

LIVE Q&A on TAXATION

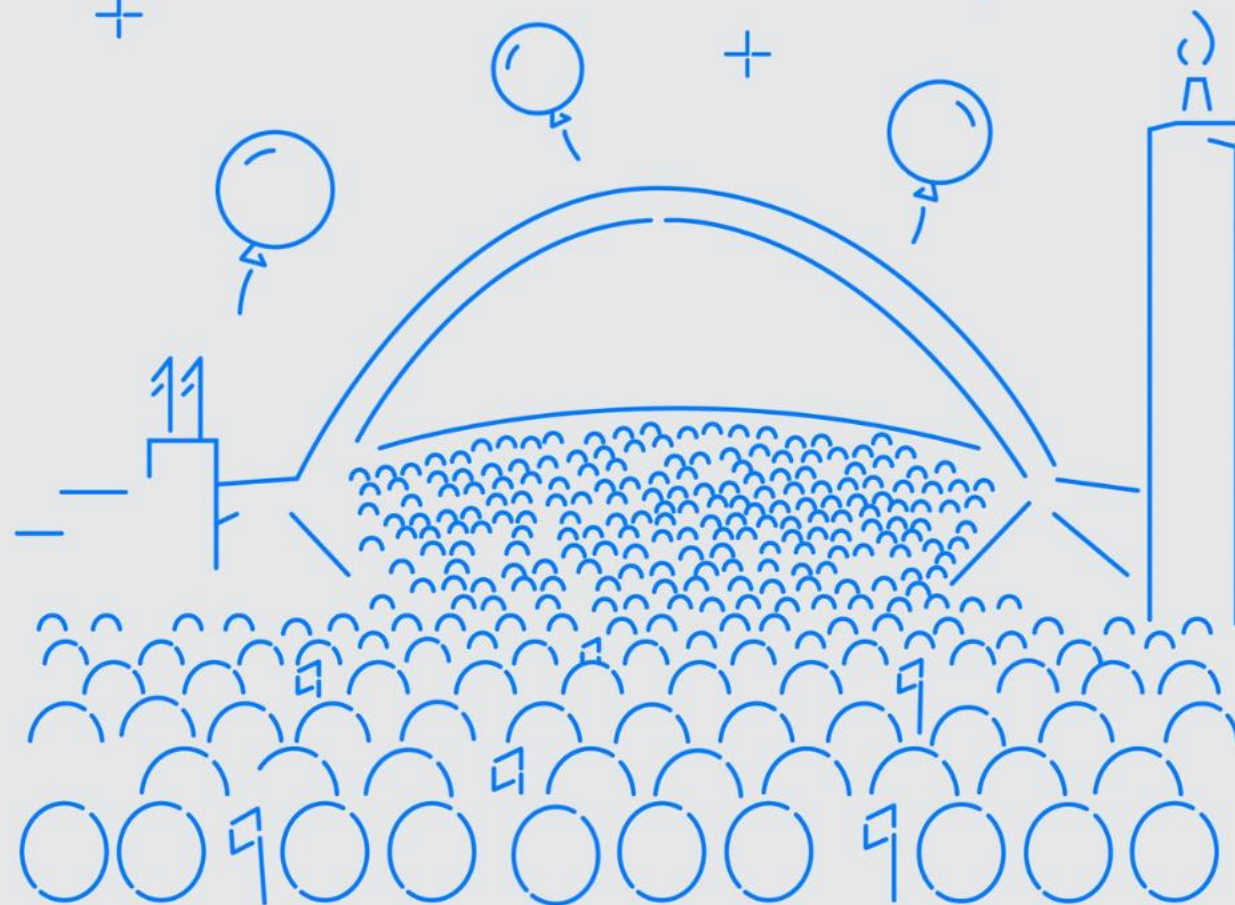
For Cross-Border
Businesses & Entrepreneurs

22 November 2023

ibccs.tax



REPUBLIC OF ESTONIA
E-RESIDENCY



Dream big, dream digital. Celebrating

100 000

Estonian e-residents!

