Planned taxation of upstream loans and other incentives to pay dividends

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Paul Künnap

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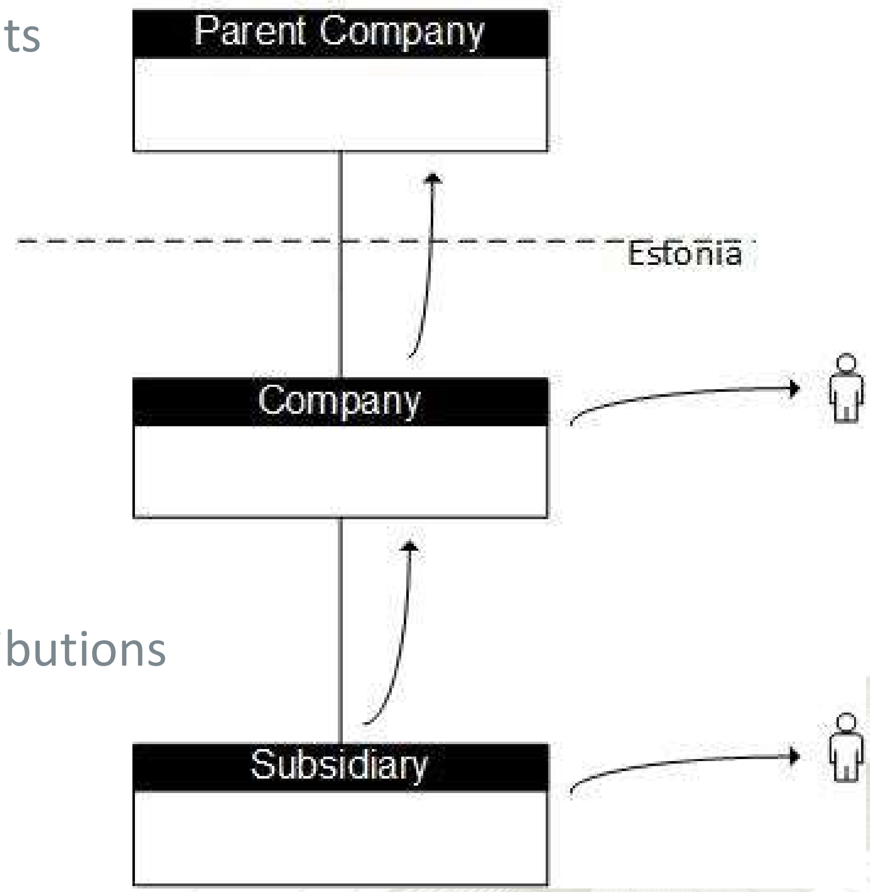
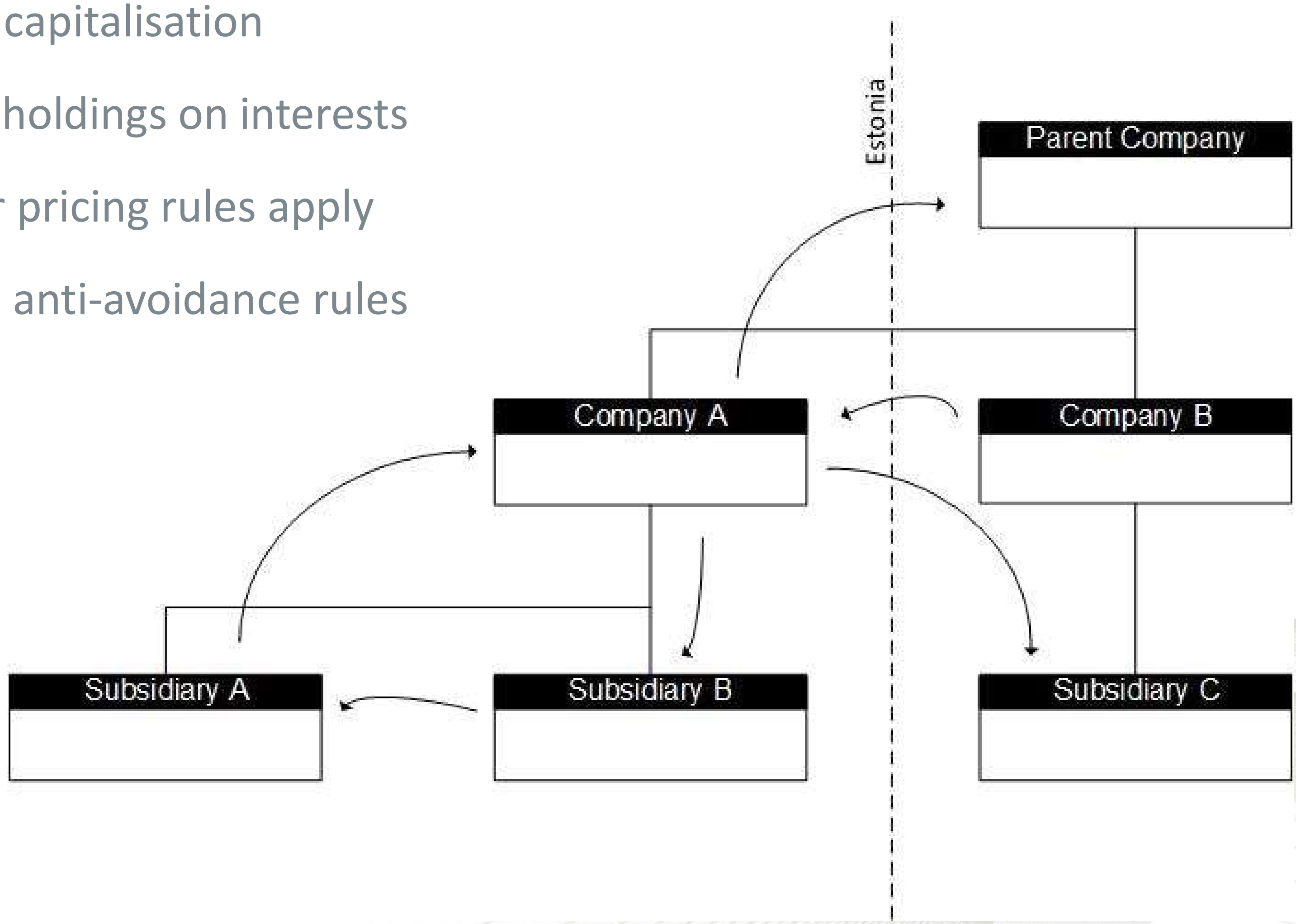
Estonian corporate income tax system

