

Tax laws affecting non-residents living in Estonia

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Income of non-residents

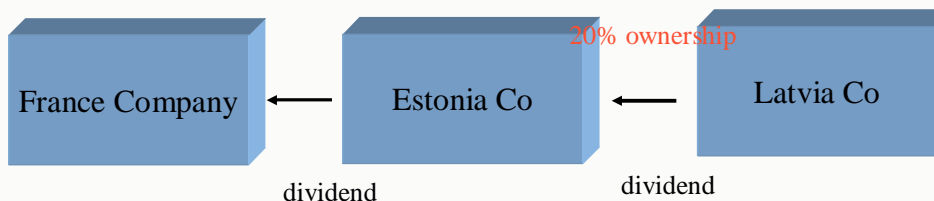
- Dividends
- Interests
- Royalties
- Liquidation proceeds
- Reduction of share capital
- Business profits
- Sale of securities

Taxation of dividends

- No withholding tax is imposed on dividends paid to foreign natural persons.
- Dividends paid to non-resident legal persons are subject to withholding tax of 23% (can be reduced by DTT), unless a non-resident owns 20% of shares in the distributing entity.
- The participation threshold will be reduced to 15%.
- Exemption for dividends received from abroad.

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Exemption method – current law

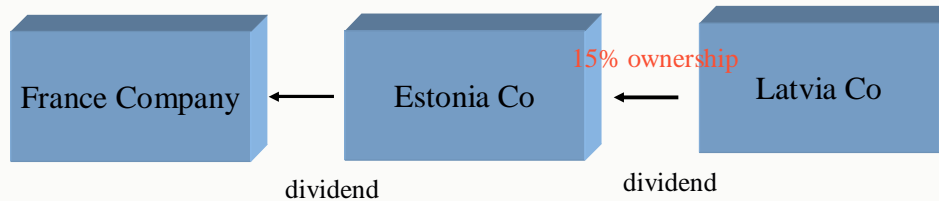


Corporate tax
of 15%

**Estonian distributing entity is not paying income tax of 23/77
No withholding tax is imposed**

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Exemption method – prospective law



Corporate tax
of 15%

Estonian distributing entity is not paying income tax of 23/77
No withholding tax is imposed if France Company owns 20% (15%) of shares

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Taxation of interests

- In general, interests are not subject to withholding tax.
- Interest in excess of the market interest rate is subject to withholding tax of 23%.
- Excessive dividend is treated as a disguised dividend.

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Taxation of royalties

- No withholding tax is imposed on payment of royalties under implemented provisions of EU Royalties and Interests Directive.
- Prospective law will extend the exemption to Switzerland.
- General withholding tax rate is 15%.
- Withholding tax rate can be reduced under DTT generally to 5% - 10%.
- Royalties in excess of arm's length level are subject to withholding tax of 15%.

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Transitional periods for implementation royalties and interest directive

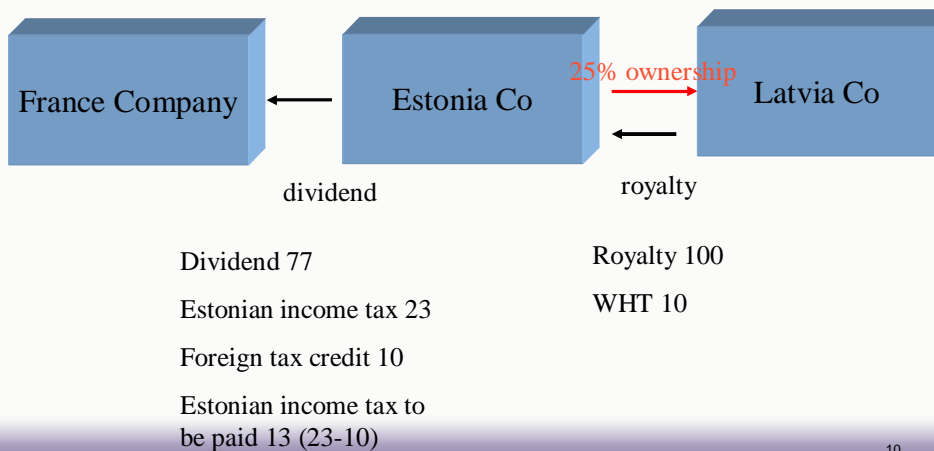
	Interest Payments	Royalty payments
Czech Republic	--	6 years
Latvia	8 years	8 years
Lithuania	6 years	6 years
Poland	8 years	8 years
Slovakia	--	2 years

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Tax Credit for Royalties and Interest on payment of dividends

- Tax credit with regard to royalties received from Latvia, Lithuania, Spain, Greece, Poland, Portugal, Slovakia and Czech Republic. Minimum participation is 25%.
- Tax credit with regard to interest received from Latvia, Lithuania, Greece and Portugal. Minimum participation is 25%.

Tax credit in action



Liquidation proceeds and redemption of fund's units

- Reduction of the share capital and redemption of the contractual fund units are subject to income tax of 23%, unless paid to the beneficiary located in the country with which Estonia has DTT.
- Liquidation proceeds and the payment on liquidation of the contractual fund is subject to income tax of 23%, unless paid to the beneficiary located in the country with which Estonia has DTT.

Sale or rent of property

- Gain derived from the sale of movable things will not be taxed in Estonia (upcoming amendment), unless considered business profits.
- Sale or rent of immovable is subject to income tax of 23%. Gain derived from the sale or rent of registered movable property is, in general, subject to 23%.
- Gain derived from the sale or rent will not be subject to income tax in Estonia if:
 - if a non-resident is from the country with which Estonia has DTT;
 - a non-resident does not have a PE in Estonia in case such gain treated as business profits of a non-resident.

Sale of securities – current law

Capital gains derived by non-residents from the sale of shares in Estonian companies are subject to income tax of 23% if:

- 10% of shares are sold; and
- 75% of the Estonian company's assets are consisted of real estate or buildings located in Estonia as recorded in balance sheet for the financial year preceding the year of sale.

Sale of securities – prospective law

Capital gains derived by non-residents from the sale of shares in Estonian companies or contractual fund units are subject to income tax of 23% if:

- shares are sold in a company or units in the contractual fund in which the non-resident shareholder had, at the time of the sale, at least 10% participation; and
- at the time of the sale, or at any time during the two financial years before the (year of) sale over 50% of the Estonian company's assets, directly or indirectly, consisted of real estate or buildings located in Estonia.

Tax planning

- Attractive for accumulation of profits in Estonian resident company.
- Introduction of exemption method for dividends as from 01.07.2005 (previous tax credit method).
- Foreign tax credit with regard to royalties and interest from other EU States.
- No thin capitalization rules.
- All EU States are included in the Estonian “white list”.

Thank you!

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