
Denmark	5/15[11]	0/5[12]	5/10[9]	5/10[13]
Estonia	15	5	10	10
Finland	15	5	5	5/10[14]
France	15	5[3]	10	5/10[10]
Georgia	10	5	10	5
Germany	10/15[15]	7/15[15]	5[16]	6
Greece	10	10	10	5
Hungary	10	5	5/10[9]	5
India	10	10	10	10
Indonesia	15	10	10	10
Iran	15	10	10	5
Ireland	15	0/5[17]	0/5/10[18,19]	5
Israel	15[20]	0/5/15[21]	5	5/10[14]
Italy	10	5[22]	10	7
Kazakhstan	10	10	10	10
Kuwait	5	5	5	10
Latvia	15	5	10	10
Lebanon	10	5	8	5
Lithuania	15	5	10	10
Luxembourg	15	5[3]	10	5
Moldova	15	5	10	10
Netherlands	15	0/5[23]	5	5
Poland	10	10	5	10
Qatar	10	5[5]	5	5
Romania	10	5	10	10
Russia	10	5	10	0
Serbia	8	8	8	8
Slovak Republic	10	5	10	5
Slovenia	10	5	10	5
Spain	10	0[24]	5	5/10[10]
Sweden	15	0/5[25]	5[26]	5

	Dividends		Interest[1]	Royalties
	Individuals, companies	Qualifying companies[2]		
	(%)	(%)	(%)	(%)
Switzerland	15	5[27]	10	5
Syria	10	10	10	12
Thailand	10	10	–/10[28]	15
Turkmenistan	15	5	10	10
Ukraine	15	5	10	0
United Arab Emirates	3	3	0	5
United Kingdom	10/15[29]	0/5[30]	5[31]	5

1. Most tax treaties provide for an exemption for certain types of interest, e.g. interest paid to public bodies and institutions or in relation to sales on credit. These exemptions are not indicated in the table.
2. Unless stated otherwise, the reduced treaty rates given in this column generally apply if the recipient company holds directly or indirectly at least 25% of the capital or the voting power, as the case may be, of the company distributing dividends.
3. The rate applies if the recipient company holds at least 10% of the capital of the Armenian company.
4. The rate applies if the recipient company holds at least 30% of the capital of the Armenian company.
5. The rate applies if the capital invested by the recipient company exceeds USD 100,000.
6. The lower rate applies to interest paid to a bank or financial institution.
7. The rate applies if the Canadian company owns directly at least 25% of the capital of the Armenian company and the capital invested exceeds USD 100,000.
8. The zero rate applies if the capital invested by the recipient company exceeds EUR 150,000.
9. The lower rate applies, inter alia, to interest from bank loans.
10. The lower rate applies to copyright royalties, including films, etc.
11. Dividends distributed after 1 January 2020 derived by foreign citizens are subject to a withholding tax of 15%.
12. The zero rate applies if (a) the Armenian company owns at least 50% of the capital in the Danish company and has invested more than EUR 2 million or its equivalent in Armenian or Danish currency into the capital of that company; or (b) the dividends are paid to Armenian State or its central bank, any national agency or any other agency or a financial institution) owned by Armenia. The 5% rate applies if the Armenian company owns at least 10% of the capital in the Danish company and has invested more than EUR 100,000 or its equivalent in Armenian or Danish currency in the capital of that company.
    The 5% rate applies if the Armenian company owns at least 10% of the capital in the Danish company and has invested more than EUR 100,000 or its equivalent in Armenian or Danish currency in the capital of that company.
13. The 5% rate applies to royalties for computer software, patent, trade mark, design or model or plan, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how); the 10% rate applies to royalties for copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting.
14. The higher rate applies to copyright royalties, including films, etc.
15. The 15% rate applies, inter alia, to distributions on certificates of an investment fund that are directly or indirectly connected to income from immovable property.
16. A most favoured nation clause may be applicable with respect to interest.
17. The zero rate applies if the recipient company has owned, directly or indirectly, at least 25% of the Armenian company's capital for at least 2 years. Conditions may apply. The 5% rate applies if the recipient company holds at least 10% of the capital of the Armenian company.
18. The zero rate applies to interest paid to state or any institution wholly owned by the state. The 5% rate applies, inter alia, to interest paid to banks. The 10% rate applies in other cases.
19. A most favoured nation clause may be applicable with respect to interest.
20. The general rate is 15%. The 15% rate also applies to distributions made by real estate investment funds if the beneficial owner holds directly less than 10% of the capital of the company making the distributions.
21. The 0% rate applies if the beneficial owner is (i) the other contracting state; (ii) the central bank of the other contracting state; or (iii) a pension fund which is a resident of the other contracting state and holds directly or indirectly less than 25% of the capital or voting power of the company paying the dividends. The 5% rate applies if the beneficial owner is a company (other than a partnership or a real estate investment fund) which holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies to distributions made by real estate investment funds if the beneficial owner holds directly less than 10% of the capital of the company making the distributions.
22. The lower rate applies if the Italian company has owned directly at least 10% of the capital (totalling at least USD 100,000 or the equivalent in other currency) of the Armenian company paying the dividends for at least 12 months.
23. The 5% rate applies if the Dutch company owns directly at least 10% of the capital in the Armenian company; the 5% rate is reduced to zero if the profits out of which the dividends are paid have been effectively subject to the normal rate of corporate income tax in Armenia and the dividends are exempt from tax in the hands of the recipient company in the Netherlands.
24. The zero rate applies if the recipient company has owned, directly or indirectly, at least 25% of the Armenian company's capital for at least 2 years.
25. The 0% rate applies if the receiving company holds at least 25% of the capital or voting power of the Armenian company for a period of at least 2 years. The 5% rate applies if the receiving company holds at least 10% of the capital or voting power of the Armenian company.
26. A most favoured nation clause may be applicable with respect to interest.
27. The rate applies if the Swiss company holds directly at least 25% of the capital of the Armenian company and the capital invested exceeds CHF 200,000.
28. The 10% rate applies to interest paid to qualifying banking and financial institutions. The domestic rate applies in other cases (there is no reduction under the treaty).
29. The 15% rate applies, under conditions, to dividends paid out of income derived directly or indirectly from immovable property by certain investment vehicles.
30. The 5% rate applies if the UK company holds directly at least 25% of the capital of the Armenian company and the capital invested exceeds GBP 1,000,000. The zero rate applies if the beneficial owner of the dividends is a pension scheme.
31. A most favoured nation clause may be applicable with respect to interest.