Speakers



Hannah Brown
Head of Content
e-Residency



Taavi Tammoja
Partner & Co-founder
IBCCS TAX
(office in Estonia)



Cezary Zieniuk
International tax advisor & e-resident
Founder of IBCCS TAX Group
(offices in Estonia, Georgia, Cyprus)

- We are compliance and governance experts providing full range of corporate services with the focus on working with international businesses
- Services include tax compliance, accounting, company registration assistance.
- We work closely with other advisors across the world. IBCCS TAX is part of Integra International – an international alliance of CPAs & business advisors that spans over 75 jurisdictions.
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Agenda

1. Brief introduction to e-Residency
 2. International Taxes
 - + Context
 - + Types of taxes & their treatment
 3. Structuring ventures in Estonia with IBCCS Tax
- Throughout:
- + Examples and case studies
 - + Q&A



Luke Seelenbinder & Ian Wagner
Co-Founders of Funktional &
Stadia Maps

*In this webinar, we can only provide general guidance.
Where you and your company pay taxes will depend on
your individual situation and a number of specific factors.*

Do not rely solely on this webinar as legal advice.

*Please seek help from tax experts about your specific
situation.*

— Part 1: Introduction to e-Residency



What is e-Residency?



E-Residency is....

- + **Digital identity**
- + Access to Estonian e-services
- + Secure digital signature
- + A digital key to do business in Estonia
- + A global community of e-residents



E-Residency is not....

- + Travel document
- + Citizenship, Visa or Residence permit
- + Tax residency
- + Business bank account
- + Personal bank account

Opening a company in Estonia

- + Benefits
 - + Transparent & secure digital business environment
 - + Ease of doing business
 - + Opportunities to scale & grow
 - + Join a community of like-minded people
- + Become an e-resident
 - + Apply online in 30 minutes
 - + Pick up card in 45+ locations worldwide
 - + Entire process takes 3-8 weeks, costs €100-120
- + Start a business online in just a few steps
→ 15 mins-1 day
- + 129 business service providers on the e-Residency Marketplace



107,609
e-residents

28,326
companies

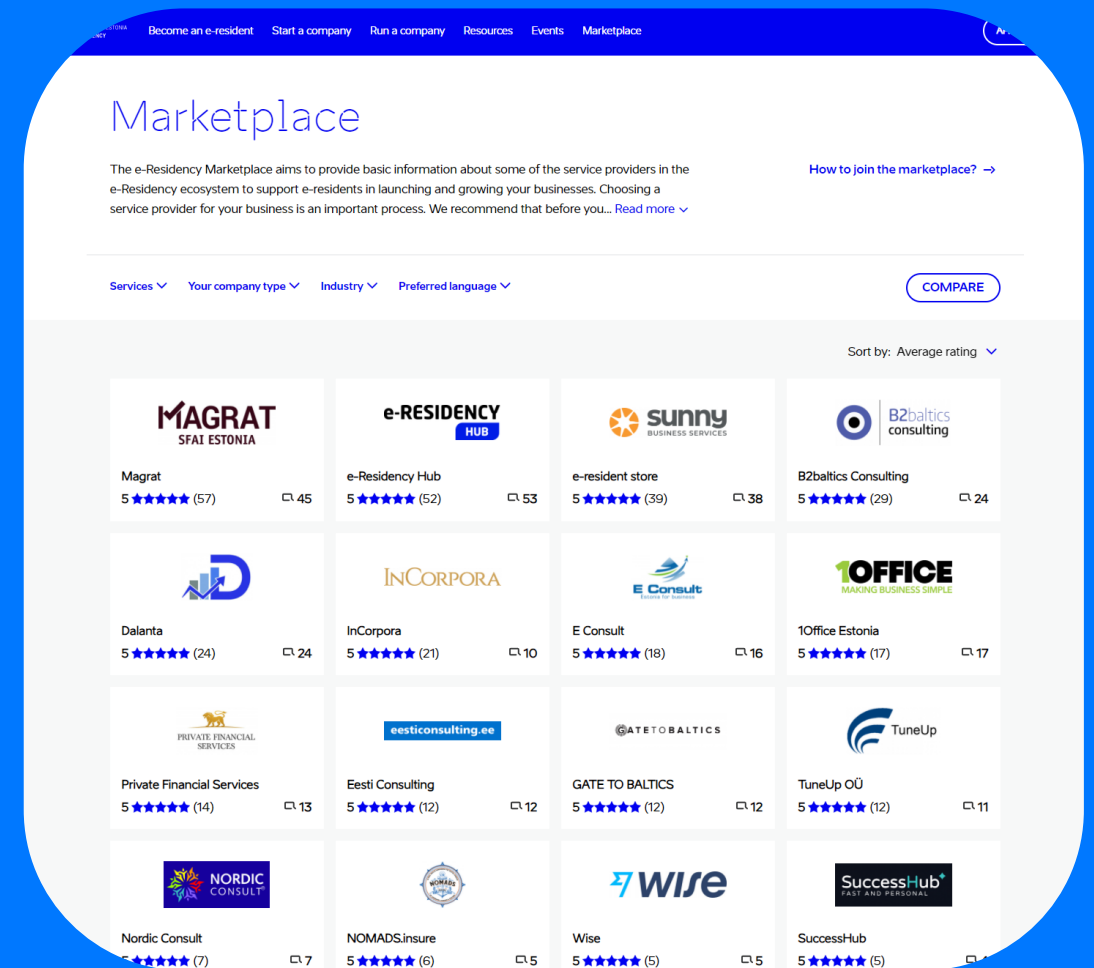
Patrick Heneise, Cyprus / Germany
Zentered

