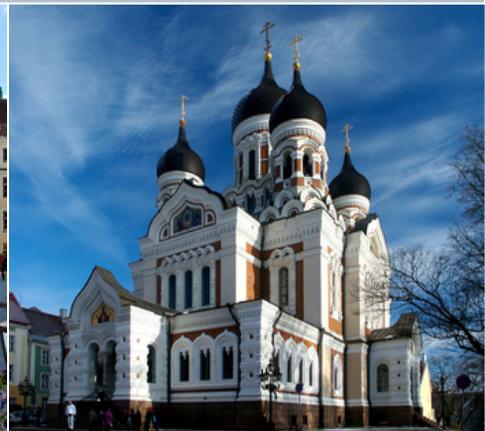




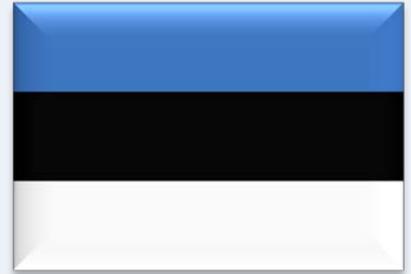
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Country Profile: Estonia

The Facts

Location	Eastern Europe, bordering the Baltic Sea and Gulf of Finland, between Latvia and Russia
Languages	Official – Estonian Spoken – Russian and others
Nationality	Estonian
Religions	Evangelical Lutheran – 13.6% Orthodox – 12.8%, Other Christian – 1.4% Unaffiliated – 34.1% Others and unspecified 38.1%
Government	Parliamentary Republic
Head of Government	Prime Minister
Legislature	Unicameral Parliament
Constitutional Document	Constitution of the Republic of Estonia
Economy	Estonia has been an EU member since 2004, harnessed a free market and pro-business economic environment. Estonia has one of the highest GDP growth rates in Europe and one of the highest per capita income levels in the Central and Eastern Europe. Major industries are engineering, electronics, wood and wood products, textiles, information technology and telecommunications, etc.
Currency	Euro (EUR)
GDP (2012)	Total – EUR 17.0 billion Per capita – EUR 12,688 Real GDP growth – 2.4%
Population	1,266,400 (approx.)
Percentage of population	Estonian – 68.7% Russian – 25.6% Ukrainian – 2.1% Belarusian – 1.2% Others – 2.4%
Area	45,228 km ²
Time zone	EET (UTC+2) EEST (UTC+3)
Public Holidays	12
Climate	Maritime; wet, moderate winters, cool summers



Sources: Central Intelligence Agency, International Monetary Fund, Trade with Estonia

Estonia

Estonia is considered one of the most successful examples of fiscal policy and of how to manage the development of a small economy. During the crisis, Estonia experienced the most moderate decline among the Baltic countries; it recovered quickly and was able to join the European Monetary Union. It is one of the best according to the index of economic freedom and business environment assessment. Among the 'new' EU member-states it is the third state (after Slovakia and Slovenia), which has introduced the euro – this took place in 2011.

During the years of rapid growth – the period from joining the EU in 2004 till the beginning of the global crisis in 2008 – Estonia was pursuing a rather conservative budget policy, accumulating national budget surpluses. These provisions helped the country to pass through the years of the crisis, without applying for the loans of the institutional lenders. Like other Baltic States, Estonia suffered from the crisis most gravely, since in previous years there were inflows of rather cheap and easily accessible loans into the national economy.

A highly developed national information and communication technology market, as well as close economic ties with the Nordic States led to Estonia becoming one of the most well-developed economies in the eastern and central Europe. In accordance with the World Bank's methodology, Estonia is considered to be one of the wealthy countries. In 2010 Estonia has joined the OECD.