7. Anti-Avoidance

7.1. *General*

There is no general anti-avoidance provision.

7.2. *Transfer pricing*

On 1 January 2020, transfer pricing regulations entered into force (article 360-378 of the NTC).

The transfer pricing rules provide that companies must inform the State Revenue Committee by 20 April of the year following the reporting year of any controlled trans-

actions made in a given calendar year if the total amount of controlled transactions exceeds AMD 200 million.

Controlled transactions include:
- supply of goods, sale of intangible assets and provision of services between a resident company and a non-resident related party;
- supply of goods, sale of intangible assets and provision of services between resident related parties, where at least one of the parties pays the mineral royalty tax or is entitled to tax incentives for corporate income tax, VAT or mineral royalty tax, or operates in a Free Economic Zone; and
- transactions between resident companies and companies registered in tax havens, regardless of whether they are related or not. The list of tax havens is approved by the government of Armenia.

If a company engages in a controlled transaction, then that transaction must be made at arm's length.

Parties are considered "related" if:
- one of the parties directly or indirectly controls business decisions of the other party, holds 20% or more shares in the other party's share capital, or the same party controls the business decisions of two or more parties or holds 20% or more shares in the other parties' share capital;
- one party is considered to manage/control the business decisions of another party, if it holds directly or indirectly 20% or more shares in the other party;
- one party is considered to manage/control the business decisions of another party, if one of the following conditions is met:
  - one party directly or indirectly controls the formation of the executive board or the board of directors of the other party;
  - the total amount of loans guaranteed and/or provided to the other party exceeds 51% of the net book value of the total assets of the other party;
  - more than 80% of one party's revenue (or expenses) in a tax year was received (incurred) from the supply of goods, works and the provision of services to the other party, except for revenue (expenses) and interest income (expenses) from rent and/or free-of-charge use of property, or alienation of intangible assets;
  - the parties concluded a joint venture agreement, whereby one party invested more than 50% of its assets in the joint venture; or
  - the parties concluded a contract for free-of-charge use of property (including property rental and lease agreements) for more than 1 year, and the value of such property exceeds 51% of the net book value of the total assets of the party using the property.

The transfer pricing rules provide for five methods to determine the fair market price:
- the comparable uncontrolled price method;
- the resale price method;
- the cost-plus method;
- the transactional net margin method; and
- the profit split method.

Companies are obliged to file transfer pricing documentation within 30 working days upon request from the tax authorities.

7.3. *Limitations on interest deductibility*

There are no specific limitations on interest deductibility. For other limitations on the deductibility of interest payments, *see* section 1.3.3.3.

7.4. *Controlled foreign company*

There is no CFC legislation.

7.5. *Other anti-avoidance rules*

7.5.1. Hybrid mismatches

There are no hybrid mismatches rules.

7.5.2. Transactions with offshore companies

A special anti-avoidance provision applies in the case of transactions with offshore companies. The general corporate tax rate of 20% applies to prepayments for goods or fixed assets to offshore companies if these goods or fixed assets are not delivered within 1 year from the date of prepayment.

8. Value Added Tax

8.1. *General*

Value added tax (VAT) is levied on the supply of goods and services and on import of goods (article 60 of the NTC).

The VAT system is based on the destination principle, meaning that exports are relieved from VAT and imports are subject to VAT. The system is also based on the input tax deduction mechanism, meaning that, on balance, taxable persons effectively remit VAT to the authorities proportionate to their value added.

. Specific regulations apply to import and export between the member states of the Eurasian Customs Union (*see* section 8.7.).

8.2. *Taxable persons*

All persons conducting business activities and registered for VAT purposes are subject to VAT (article 59 of the NTC). Legal entities and individual entrepreneurs are considered taxable persons for VAT purposes, and are obliged to register as such, if their annual taxable turnover exceeds AMD 115 million.

Non-trade organizations and individuals conducting business activities are considered taxable persons for VAT purposes if their annual taxable turnover exceeds AMD 115 million.

The following persons are considered to be taxable persons (article 59 of the NTC):
- companies and individual entrepreneurs if they are not eligible for the turnover tax regime (*see* section 3.1.) on the first day of the reporting year; and
- companies and individual entrepreneurs who have ceased to be subject to the turnover tax regime.

For importation of goods, the importer is a taxable person, whether or not he conducts business activities.

8.3. *Taxable events*

Taxable transactions include the supply of goods and services, import of goods and supply of goods and services for private needs for no consideration (article 59 of the NTC).

A supply of goods is the transfer of goods under a contract for consideration. A supply of services is any transaction for consideration that is not a supply of goods, including a transfer of intangible property and a lease of movable or immovable property.

In the case of individuals, the supply of goods also includes the supply (for any kind of consideration) of the same type of property (such as apartments, buildings, land, vehicles and other property) in a quantity of more than one, within a period of less than 1 year after the acquisition of that property.