Country comparison (for foreigners opening company)

	Estonia (e-Residency)	US (Delaware)	Ireland	UK	Singapore	Portugal
State fee to register business	€265	from \$90 (€82)	€150	£12 (~€14)	SGD300 (~€200)	€360
Time to register business	2 hours	5-15 days	3-7 days	24 hours	1-3 days	1-2 days
First year costs	~€200	~\$2,500	~€2,000	~£600	~€4,000	~€80
Visa, local agent or director?	x	Agent	EEA resident Director	x	Local director or visa	Agent or visa
Minimum Share Capital	€0.01	nil	nil	nil	SGD1	€1
E-services	Yes	Limited	Limited	Yes	Yes	Limited
Digital ID card	✓	x	x	x	✓	X
Corporate Tax Rate (%)	0 / 20 / 14	8.7	12.5	25 / 19	17	21
Hours to file tax returns p.a.	50	175	82	114	64	60-150

Need help to start or run your business?

- + 129 expert business service providers on the e-Residency Marketplace
- + A local contact person is the only mandatory local service needed
- + For companies with a foreign management board address
- + Contact person is NOT a local director
- + Other services: company formation, accounting, legal, tax consulting, etc





REPUBLIC OF ESTONIA
E-RESIDENCY

We're reimbursing e-Residency fees for Ukrainians!

Apply for e-Residency and register a company in Estonia with an eligible business service provider, and we'll cover the application fee.

—Part 2: Estonia & International Tax Welcome, IBCCS Tax!

International Tax Context:

System

vs.

Reality

- + A complex + challenging international tax 'system'
 - + „a pragmatic compromise between countries“
- + Out-of-date tax structures
 - + based on old assumptions of people + transactions being location dependent
 - + principles of 'residence' and 'source'

- + In reality, people + business are independent of location
 - + transport mobility, technologies, globalisation
- + Tension with old tax principles + structures
 - + leads to uncertainty + huge costs of compliance

What are the taxes to be aware of?

Personal

Social

VAT

Corporate



e-Residency
≠
Tax Residency

What are the taxes to be aware of?

Personal Taxes → Declared in country of tax residence

Company Taxes → Declared where company is tax resident and/or has a Permanent Establishment

Payroll taxes & Social contributions → Declared where employees are located / registered

Value Added Taxes (VAT) → Online sellers can declare in the EU country where they are VAT-registered (under OSS/IOSS)

Where will I pay my company taxes?

ESTONIAN COMPANIES
=
ESTONIAN TAX RESIDENTS

E-RESIDENCY
≠
TAX RESIDENCY

You should not be double-taxed!

Contact a local tax consultant for professional advice regarding your specific situation.

Companies are registered as tax residents in **Estonia** by Estonian Tax & Customs Board when established

BUT ↓

If your company is also considered a tax resident, or your activities create a permanent establishment, in **another country**, your company may also have tax liabilities there.

E-Residency **doesn't exempt** companies from dual tax residency or foreign tax liabilities.

BUT ↓

Estonia has signed treaties with 60+ countries to **avoid double taxation**, so dividends distributed in Estonia may be exempted in full from corporate income tax here.