- Indefinite deferral of reinvested profits
- Tax rate of 20%
- Tax is incurred by
  - distribution of dividends
  - fringe benefits
  - hospitality costs
  - capital reduction in excess of contributions
  - costs not related to business
- Receipt of dividends not taxed



Current taxation of issuing loans

- No thin capitalisation
- No withholdings on interests
- Transfer pricing rules apply
- General anti-avoidance rules



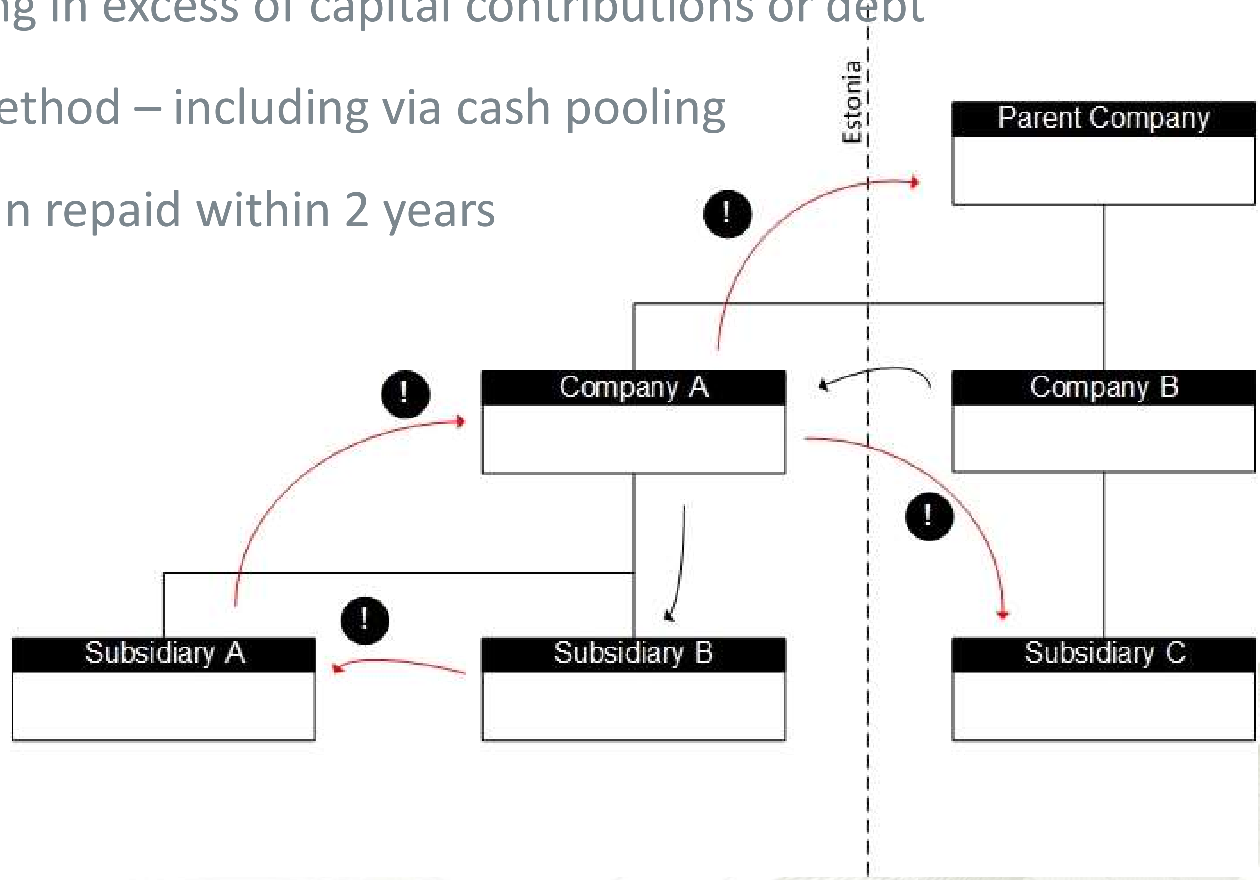
Problem – Government proposal

- Elections 2019, budget 2018
- Abuse of upstream lending
- Overcapitalisation of Estonian companies

- Taxation of upstream lending
- Incentivising payment of dividends (particularly in 2018)