8.4. *Taxable amount*

The taxable amount is defined as the total sales price of all goods and services supplied by the taxpayer, including any other sums received from the person receiving the goods or services, excluding the VAT (articles 61 and 62 of the NTC).

The taxable amount of intermediary services is the amount of the fee paid for the services. If goods and services are supplied without consideration, the taxable amount is the market value of goods and services.

For the import of goods, the taxable amount is the customs value of goods, including customs and excise duties. In the case of a reimportation of goods that have been exported to be processed abroad, the taxable amount is the consideration for the processing.

Excise duties to be paid by the acquirer have to be included in the taxable amount, as well.

For goods imported from other Member States of the Eurasian Economic Union (*see also* section 9.4.), the taxable amount is the customs value of goods (including excise duties) as calculated by importers. The VAT is then remitted to the tax authorities by the importer.

8.5. *Rates*

The standard rate of VAT is 20% (article 63 of the NTC).

The zero rate of VAT applies to the following goods and services (article 65 of the NTC):
- exported goods and services;
- supplies of goods and services to embassies for official purposes; and
- transit of foreign freight through the territory of Armenia.

8.6. *Exemptions*

The following supplies of goods and services are not subject to VAT in Armenia (article 64 of the NTC):
- educational services and books;
- scientific research work;
- newspapers and magazines;
- financial services;
- management and deposit services of investment funds;
- humanitarian and charitable assistance;
- securities transactions;
- hand-made carpets and raw materials for their production;
- transactions involving licences, patents and copyrights;
- works of art;
- in-kind contributions to share capital made by individuals;
- supplies of goods and services within the free economic zones;
- supplies of services to the organizer and operator of free economic zones;
- the return of purchased assets, construction of assets, replacement of assets and improvement of assets in the framework of a concession agreement;
- agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports ground rollers;
- harvesting or threshing machinery, straw or fodder balers, grass or hay mowers, machines for cleaning, sorting or grading eggs, fruit or other agricultural produce;
- milking machines and dairy machinery;
- other agricultural, horticultural, forestry, poultry keeping or bee-keeping machinery, including germination plants fitted with mechanical or thermal equipment; poultry incubators and brooders;
- tractors;
- fertilizers; and
- insecticides, fungicides, herbicides, disinfectants and other similar items.

8.7. *Non-residents*

If a foreign entrepreneur fails to register for VAT purposes, an Armenian VAT payer who acts on his behalf (e.g. through a commissionaire agreement or by auction sales) or is a recipient of the supply is deemed to be the supplier of goods and services in Armenia and is liable to VAT arising from the transaction. The taxable amount is the price of goods and services, excluding VAT.

Goods and services imported to Armenia from a member state of the Eurasian Customs Union are subject to VAT in Armenia. The importer must self-report and pay the VAT to the Armenian tax authorities.

Good and services exported from Armenia to a member state of the Eurasian Customs Union are subject to a zero VAT rate.

There is no VAT refund procedure for non-residents.

9. Miscellaneous Taxes

9.1. *Capital duty*

There is no capital duty or similar duty on the formation and expansion of capital of companies.

9.2. *Transfer tax*

There are no taxes on the transfer of immovable property, securities, etc.

9.2.1. Immovable property

Not applicable.

9.2.2. Shares, bonds and other securities

Not applicable.

9.3. *Stamp duty*

No stamp duties or similar duties are levied.

9.4. *Customs duty*

On 1 January 2015, Armenia acceded to the Eurasian Economic Union, and as such joined the Eurasian Customs Union. Its customs duty rates are stated in the Customs Code of the Customs Union of the Eurasian Economic Union. Armenia is, however, under a preferential regime, allowed to apply its national customs duty rates (i.e. those that were effective before 1 January 2015) to more than 800 articles.

The taxable base is the customs value of goods, which is equal to the purchase price and transportation costs incurred up to the Armenian border. Essential goods such as raw materials are exempt from customs duty. No customs duty is levied on exports.

Import of goods from Member States of the Eurasian Economic Union is exempt from customs duty.

As part of the tax measures to mitigate the effects of the COVID-19 pandemic, the State Revenue Committee announced relief from customs duties for certain agricultural goods imported into Armenia (decision of the Eurasian Economic Commission No. 33 of 3 April 2020). The relief was in effect from 1 April 2020. To apply for it, the importers had to register the customs declaration before 30 June 2020. Also, customs duties on the import of certain medical supplies had been waived, provided that the customs declaration for release for domestic consumption was registered and the import permit was submitted by the relevant executive authority before 21 September 2020. The relief applied from 16 March 2020.

9.5. *Excise duty*

Subject to excise duty are resident and non-resident companies, as well as individuals who produce or import certain goods in Armenia.

The taxable base is the volume of taxable goods (litre or kilogram amount). Both for imported and for domestic products there are established unified tax rates.

The following goods are exempt from the excise duties:
- exported goods;
- goods imported by individuals if their aggregate value does not exceed a certain limit; and
- goods temporarily imported into the customs territory of Armenia.

Taxpayers must submit monthly tax returns only with respect to goods produced in Armenia. The returns have to be submitted by the 15th day of the month following the reporting month.

The excise duty for goods imported into Armenia is to be paid within 10 days after the importation. The excise duties for goods produced in Armenia are payable by the 15th day of the month following the reporting month.

For goods imported from other Member States of the Eurasian Economic Union, the taxable base is the customs value of goods.