The Estonia Business Climate

Estonia is a popular destination for foreign investors who want to set up business abroad. Many foreign companies were established in Estonia over the past decades. Foreign investors play an important role to the Estonian economy. Foreign companies dominate banking and telecommunications sectors in the country. Estonia was ranked in the first 25 countries in terms of the ease of doing business by The World Bank Group. The followings are the advantages to invest in Estonia

- **Strategic location:** Estonia is situated at the heart of the Baltic Sea region and it is considered to be a link between east and west. Its position on the map also gives the investors the possibility to have access to the surrounding market of more than 90 million people. It is also very close to some important cities such as Helsinki or Sankt Petersburg.
- **Low corporate tax rate:** The Estonian tax system is rather unique in Europe. There is no corporate tax on non-distributed profit in Estonia and there is a flat income tax. It is also among the cheapest countries in the European Union in term of costs for incorporating a new business and running it. Also, the legislation allows an easy start for doing business in Estonia.
- **Modern infrastructure:** Estonian infrastructure is modern and efficient. Furthermore, communications are quite advanced in Estonia, especially due to the progress and innovation in the field of technology in Estonia. Modern solutions are implemented in all types of services and make use of the great network in Estonia.
- **Qualified workforce:** The Estonian employees are highly-educated and mainly work in the service sector. English and Russian are both spoken by most of the people in Estonia. The process of hiring and laying off people in Estonia is regarded as an open market agreement between the employer and the employee. Payments and other stipulations in the contracts are always honored. Business meetings in Estonian companies tend to be quite formal.
- **Favorable investment climate:** Foreign investors are guaranteed a level playing field with local firms, including unrestricted repatriation of profits and capital along with the right to own land. There is a rapidly expanding supply of high-quality commercial and office property, including a growing number of industrial parks. The establishment of free zones at Muuga Port and in Sillamäe has further enhanced Estonia's attractiveness to foreign investors.



Setting up a Business in Estonia

For entering a company in the Commercial Register, the founders must draft a Memorandum of Association, the founders shall also apply an Articles of Association as an annex to Memorandum of Association. The Memorandum of Association must be signed by all founding members and notarized in Estonia or at the Estonian diplomatic representation in a foreign country. Upon foundation, the founders shall open a bank account in the name of the newly founded company into which monetary contributions will be paid in. The required minimum share capital requirement must be paid in before the registration of the company. Contributions may be monetary or non-monetary, but not in the means of service or work provided for the company or any activities of the founders at the foundation of the company. If the non-monetary contribution exceeds EUR 2,500 or if non-monetary contributions in total exceed one half of the share capital, an evaluation is required by an auditor. An auditor must audit the valuation of a non-monetary contribution paid in to a public limited company.

The Management Board must submit a petition application for the registration in the Commercial Register within six months of concluding the Foundation Agreement. The application must be signed by all members of the board and include the following information to be entered to the Commercial Register:

- Business name of the public limited company
- Area of activity, location and address of the public limited company
- Amount of share capital
- Date of approval of the Articles of Association
- Names, personal identification codes and residences of the management board
- Members of the management board entitled to represent the public limited company differently than provided for in subsection 307(1) of the Commercial Code
- The beginning and end of the financial year

The following documents should be enclosed with the application:

- Memorandum of Association
- Articles of Association
- Bank notice concerning the payment of share capital
- Upon payment by a non-monetary contribution, the agreement concerning the transfer of the contribution to the public limited company, documents certifying the value of the contribution and an opinion on the valuation of the non-monetary contribution signed by the auditor
- Names, personal identification codes and residences of the members of the management board, the supervisory board, and the auditors
- Specimen signatures of the members of the management board
- Telecommunication numbers (telephone, fax, etc.)
- A notice from the registrar of the Estonian Central register of Securities concerning registration of the shares

In case the founder is a foreign company, an official certificate proving the existence of the company in the country of incorporation is required. This certificate as well as a foundation resolution must be notarized in the foreign country by a public notary, which is legalized by the Ministry of Foreign Affairs of the foreign country and the Estonian Embassy or

its diplomatic representative. If there is a translator available in the Estonian Embassy, these documents may be translated in a foreign country and legalized at the Estonian Embassy. In that case, no further legalization is required in Estonia. However, if there is no acceptable translator available in a foreign country, the documents must be legalized at the Estonian Embassy and sent to Estonia for translation and notarization. All documents must be submitted to the Commercial Register in Estonian or with an appended notarized translation. The Foundation Agreement must be signed by all founders or by their notarized proxy. As a rule, the registration process takes up to 2 or 3 weeks.