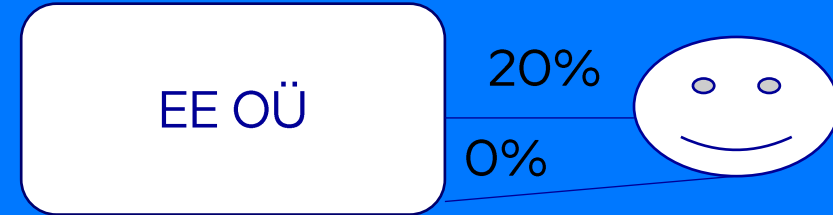
Estonia: the most competitive tax code in the world

- + Minimal tax regulation & low rates
- + No annual corporate income tax
- + Corporate tax:
 - + 0% on reinvested profits
 - + 20% on distributed profits (14% for regular distributions)
- + 20% VAT
 - + Mandatory registration > 40k EUR per year
 - + OSS & IOSS regimes in EU simplify VAT procedures
- + Taxes can be declared and paid online
- + Get help from the friendliest tax authority in the world!



Carlos Paniagua, e-resident Dan Michaeli & Justin DiPietro, Glia

Estonian tax & legal residence



- + Estonian OÜ generally pays 20% (net) on distributed profits.
- + For Estonian tax residents, Income tax is not charged on the dividends if income tax has been paid on the share of profit on the basis of which the dividends are paid, if income tax on the dividends has been withheld in a foreign state
- + A private individual can postpone taxation of the investment income by using an investment account. As long as you do not withdraw the earned income from the investment account, tax liability is not created
- + Tax residence is flexible with no minimum stay requirements
- + International structures — investments:
 - + Participation exemption — redistribute the dividends paid from its subsidiary tax free
 - + Foreign PE of Estonian company not taxed in Estonia, if profits already taxed abroad
 - + Foreign tax relief can apply (tax paid abroad can be used to credit the tax liability in Estonia)

Paying yourself & employees



Dividends

- + 20% corporate income tax in Estonia
- + Reduced rate of 14% from 3rd year in case of annual payments
- + Personal income tax and dividend withholding tax in other jurisdictions

Board member's/Director's fee

- + 20% personal income tax in Estonia
- + 33% social tax in Estonia unless you are already covered by a social security scheme in another EEA country, Switzerland, Canada, Ukraine, Australia

Employee salary

- + No tax obligations in Estonia if work is performed in another country
- + Personal income tax and social tax in the country of residence

Important considerations when starting a business in Estonia

- + Setting up a holding structure or dividing operations and assets between different entities (cross border) can enhance asset protection and may provide tax advantages
- + When you sell your shares of your company later on, the tax can be as little as 0% depending on the specific circumstances. Great to think about this when you are forming the structures.
- + The operational flexibility can be increased and risks can be isolated by separating different parts of a business into distinct entities. It can help to protect personal assets, add credibility & facilitate fundraising.
- + Think about if you need a local Estonian company or you want to register a foreign company permanent establishment or a branch in Estonia. Branch can be registered digitally via e-Residency.

Part 3: International Tax

International tax risks & implications for e-residents

1. **Permanent Establishment (PE)** abroad of an OÜ managed by e-residents outside EE
2. How to establish the **tax residency** of an individual & company (egs based on Double Tax Treaties)
3. **Taxation of dividends** paid from Estonian company to shareholders who are e-residents living outside Estonia (with examples)
4. Importance of **Substance** related to the above cases
5. EXAMPLES

Permanent Establishment (PE)

1. **What is a PE:**

https://www.riigiteataja.ee/aktilisa/2041/0201/3002/Est_Cypros_conv.pdf

2. **What constitutes a PE**

3. **How to mitigate the risk of having a PE of Estonian company abroad**

Article 5
PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.
2. The term "permanent establishment" includes especially:
 - (a) a place of management;
 - (b) a branch;
 - (c) an office;
 - (d) a factory;
 - (e) a workshop, and
 - (f) a mine, an oil or gas well, a quarry or any other place of exploration or extraction of natural resources.
3. A building site, a construction, assembly or installation project or a supervisory or consultancy activity connected therewith constitutes a permanent establishment only if such site, project or activity lasts for a period of more than twelve months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

- (a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
- (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
- (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
- (d) the maintenance of a fixed place of business solely for the purpose of

- purchasing goods or merchandise or of collecting information, for the enterprise;
- (e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;
 - (f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person – other than an agent of an independent status to whom paragraph 6 applies – is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.
6. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business. However, when the activities of such an agent are devoted wholly or almost wholly on behalf of that enterprise, he will not be considered an agent of an independent status within the meaning of this paragraph.