Estonia

Individual Taxation

Abbreviations

Abbreviation	English definition	Estonian definition
SMS	Social Tax Act	Sotsiaalmaksuseadus
TuMS	Income Tax Act	Tulumaksuseadus

Introduction

Individuals are subject to national income tax and land tax. Municipalities are authorized to introduce local taxes, most notably advertising tax. The importance of the local taxes, however, is very small. Social security contributions are payable by sole proprietors. For VAT and miscellaneous indirect taxes, *see* Corporate Taxation sections 8. and 9., respectively.

From 1 January 2011, the currency is the euro (EUR).

1. Individual Income Tax

1.1. *Taxable persons*

Taxable individuals are those who are residents in Estonia. Individuals are resident in Estonia if (section 6 of the TuMS):
– they have a place of residence there; or
– they stay in Estonia for 183 days or more during any 12-month period.

Individuals have to notify the tax authorities of any circumstances resulting in becoming or ceasing to be an Estonian tax resident.

As of 2017, married persons are taxed separately. A child is also taxed separately.

Partnerships are separate taxable persons.

1.2. *Taxable income*

1.2.1. General

Resident individuals are taxable on their worldwide income (sections 6 and 12 of the TuMS), whether received in money or money's worth. In practice, all items of income are taxable, unless exempt by law. There is no separate capital gains taxation, but capital gains are generally included in taxable income and taxed at the general rate.

The income of individuals is divided into three categories, i.e. ordinary income, business income and income from the disposal of property (section 12 of the TuMS). The net income is calculated separately for business income and income from the disposal of property and thereafter aggregated with ordinary income. Persona allowances and deductions (*see* section 1.7.) are mad from the aggregate income.

In addition, sole proprietors are subject to distribution ta on fringe benefits granted (*see* Corporate Taxatio section 1.3.1.1.).

1.2.2. Exempt income

The most important exempt items of income are (section 12, 13, 15 and 17-20 of the TuMS):
– domestic benefits in kind (*see* section 1.3.2.);
– certain pensions (*see* section 1.3.3.);
– qualifying employment income earned abroad (*se* section 6.1.1.);
– domestic dividends (except dividends which hav been taxed at the lower rate of 14% by the distribut ing company) and qualifying foreign dividends (*se* sections 1.5. and 6.1.1., respectively);
– certain capital gains (*see* section 1.6.);
– state scholarships and other scholarships approve by the government;
– certain public subsidies and social distributions;
– alimony payments;
– insurance proceeds and other payments receive under insurance contracts, except the payments fron certain pension funds and certain benefits related t property insurance;
– gifts received from individuals, resident legal enti ties (*see* Corporate Taxation section 1.3.1.2.) an non-resident legal entities if the gift was taxe abroad; and
– inheritances.

1.3. *Employment income*

1.3.1. Salary

Income received by an individual from employment c any equivalent arrangement includes salaries, wage bonuses and other monetary payments (section 13 of th TuMS). Non-monetary payments are deemed to be bene fits in kind (*see* section 1.3.2.). No deductions fc expenses are allowed from employment income.

Per diem allowances for international business trips an compensation for the use of private vehicles are exemp

from tax up to amounts prescribed by the government. Per diem allowances for international business trips that exceed the prescribed limits and per diem allowances for domestic business trips are taxable as salary.

Premiums that the employer pays (for the employee) to certain voluntary annuity pension schemes, as well as payments to acquire investment certificates of qualifying EEA pension funds (for the employee), are annually exempt from tax up to EUR 6,000 or 15% of the employee's taxable salary, whichever is lower (sections 13 and 28 of the TuMS).

From 1 July 2020, wages of crew members working on certain vessels engaged in international shipping and carrying a flag on an EEA country are subject to 0% income tax (sections 13(5) and (6) of the TuMS).

1.3.2. Benefits in kind

Benefits in kind (fringe benefits) received by the employee are treated in an unusual way, in that they are taxed in the hands of the employer and not of the employee (sections 12 and 48 of the TuMS) (*see* Corporate Taxation section 1.3.1.1.). Alternatively, the employer may treat the benefits as the recipient's employment income, which is subject to a withholding tax and is included in the employee's taxable income for individual income tax purposes.

1.3.3. Pension income

In general, pensions are included in taxable income (section 19 of the TuMS).

Pension payments received from certain annuity pension schemes of pension funds holding a licence in any EEA country are exceptionally subject to a lower income tax rate of 10% by way of a final withholding (sections 4 and 21 of the TuMS).

Payments received on the basis of certain annuity pension schemes are exempt if:
– the beneficiary's incapacity to work has been established; and
– they are received when the beneficiary is older than the statutory pension age and under the insurance contract, payments are made periodically, at least once in 3 months until the death of the beneficiary.

For deductions, *see* section 1.7.1.

For allowances, *see* section 1.7.2.

For contributions to the mandatory funded pension scheme, *see* section 3.

1.3.4. Directors' remuneration

No special rules apply. Directors' remuneration is taxable as employment income (*see* section 1.3.1.). Tax-exempt per diem allowances and reimbursements for business trips are also available to the members of management and supervisory boards.

1.4. *Business and professional income*

As well as income derived from a trade or business, business income includes income from professional activities (section 14 of the TuMS). The persons engaged in any such activities are referred to as sole proprietors. Taxable income of sole proprietors is determined under the cash basis accounting method. In computing taxable business income, individuals engaged in a business may deduct all documented expenses relating to it. In the case of expenses only partly incurred for the business, only that part is deductible. Expenses incurred before an individual is registered as a sole proprietor may be deducted if they are related to the registration or the required authorization.

All expenses for the acquisition of fixed and current assets (including land and forest) may be deducted immediately; no depreciation is applicable.