On the other hand, foreign entrepreneurs must register as VAT payers in the following cases:

- If a merchant does not conduct regular business in Estonia and pays taxes in another country; and if a merchant conducts business also in Estonia among others, but is not registered as a VAT payer;
- If a merchant is registered as a VAT payer in another EU Member State and is engaged in distance selling (excluding distance selling of excise goods) to a person in Estonia not registered as a VAT payer and the taxable value of the supply of the distance selling exceeds EUR 35,000 as calculated from the beginning of a calendar year;
- If a merchant registered as a VAT payer in another EU Member State is engaged in the distance selling of excise goods to a natural person in Estonia for personal use.
- If a merchant registered as a VAT payer in another EU Member State is engaged in distance selling of goods (excluding distance selling of excise goods) in Estonia, it may register as a VAT payer on a voluntary basis. It must be noted that the tax authority is entitled to remove a tax payer from the register if this tax payer has not submitted a VAT declaration regarding the last six months.

Types of Business Structures in Estonia

Estonian legal framework offers a range of undertakings similar to those in Latvia and Lithuania. Pursuant to the Commercial Code, undertakings are divided as follows:

- **Sole Proprietorship (Füüsilisest Isikust Ettevõtja or FIE):** A sole proprietor must be entered in the Commercial Register on his or her petition, or on another basis provided by law. A sole proprietor is liable for his or her obligations with all of his or her assets.
- **General Partnership (Täisühing or TÜ):** A general partnership is a commercial undertaking in which two or more partners operate under a common business name and are solitarily liable for the obligations of the partnership with all of their assets. A general partnership must operate on the basis of the partnership agreement concluded by the partners. There is no minimum capital requirement and partners make monetary or non-monetary contributions in the amount prescribed by the partnership agreement.
- **Limited Partnership (Usaldusühing or UÜ):** A limited partnership is a company in which two or more persons operate under a common business name, and at least one of the persons (general partner) is liable for the obligations of the limited partnership with all of the general partner's assets. At least one of the persons (limited partner) is liable for the obligations of the limited partnership to the extent of the limited partner's contribution. A limited partner does not have the right to manage or represent the limited partnership unless the partnership agreement prescribes otherwise. A limited partner who has paid a contribution in full is not liable for the obligations of the limited partnership and he or she is entitled to the corresponding part of its profits.
- **Private Limited Company (Osasühing or OÜ):** A private limited company is a company that has its share capital (in Estonian: osakapital) divided into private limited company shares (in Estonian: osad). A shareholder is not personally liable for the obligations of the company. A private limited company is liable for the performance of its obligations with all of its assets. The share capital must be a minimum of EUR 2,500. The minimum nominal value of a share is EUR 1. If the founders are private persons and the share capital is less than EUR 25,000 then the founders can decide that the contribution must not be paid upon the establishing of the company. Until the whole sum has been paid, the founders are personally liable for the obligations of the company within the amount of the missing contribution.



The share capital must be a minimum of EUR 2,500. The minimum nominal value of a share is EUR 1. If the founders are private persons and the share capital is less than EUR 25,000 then the founders can decide that the contribution must not be paid upon the establishing of the company. Until the whole sum has been paid, the founders are personally liable for the obligations of the company within the amount of the missing contribution. A private limited company must have a management board. The management board is a directing body of the private limited company that represents and directs the private limited company. The management board may have one member (director) or several members. A member of the management board need not be a shareholder. A member of the management board must be a natural person with active legal capacity. If more than half of board members are not residing in Estonia then the company must give the Commercial Register a contact in Estonia where necessary documents can be sent. The foreign owner must give the Commercial Register his/her address and e-mail address. A private limited company can have a supervisor board if prescribed by the Articles of Association. But it is not mandatory by the law. A private limited company must have an auditor if prescribed by law or the Articles of Association. An auditor is also mandatory when the company surpasses certain threshold values in terms of turnover, number of employees and asset value.