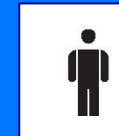
P.E. taxation – example

Georgia

Estonia

Cyprus

ESTCO OU
Estonia



Sole director
Tax resident of Cyprus

- No substance in EE
- Operating from CY
- Managed from CY



100%
Shareholder
Tax resident of
Georgia

TAXATION:

- PE taxation only in Cyprus
- Cypriot PE income distributed to Estonia: not taxable

Substance in Estonia

- + Rent an office
- + Hire employees
- + Hold Board Meetings in Estonia
- + Register assets and IP in Estonia
- + Become a digital nomad
- + Relocate

<https://www.e-resident.gov.ee/bringing-business-to-estonia/>



Tax residency – example of DTT CY-EE

1. Corporate tax residency:

- A. Incorporation principle — by default via domestic law
- B. POEM (Place of Effective Management) — DIFFERENT from Management & Control !!!
- C. “...or any other relevant criterion”

2. Personal tax residency:

- A. Permanent Home
- B. Center of Vital Interest
- C. Habitual Abode
- D. Nationality
- E. Mutual agreement

Article 4
RESIDENT

1. For the purposes of this Convention, the term “resident of a Contracting State” means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature, and also includes that State, any political subdivision and any local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows:
 - (a) he shall be deemed to be a resident only of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (centre of vital interests);
 - (b) if the State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;
 - (c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;
 - (d) if he is a national of both States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (centre of vital interests);

- (b) if the State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;
- (c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;
- (d) if he is a national of both States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, the competent authorities of the Contracting States shall settle the question by mutual agreement due regard being had to the **place of effective management** of such person or any other relevant criterion.