No deduction is allowed for (sections 33 and 34 of the TuMS):
– national income tax, except distribution tax on fringe benefits granted (*see* below);
– statutory penalties and interest for late payment of tax (subject to exceptions);
– certain pollution charges;
– expenses covered by tax-exempt subsidies;
– costs of gifts and donations;
– losses incurred on the sale of property to a related person for a price that is lower than the market price, unless the distribution tax has been paid on the loss;
– losses incurred on the sale of property that was purchased from a related person for a price that is higher than the market price;
– certain social security contributions paid in Estonia or abroad;
– entertainment expenses in excess of 2% of the business income after deducting the allowable expenses; and
– bribes.

A sole proprietor deriving income from the sale of self-produced agricultural products may, in addition to the deduction of expenses, deduct from this income an amount of EUR 5,000 during a taxable period (EUR 2,877 before 2021). An additional deduction of EUR 5,000 during a taxable period is available to sole proprietors deriving income from the sale of the right to cut standing trees and felled timber received from their forests and from Natura 2000 subsidies (such deduction is also applied after the deduction of expenses).

Sole proprietors are entitled to open a special tax-free bank account for keeping funds for investment purposes. Any increase in such bank account is deductible from taxable business income; any decrease is added to it.

Sole proprietors are also liable to distribution tax on the fringe benefits granted to their employees (*see* Corporate Taxation section 1.3.1.1.). The cost of fringe benefits is not deductible, unless the distribution tax on their value has been paid.

If the value of a transaction between a sole proprietor and a related person (broad concept) used in the course of business differs from the value which would be used by unrelated persons in similar transactions, the tax author-

ities may adjust the value of the transaction to the latter amount (i.e. the taxable business income is increased or the deductible costs are decreased).

A simplified taxation regime may apply to small entrepreneurs who:
– are not registered for VAT purposes; and
– are not registered as sole proprietors or, if registered as sole proprietors, then are not acting as sole proprietors in the same or similar area of activity.

Under the regime, small entrepreneurs are not required to keep books or provide financial statements to the tax authorities. Instead, the bank automatically forwards 20% from all payments received by the entrepreneur in his separate "business account" to the tax authorities if the income does not exceed EUR 25,000 per annum, and forwards 40% from all payments exceeding EUR 25,000. Such tax substitutes income tax of 20%, social security contributions (social insurance and health insurance contributions) of 33% and the contribution to the mandatory funded pension scheme of 2%. Only one Estonian bank (LHV Pank) currently provides such service of a separate "business account".

For losses, *see* section 1.8.

1.5. *Investment income*

Dividends paid by resident companies are subject to distribution tax (*see* Corporate Taxation section 1.3.1.3.). Distribution tax at the standard rate of 20%, which is paid by the distributing company, is a final tax and the shareholders do not include such dividends in their taxable income. However, if the company has paid the distribution tax at the lower 14% rate (*see* Corporate Taxation section 1.6.1.) or if it is applying an alternative "tonnage tax regime" (*see* Corporate Taxation section 1.7.) and paying dividends out of income taxed under such regime, the individual recipient of dividends is subject to an additional 7% withholding tax.

If a resident individual is a partner in a domestic investment trust (i.e. limited partnership), income tax is paid by the investment trust in proportion to the individual's share in the investment trust. Subsequent distributions on account of such taxed income are tax exempt.

Generally, all types of domestic interest and royalties are included in the taxable income (sections 16 and 17 of the TuMS). No expenses are deductible with respect to interest and royalties.

In the case of rental and royalty income, the taxpayer can choose to declare this income as investment income or as business income. In the case of business income, only the net income after expenses (*see* section 1.4.) is included in the taxable base, but the same amount is also subject to social security contributions (*see* section 3.). In the case of investment income, the gross income is included in the taxable base but no social security contributions are levied.

For withholding taxes, *see* section 1.9.2. For foreign-source investment income, *see* section 6.1.1.

1.6. *Capital gains*

There is no separate capital gains taxation, but capital gains are generally included in taxable income and taxed at the general rate (sections 12 and 15 of the TuMS).

However, the following gains, inter alia, are exempt (section 15 of the TuMS):
– gains from the sale of the taxpayer's own dwelling (house or apartment) that was used by him as his residence until the sale (with restriction to one sale during a 2-year period);
– gains from the sale of a summer cottage or garden house, provided the taxpayer has owned such property for more than 2 years and the size of the land plot does not exceed 0.25 ha;
– gains related to the various programmes concerning restitution of expropriated property and privatization of the economy;
– gains from the sale of movable property which has been in the taxpayer's personal use; and
– gains from the exchange of shares in the course of mergers, divisions or other reorganizations.

From 1 January 2011, capital gains derived from the disposal of financial assets (e.g. shares and securities traded publicly in any of the EEA or OECD countries, or under certain conditions, in other countries; units of investment funds; investment deposits) are not taxable if these assets had been acquired using funds deposited on an investment account opened for such purpose in a credit institution of an EEA or OECD country, and the sales proceeds are transferred back to the investment account. Such gains are taxable only when transferred out of the investment account (as they are assumed to be used for consumption).

1.7. *Personal deductions, allowances and credits*

The following deductions and allowances are deducted from the aggregate amount of all types of taxable income (except income taxed at 0% rate; *see* section 1.3.1.) of resident individuals.

Deductions and allowances are also granted to residents of the other EEA countries who file a tax return in Estonia and have received taxable income for the tax year from sources in Estonia (sections 31^1 and 44 of the TuMS).

1.7.1. Deductions

The taxpayer may deduct interest paid to credit institutions resident in any EEA country or to financial institutions belonging to the same group as the first-mentioned credit institutions and to EEA registered branches of non-resident credit institutions on a loan or lease for the acquisition or reconstruction (but not the repair) of his own dwelling. The deduction is given for only one dwelling per tax year (section 25 of the TuMS).