- **Public Limited Company (Aktsielts or AS):** A public limited company is a company that has a share capital (in Estonian: aktsiakapital) divided into public limited company shares (in Estonian: aktsiad). A shareholder is not personally liable for the obligations of the public limited company. A public limited company is liable for the performance of its obligations with all of its assets. One or more natural or legal persons with or without share subscription may found a public limited company. Share capital must be a minimum of EUR 25,000 and the minimum nominal value of a share should be EUR 0,1. Shares must be registered and entered in the Estonian Central Register of Securities. The rights attached to registered shares belong to the person who is entered as the shareholder in the share register. A public limited company must have a management board and a supervisory board. The management board is a directing body of the public limited company that represents and directs the public limited company. A member of the management board need not be a shareholder. The management board may have one member (director) or several members. A member of the management board must be a natural person with active legal capacity. A member of the supervisory board must not be a member of the management board. If more than half of board members are not residing in Estonia then the company must give the Commercial Register a contact in Estonia where necessary documents can be sent. The foreign owner must give the Commercial Register his/her address and e-mail address. The supervisory board must plan the activities of the public limited company, organize the management of the public limited company and supervise the activities of the management board. The supervisory board must notify the general meeting of the results of a review. The supervisory board must give orders to the management board for organization of the management of the public limited company. The supervisory board must have three members unless the Articles of Association prescribe a greater number of members. A member of the supervisory board must be a natural person with active legal capacity. A public limited company must appoint an auditor.
- **Branch (Filiaal):** The business name of the branch of a foreign company consists of the business name of the company and the words Eesti filiaal (Estonian branch). The branch must be registered in the Estonian Commercial Registry through submission of an application and certain required documentation. Certain entities such as foreign banks or insurance companies located in non-EU states must also obtain a required license. Banks and insurance companies from EU member states must simply notify the Estonian Financial Supervision Authority that they intend to commence activities in Estonia. It should be considered that a branch is not a legal person and the foreign enterprise is liable for obligations arising from the activities of the branch. The foreign enterprise is also liable to appoint one or more directors that are accountable to the foreign enterprise. At least one director must be resident in an EU state or Switzerland.

Taxation

Estonian resident companies are liable for corporate income tax on their worldwide income. Corporate income tax is not levied when the company makes profits but when those profits are distributed to the company's shareholders. The rate is 21% on the gross profits distributed, or 21/79 on the net amount of the dividend distributed to the shareholders. Although the tax applies like a withholding tax on the recipient of the dividend it is, strictly speaking, a tax on the company. The taxable period is the calendar month. There is no separate capital gains tax in Estonia. Gains derived by resident companies or branches of foreign companies are exempt until a distribution is made.

The supply of most goods and services is subject to VAT. Some goods and services are exempt from VAT. The standard VAT rate is 20%. A lower rate of 9% applies to certain items such as books, medicinal products etc. Exports from Estonia are zero rated.

There is a flat rate for income tax – 21%. It applies to most income over the annual tax-free threshold of EUR 1,728. Employers are obliged to withhold income tax from employees' salaries. In addition, the following social security rates apply:

- Social security tax 33% of gross salary
- Unemployment insurance:
 1. employer 1.4% of gross salary
 2. employee 2.8% of gross salary

Dividends received from resident companies and interest received from EU credit institutions are tax free. There is no withholding tax on dividends in Estonia

Investment Incentives in Estonia

The fact that there is no corporate income tax on undistributed profits is an incentive for new businesses to reinvest.