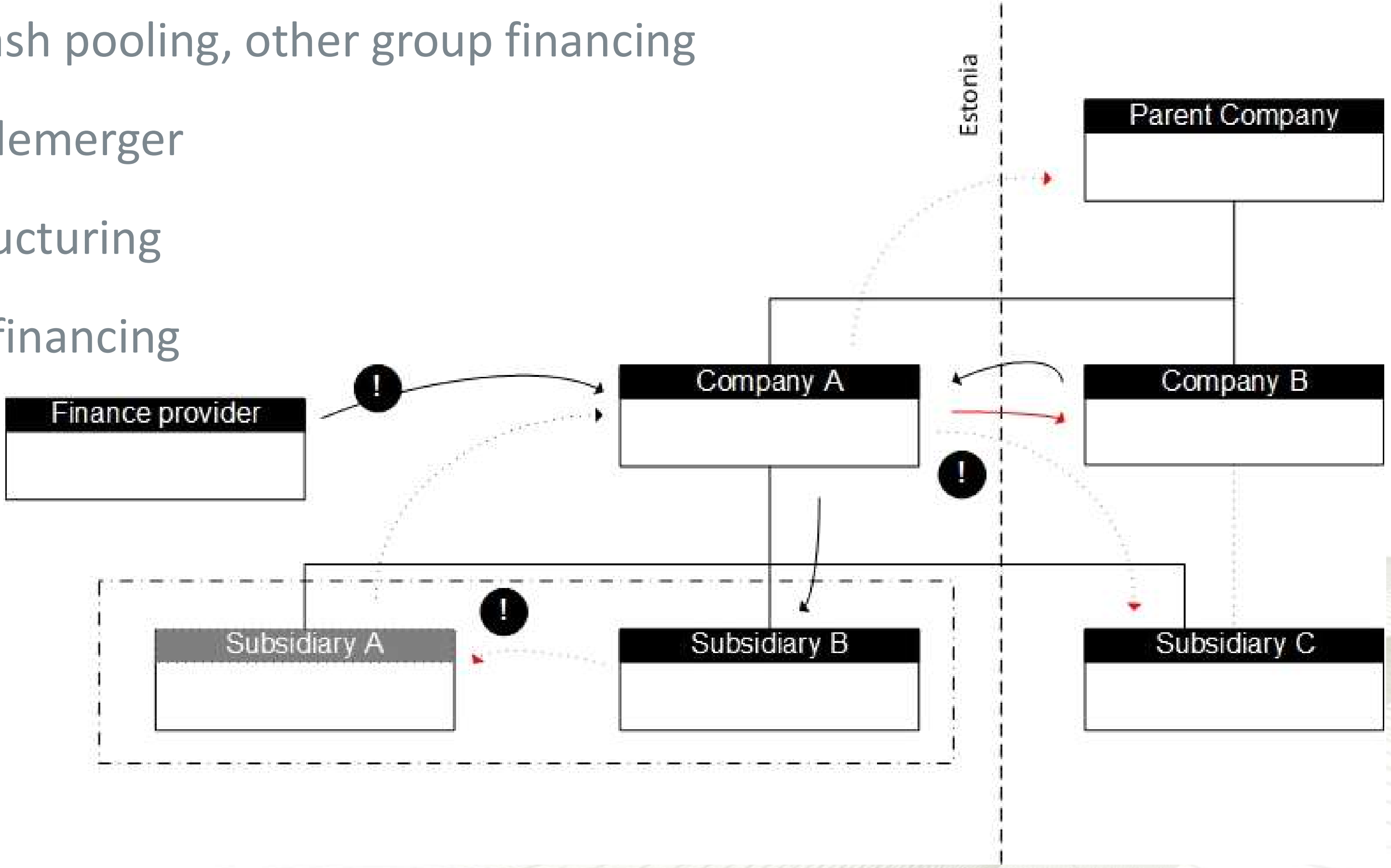
Taxation of upstreaming lending

- Upstream lending in excess of capital contributions or debt
- Regardless of method – including via cash pooling
- Tax repaid, if loan repaid within 2 years



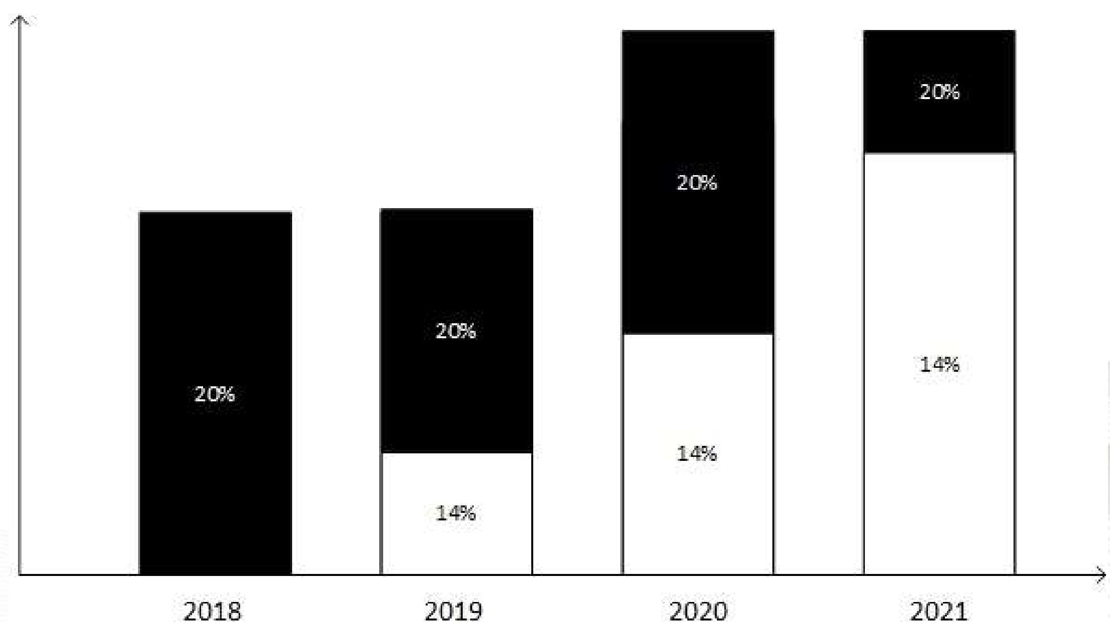
Mitigation strategies

- Avoiding excess lending
- Not using cash pooling, other group financing
- Mergers & demerger
- Group restructuring
- Third party financing