Educational expenses are deductible if they are paid by the taxpayer on his own behalf or on the behalf of his dependants under 26 years for studying in a public educational institution, a licensed private school or a foreign educational institution of equal status (section 26 of the

TuMS). If the taxpayer has no educational expenses paid on his own behalf or on behalf of his dependants, he may deduct educational expenses made by him on behalf of any resident individual under 26 years.

The taxpayer may deduct documented gifts and donations to non-profit organizations approved by the government (including non-profit organizations established in EEA countries that comply with the conditions applicable to respective Estonian organizations).

Unemployment insurance contributions are deductible (proportional restrictions (*see* section 1.7.) do not apply).

The total of deductions related to mortgage interest, educational expenses, gifts and donations is limited to EUR 1,200 or 50% of income which is taxable in Estonia, whichever is lower (section 28^2 of the TuMS). The deduction of mortgage interest is limited to EUR 300.

If deductions related to mortgage interest and educational expenses exceed the limits provided for in the previous paragraph or if the deduction related to child's allowance (*see* section 1.7.2.) exceeds a taxpayer's taxable income, the excess may be deducted from the taxable income of the taxpayer's spouse, provided they are married under the community property system.

Premiums for certain voluntary annuity pension schemes and the acquisition cost of investment certificates of qualifying EEA pension funds may be deducted from taxable income. The deduction is limited to EUR 6,000 or 15% of income which is taxable in Estonia, whichever is lower (section 28 of the TuMS).

Premiums for compulsory annuity pension schemes are fully deductible. Certain social security contributions paid abroad are deductible if their payment was compulsory according to the foreign law.

From 2016, taxpayers are entitled to make a 20% deduction from income received from the rental of a dwelling. Such deduction is deemed to take into account the expenses related to the maintenance of the dwelling (section 39^1 of the TuMS).

From 1 January 2020, any individual deriving income from the sale of the right to cut standing trees and felled timber received from their forests and from Natura 2000 subsidies may, in addition to the deduction of expenses, deduct from this income up to EUR 5,000 during a taxable period.

If a resident individual has derived taxable income from a trust fund, he or she has the right to deduct a proportional share of the income tax paid or withheld abroad on the income of a trust fund, which corresponds to the resident's share in the trust fund, from the income tax to be paid by him or her.

1.7.2. Allowances

The personal allowance is income dependent and is computed in the following way (section 23 of the TuMS):

Annual income (EUR)			Annual allowance (EUR)
Up to		14,400	6,000
14,400	–	25,200	6,000 – 6,000/10,800 × (income – 14,400)
Over		25,200	0

One of the parents is entitled to an additional personal allowance of EUR 1,848 for the second child, and EUR 3,048 for each additional child under 18 years old. If the child receives some income as well, the allowance is limited to the difference between the additional allowance and the child's income (a survivor's pension and national pension upon loss of a provider are not considered income for the purposes of this calculation).

A taxpayer who was married on the last day of the year is entitled to an additional personal allowance for his resident spouse if their aggregate annual income does not exceed EUR 50,400. The amount of the personal allowance is the difference between EUR 50,400 and their aggregate annual income but cannot exceed EUR 2,160.

1.7.3. Credits

No credits can be set off against income tax.

1.8. *Losses*

If the total amount of the taxpayer's deductible business expenses exceeds his business income derived during the tax year, the excess may be carried forward for 10 tax years (section 35 of the TuMS). This loss carry-forward is only allowed with respect to business income.

Losses incurred on the disposal of securities may only be set off against gains on the disposal of other securities (section 39 of the TuMS). Any excess losses may be carried forward to be set off against gains from securities during the following years, as they arise. Losses on securities giving right to dividends may not be deducted if the securities are purchased within 30 days before and sold within 30 days after the persons entitled to receive the dividends are determined. Losses are not deductible if incurred on the sale of securities (i) to a related person for a price that is lower than the market price or (ii) purchased from a related person for a price that was higher than the market price or (iii) purchased using funds deposited on an investment account (*see* section 1.6.).

1.9. *Rates*

1.9.1. Income and capital gains

Income is generally subject to tax at a flat rate of 20% (21% before 1 January 2015) (section 4 of the TuMS). There is no separate capital gains taxation, but capital gains are normally included in taxable income and taxed at the general rate. Wages of crew members working on certain ships are subject to 0% income tax (*see* section 1.3.1.).

1.9.2. Withholding taxes

A withholding tax at the general income tax rate (*see* above) applies to the following payments to residents (section 41 of the TuMS):

- employment income, pensions, unless exempt or subject to the 10% rate (*see* section 1.3.3.);
- interest;
- royalty, rental and lease payments, unless the recipient is a registered sole proprietor; and

– any payments to a sole proprietor if the activities for which they are paid are not related to his business.

A 7% rate applies to dividends that were subject to the lower 14% distribution tax and to dividends paid out of income taxed under the "tonnage tax regime" (*see* section 1.5.) (sections 41 and 43 of the TuMS).

In all the above cases, the recipients must include the income in their taxable income, but the amount withheld is credited against the income tax due.

Withholding taxes on payments to non-residents are dealt with in section 6.3.

1.10. *Administration*

1.10.1. Taxable period

The tax year for individuals is always the calendar year (section 3 of the TuMS).

1.10.2. Tax returns and assessment

In general, individual taxpayers must file a tax return for the tax year by 30 April of the year following the tax year (section 41 of the TuMS). However, an individual who only derives income on which income tax has been withheld (*see* section 1.9.2.), or who has income less than the basic allowance (*see* section 1.7.2.), has no obligation to file a tax return. An individual who does not have the obligation to file a tax return must still do it if he or she wishes to use any personal deductions and allowances (*see* section 1.7.).