Example Tax residency of EE company-



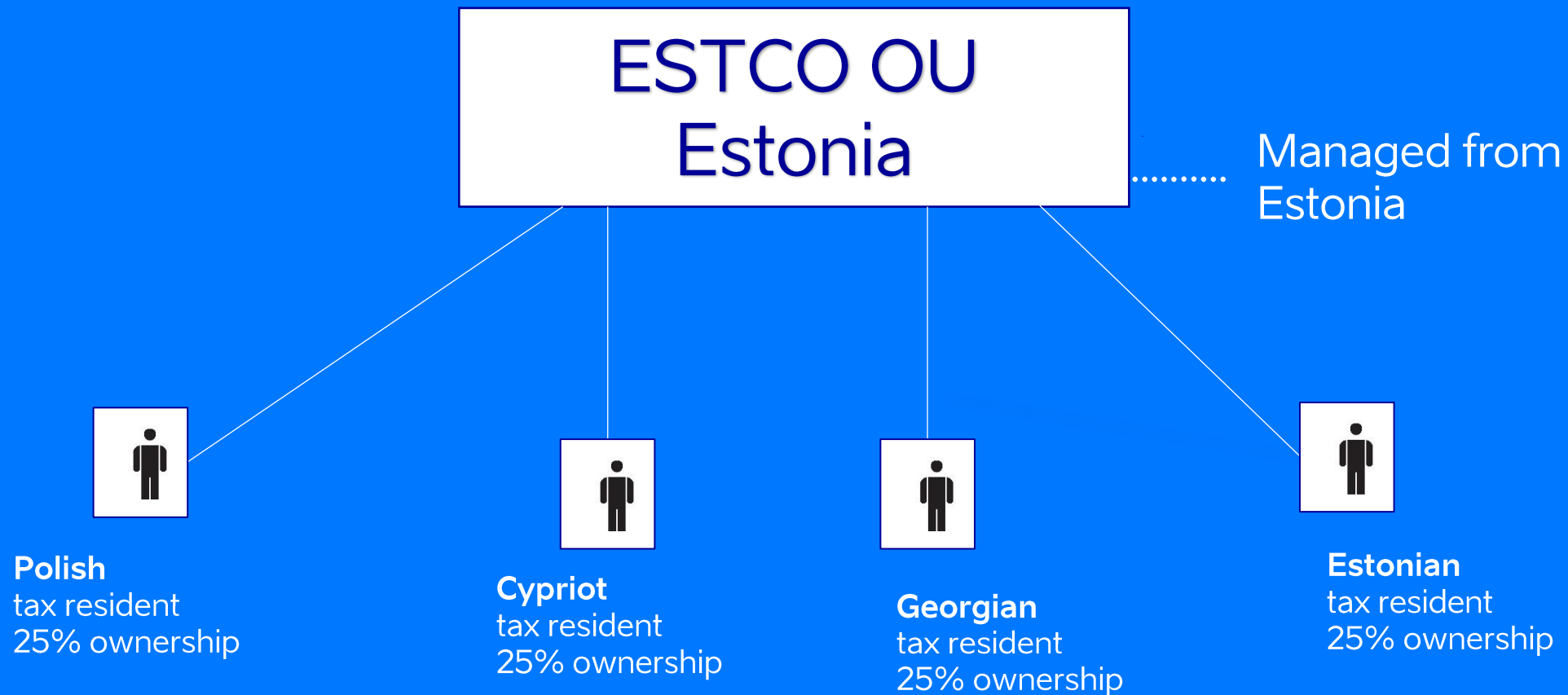
Substance in Estonia

- + Rent an office
- + Hire employees
- + Hold Board Meetings in Estonia
- + Register assets and IP in Estonia
- + Become a digital nomad
- + Relocate

<https://www.e-resident.gov.ee/bringing-business-to-estonia/>



Taxation of dividends for e-resident shareholders having EE company



Expansion of Estonian business e.g. to Cyprus via opening a subsidiary – example

Estonia

ESTCO OU
Estonia

Operational & mother
company
CIT paid in Estonia

100% ownership

Cyprus

CYPCO LTD
Cyprus

Subsidiary in Cyprus
CIT paid in Cyprus
No WHT based on PSD
Also on domestic level:
- CY: no WTH on dividends
- EE: participation exemption

Expansion of Estonian business e.g. to Georgia via opening a subsidiary – example

Estonia

ESTCO OU
Estonia

Operational & mother
company
CIT paid in Estonia

100% ownership

Georgia

GECO LLC
Georgia

Subsidiary in Georgia
CIT paid in Georgia
WHT paid only in Georgia
Participation exemption in
Estonia

Article 10

DIVIDENDS

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.
2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:
 - a) 5 per cent of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25 per cent of the capital of the company paying the dividends and the value of this investment is not less than one hundred thousand euros (100 000 euros), or its equivalent in local currency;
 - b) 15 per cent of the gross amount of the dividends in all other cases.
3. The term “dividends” as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.
4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.

Example: No fixed place of business

- + Digital nomad e-resident with Estonian company
- + Manages his company remotely from different countries
- + Is not registered as a tax resident anywhere



Example: fixed place of business in Germany

- + An e-resident lives in Frankfurt, works as a copywriter
- + Founded an Estonian company as a solopreneur to invoice clients
- + She does all work from home, including making management decisions
- + Most clients located in Germany



Example: International business with office in Estonia

- + An Argentine e-resident lives in Barcelona
- + Founded a startup through an OÜ in Estonia, sells to clients globally
- + Also has an office, employees & a co-founder in Estonia
- + Travels to Estonia a few times a year to hold board meetings



Further tax resources

+ Browse these blog posts on taxation:

e-resident.gov.ee/blog/tag/taxation-law

+ Dive deeper on our Knowledge Base:

learn.e-resident.gov.ee/hc/en-us/sections/360000172117

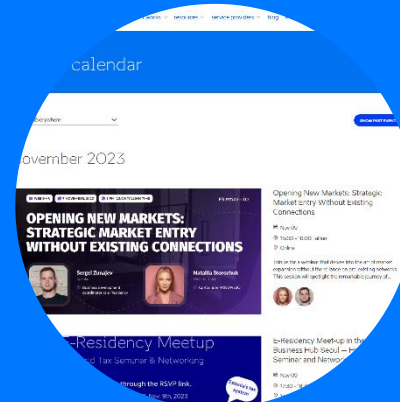
+ Find an international tax consultant:

marketplace.e-resident.gov.ee/?within_service=21



Leverage the _____ e-Residency Community

- + CONNECT in our Social Media accounts
- + ATTEND Community and Business Networking Events
<https://www.e-resident.gov.ee/events-calendar/>
- + ASK QUESTIONS in our Subreddit:
<https://www.reddit.com/r/eResidency/>
- + REACH OUT to e-Residency Spokespeople & EERICA:
eERICA.ee





REPUBLIC OF ESTONIA
E-RESIDENCY