Start-up and development grants are available through Enterprise Estonia in conjunction with funding available through the EU. Start-up grants of up to EUR 5,000 are available and the business must contribute 20% of the total investment. For larger businesses (e.g. with more potential in the export market), grants of up to EUR 32,000 are available, with the business contribution set at 50%. A decision will generally be made within 10 to 20 days, depending on whether the grant applied for is a start-up or development funding. For the former, the grant is available for businesses less than 12 months old: for the latter, the grant is available for businesses that have been active for up to 36 months.

The Estonian government, under the auspices of the Estonian Tax & Customs Board, has established three Free Zones at Muuga Harbor (part of the Port of Tallinn), Sillamäe Port and Valga, which are regarded as being outside the remit of the Customs area for purposes of import and export duties. VAT and excise duties do not have to be paid on goods brought in for later re-export.

Immigration and Visa Requirements

According to the new Estonian Aliens Act from the October 1, 2010 a long-stay (D) visa is possible to apply for a number of reasons such as study, work or family relations. A long-stay visa may be issued for single or multiple entries into Estonia with a period of stay up to six months and with a period of validity up to twelve months. A long-stay visa should be applied in person only at the Estonian representations.



Documents to be submitted upon application for visa:

- A valid travel document which is issued within previous 10 years, contains at least two blank pages for visas and is valid at least 3 months after the expiration date of the visa
- A fully completed and signed application form
- A photo (size 35x45 mm)
- An insurance policy valid for Estonia or for the Schengen area with a coverage of at least 30.000 EUR for the entire duration of stay
- Documents indicating the purpose of journey
- A confirmation letter from the host
- Documents in relation to accommodation or proof of sufficient means to cover the accommodation
- A diplomatic note or confirmation letter from the international organization
- Notice to appear
- International cargo service documents
- Any information which supports an applicant intention to leave the Schengen area before the expiry of the visa
- Documents proving the sufficient means of subsistence for the duration of the intended stay and for the return to the Country of origin or residence (EUR 58 for each day in Estonia)
- Visa fee EUR 80

Banking Requirements

You can open the bank account in Euro as well as in any other foreign currency accepted by the bank chosen, as a multicurrency account. The following documents are required to open a bank account for corporate clients:

- Certificate of Organization confirming registration in the Register for business institutions and non-profitable organizations
- Registration certificate
- Articles of Association
- Memorandum
- Documents confirming the right to represent a company
- Identification documents of a representative

Non-resident corporate clients will be asked to present references from the appropriate register of a foreign country or a copy of such reference certified by notary public. If the company was established over a year ago, the certificate of good standing issued in the country of its registration will be requested.

Reference

Trade with Estonia	www.tradewithestonia.com/about-estonia
BalticExport	balticexport.com/?article=igaunijas-ekonomika&lang=en
Central Intelligence Agency	www.cia.gov
BridgeWest.eu	www.bridgewest.eu/article/why-invest-in-estonia
International Monetary Fund	www.imf.org
Estonian Information System's Authority	www.eesti.ee/eng/services
Estonia.eu	estonia.eu/about-estonia/economy-a-it/a-dynamic-economy.html
Tallinn	www.tallinn.ee/eng/investor/Setting-up-a-business
Baltic Legal	www.baltic-legal.com/vat-registration-estonia-eng.htm
Estonian Investment and Trade Agency	www.investinestonia.com/en/establishing-a-company/legal-form
Estonian Chamber of Commerce and Industry	www.koda.ee/index.php?id=11863
PKF	www.pkf.com/media/387047/estonia_2012.pdf
LOWTAX	www.lowtax.net/lowtax/html/estonia/estonia_country_and_foreign_investment.asp
Estonian Ministry of Foreign Affairs	www.vm.ee/?q=en/node/9232
Tallinn Business Bank Ltd.	www.tbb.ee/98eng.html

Contact

Website: www.cmltrust.com

Email: inquire@cmltrust.com

Tel: +852 2162 7371