As of 2017, resident spouses may not file a joint return.

Due to the closure of the tax authorities' offices as a result of the COVID-19 pandemic, the tax authorities extended the deadline for filing the 2019 annual individual income tax returns on paper until 30 June 2020.

1.10.3. Payment of tax

Taxes are collected during the tax year either by withholding (*see* section 1.9.2.) or by prepayments of tax.

Sole proprietors must make a quarterly prepayment of an amount of one quarter of the income tax for the previous tax year (section 47 of the TuMS). Withheld or prepaid taxes are credited against the final tax liability. To mitigate the negative effects of the COVID-19 pandemic to sole proprietors, they were relieved from the obligation to pay their quarterly social security contributions for the first quarter of 2020. Such payment was made by the state.

The final tax must be paid by 1 October following the filing of the income tax return (section 46 of the TuMS). Any overpayment must be refunded by the tax board by the same date.

1.10.4. Rulings

A taxpayer can apply for an advance ruling from the tax authorities on his prospective transactions. Such rulings are binding on the tax authorities but not on the taxpayer.

2. Other Taxes on Income

There is no local income tax. No other income taxes are imposed in Estonia.

3. Social Security Contributions

As far as employed individuals are concerned, the social security contributions are paid by the employers. For the social security contributions payable by employers, *see* Corporate Taxation section 4.2.

Sole proprietors pay their own social security contributions, consisting of social insurance and health insurance contributions. The contributions are computed on net business income. The maximum annual contribution base is an amount equal to 10 official minimum annual salaries, which is EUR 70,080 in 2021 (10 × 12 × EUR 584). The minimum monthly contribution base is EUR 584 in 2021. The payments are made quarterly. The rate is 33% (20% for social insurance and 13% for health insurance) (sections 7 and 10 of the SMS). Social security contributions are deductible for income tax purposes.

If the sole proprietor is also an employer, he must pay social security contributions on the payments made to his employees.

Unemployment insurance contributions must be paid by employers (*see also* Corporate Taxation section 4.2.) and employees on any monetary employment income of the employees. Contributions are equally due by non-resident employees working in Estonia. The employee's contribution is levied at a rate of 1.6%. This contribution is withheld by the employer.

Persons who were born on or after 1 January 1983 are required by law to join the mandatory funded pension scheme. Persons who were born before that date can join the scheme voluntarily. Those who have joined must contribute 2% of their monthly employment income to the scheme. The state contributes 4%. As a result, 6% of the monthly employment income accrues to the individual's pension account. This contribution is withheld by the employer.

As a temporary measure to tackle the negative effects of the COVID-19 pandemic on the state budget and, similarly, of the economic crisis a decade ago, contributions to the mandatory funded pension scheme are suspended by the state from 1 July 2020 until 31 August 2021 (except for persons born between 1942 and 1960). Until October 2020, employees could decide to suspend their payments to the scheme from 1 December 2020 until 31 August 2021. Employees who continue their payments will receive extra payments to the scheme in 2023 and 2024.

4. Taxes on Capital

4.1. *Net wealth tax*

There is no net wealth tax.

4.2. *Real estate tax*

See Corporate Taxation section 5.2.

The land under and around residential buildings is generally tax exempt if certain conditions are met.

5. Inheritance and Gift Taxes

There are no inheritance or gift taxes in Estonia. Inheritances and gifts are usually not subject to income tax (*see* section 1.2.2.).

The gains from the transfer of property received as a gift or inheritance, however, are subject to income tax (for exemptions, *see* section 1.6.). The acquisition cost of the gifted or inherited property is nil.

5.1. *Taxable persons*

Not applicable.

5.2. *Taxable base*

Not applicable.

5.3. *Personal allowances*

Not applicable.

5.4. *Rates*

Not applicable.

5.5. *Double taxation relief*

Not applicable.

6. International Aspects

6.1. *Resident individuals*

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

A resident individual is taxable on his worldwide income, including foreign dividends, interest and royalties, as well as worldwide capital gains. Under domestic law, no differences apply in the tax treatment of domestic and foreign income.

However, employment income and fringe benefits received from work performed abroad are exempt if the recipient has stayed in the foreign country for the purpose of employment for at least 183 days during any 12-month period and the income has been subject to tax in that country (section 13 of the TuMS). A certificate indicating the amount of income tax (which can also be zero) has to be presented to the Estonian tax authorities. Directors' fees paid by non-resident companies are exempt under the same conditions.

Foreign dividends are exempt if they have been subject to withholding tax in the country of the paying company or if the profits out of which the dividends are paid have been subject to corporate income tax in that country. Under a specific anti-abuse provision, individuals are not entitled to the tax exemption on foreign dividends if a transaction or a chain of transactions does not have real economic substance and if the main or one of the main objectives of the transaction was to obtain tax benefits. The main purpose of this anti-abuse provision is to prevent channelling dividends taxed at the lower rate of 14% (*see* section 1.5.) to resident individuals via foreign companies.

A resident individual is also taxable on the income of a controlled foreign company (CFC), whether or not such company has distributed any profits (section 22 of the TuMS). In computing the income from a CFC, the individual may take into account certain expenses incurred by CFC, including the tax paid in the foreign country. If the individual has paid Estonian income tax on the income of the CFC, any dividend or other profit distributions subsequently received from the same income are not included in taxable income. The participation in a CFC must be reported whether or not the CFC is in receipt of any income.

6.1.2. Foreign capital

No net wealth tax is imposed in Estonia. Foreign-situs immovable property is not subject to Estonian land tax.