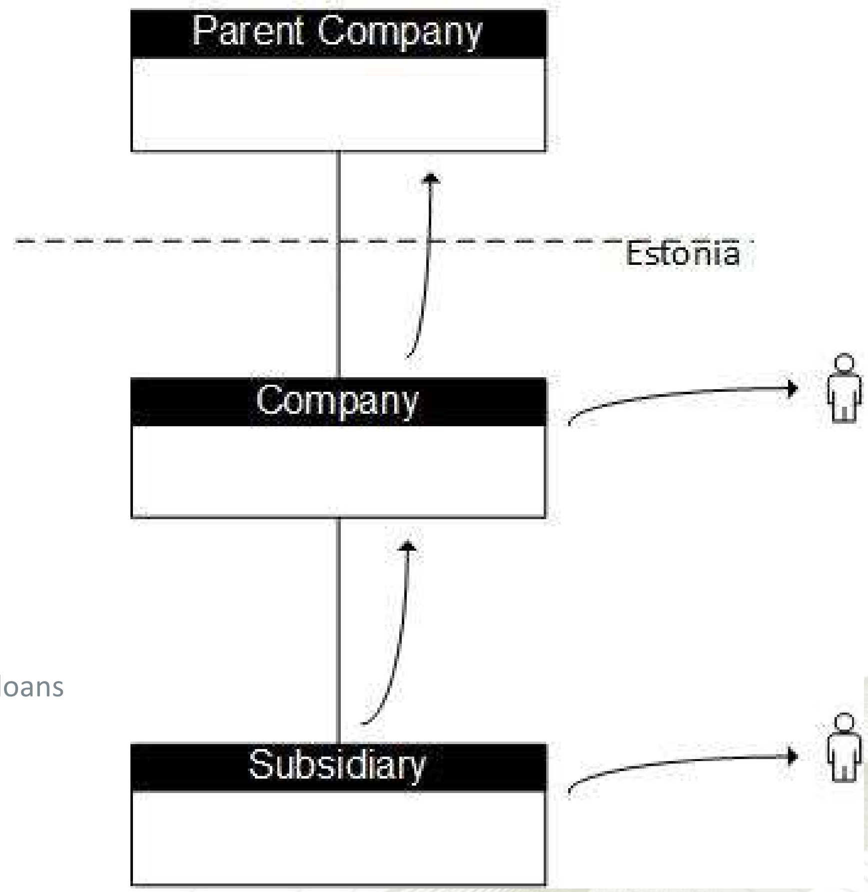
Reduced tax rate as dividend incentive

- Reduced tax rate of 14% to recurring dividend payments
  - based on three year average
  - starting from 2018
- Tax on receipt of dividends
  - 7%
  - Limitations
    - only natural persons
    - tax treaty



Estonian corporate income tax system (as proposed)

- Indefinite deferral of reinvested profits
  - except certain intragroup lending
- Tax rate of 20%
  - reduced rate of 14% available for recurring dividends
    - based on 3 year average dividend payments
- Tax is incurred by
  - distribution of dividends
  - fringe benefits
  - hospitality costs
  - capital reduction in excess of contributions
  - costs not related to business
  - intragroup lending in excess of contributions and received loans
    - may be retrieved in 2 years
- Receipt of dividends taxable at 7%
  - only natural persons
  - tax treaties apply



Action points

- Currently just proposals – no bill has been presented
  - possibility to influence!
- Preparations for mitigating actions
  - If adopted, could be effective as of 01.01.2018!

Thank you!

Paul Künnap

paul.künnap@Sorainen.com

+372 6400 917

ESTONIA
Pärnu mnt 15
10141 Tallinn
phone +372 6 400 900
estonia@Sorainen.com

LATVIA
Kr. Valdemāra iela 21
LV-1010 Riga
phone +371 67 365 000
latvia@Sorainen.com

LITHUANIA
Jogailos 4
LT-01116 Vilnius
phone +370 52 685 040
lithuania@Sorainen.com

BELARUS
ul Internatsionalnaya 36-1
220030 Minsk
phone +375 17 306 2102
belarus@Sorainen.com

www.Sorainen.com