6.1.3. Double taxation relief

Unilateral relief for double taxation of foreign-source income derived by resident individuals is available in the form of an ordinary tax credit for tax paid abroad (section 45 of the TuMS). The credit is limited to the Estonian tax computed on the same income. If the income is derived from several foreign countries, the allowable credit is computed separately for each country. Any excess foreign tax credit cannot be carried forward.

Under Estonia's tax treaties, double taxation relief is generally available in the form of an ordinary tax credit. The treaties initialled from 2007, however, generally provide for the exemption method in respect of income other than dividends, interest and royalties.

It should be noted that if higher income tax has been paid or withheld in a foreign country than that set out in the domestic law of the source country or in the applicable double tax treaty, only that part of the foreign tax is credited that was paid or withheld in accordance with the respective law or treaty (e.g. the foreign withholding tax of 25% is paid even though the treaty allows only 10%).

6.2. *Expatriate individuals*

There is no special tax regime for expatriates.

6.3. *Non-resident individuals*

For the concept of residence, *see* section 1.1.

6.3.1. Taxes on income and capital gains

Non-resident individuals are taxable on their income from Estonian sources (section 29 of the TuMS). Most types of income are taxed by way of withholding. All withholding taxes are levied on gross payments and no deductions or personal allowances are granted, except for residents of EEA countries if certain conditions are met (*see* section 1.7.). The withholding taxes are final taxes, and the non-resident recipient has no obligation to file an income tax return for income so taxed. The withholding tax rates are as follows:

The general income tax rate (*see* section 1.9.1.) applies to the following (section 29 of the TuMS):
- income from employment in Estonia;
- income that a non-resident crew member receives for working on an aircraft engaged in international transport or a ship engaged in international carriage of goods or passengers by sea, if the employer or the operator of such an aircraft or a ship is an Estonian state or local government authority or resident, or a non-resident operating in Estonia as an employer, or a non-resident through or on account of its permanent establishment located in Estonia;
- directors' fees;
- certain scholarships, pensions and payments from pension funds, unless the 10% rate applies (*see* section 1.3.3.); and
- rental payments.

A 10% rate applies to the following (sections 41 and 43 of the TuMS):
- income from artistic and sports activities;
- fees from professional services provided in Estonia; and
- royalties, including payments for the use of commercial, scientific or industrial equipment.

A 7% rate applies to dividends which were subject to the lower 14% distribution tax and to dividends paid out of income taxed under the "tonnage tax regime" (*see* section 1.5.; sections 41 and 43 of the TuMS).

A 0% rate applies to wages of crew members working on certain ships (*see* section 1.3.1.).

In several cases, the rates may be reduced by tax treaties (*see* Corporate Taxation section 6.3.5.).

Income of non-residents other than income subject to withholding tax is taxed by assessment in the same manner and at the same rate (*see* section 1.9.1.) as income of residents. However, no personal deductions or allowances are granted to non-residents, except for residents of EEA countries if certain conditions are met (*see* section 1.7.). As an exception, the non-resident individual is allowed to make a 20% deduction from income received from the rental of a dwelling (*see* section 1.7.1.).

Income from a business carried on in Estonia is taxable whether earned through a permanent establishment or not. Non-resident individuals having a permanent establishment in Estonia are subject to income tax under the rules applicable to sole proprietors.

The following items of income of a non-resident individual are tax exempt (sections 29 and 31 of the TuMS):
- dividends, unless such dividends were subject to the lower 14% distribution tax (*see* section 1.5.);
- interest (subject to exceptions);
- per diem and accommodation reimbursements for business trips, including compensation for the use of a private vehicle, up to amounts prescribed by the government;
- certain pensions, scholarships, awards and benefits; and
- inheritances.

Capital gains derived by non-residents on the sale of shares in resident companies are generally not taxable in Estonia. The gains are taxable (by assessment), however, if the sale concerns shares in a company, in a contractual investment fund (open-ended fund) or in another pool of assets (e.g. partnership) whose assets for more than 50% was at the time of the sale, or at any period during the 2 years preceding the sale, directly or indirectly, made up of Estonian-situs immovable property or buildings regarded as movable property and in which the non-resident had a holding of at least 10% at the time of the sale. Losses incurred on such transactions can be set off by a non-resident individual against derived gains or carried forward to be set off against such gains during the following years.

Capital gains derived by non-residents on the sale of Estonian-situs immovable property, including rights in such property and buildings regarded as movable property, are subject to income tax by way of assessment. The same applies in respect of gains on movable property (e.g. vehicles) registered in Estonia prior to the disposal.

The following gains are exempt (section 31 of the TuMS):
- gains from the sale of the non-resident's own dwelling (house or apartment) that was used by him as his residence until the sale (with restriction to one sale during a 2-year period);
- gains from the sale of a summer cottage or garden house, provided the taxpayer has owned such property for more than 2 years and the size of the land plot does not exceed 0.25 ha;
- gains related to the various programmes concerning restitution of expropriated property and privatization of the economy;
- gains from the sale of movable property which has been in the taxpayer's personal use; and
- gains from the exchange of shares in the course of mergers, divisions or other reorganizations.

6.3.2. Taxes on capital

There is no net wealth tax in Estonia. A non-resident individual may be subject to land tax in respect of immovable property situated in Estonia (*see* section 4.2.).

6.3.3. Inheritance and gift taxes

There are no inheritance or gift taxes in Estonia.

6.3.4. Administration

Non-residents must file an annual tax return in respect of income from Estonian sources, other than income subject to final withholding tax (*see* section 6.3.1.), by 30 April and the tax must be paid by 1 October of the year following the tax year.

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