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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

After experiencing an economic downturn, the Estonian economy rebounded strongly. Disposable income has increased consistently, with a USD 26,470 GDP per capita in 2021 (IMF). As a result, consumer expenditure rose by 3.2% in 2019 (OECD). Estonians are more comfortable turning to consumer credit to fund purchases, particularly for durable goods. The real estate market is healthy and the demand for mortgages remains strong. Businesses and most logistic services are concentrated in and around the capital city, Tallinn.

Consumer Behaviour

Estonia has moved from a centrally planned economy to a modern and liberalized system. Therefore, consumers' behaviour has also changed over the years. Estonian consumers remain price-sensitive, however, the growth in disposable income fueled consumer spending. The Estonian market is relatively small and is characterized by an ageing population (the median age is around 43.7 years - CIA World Factbook, 2020 est.), with the "silver surfers" sector expected to become more and more crucial in the market. Consumers are familiar with E-commerce and social media, therefore the internet generally has a strong impact on Estonians' purchasing decisions. As in the country there is a wide choice of foreign brands, consumers don't necessarily buy Estonian products, though they prefer to buy local when it comes to foodstuff.

Consumers Associations

[Consumer Protection and Technical Regulatory Authority \(TTJA\)](#)

IMPORTING & DISTRIBUTING

Import Procedures

Estonia is part of the European Union and its customs are therefore subject to intra-Community procedures. As part of the "SAFE" standards set forth by the World Customs Organization (WCO), the European Union has set up a new system of import controls, the "Import Control System" (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Program eCustoms, has been in effect since January 1, 2011. Since then, operators are required to pass an Entry Summary Declaration (ENS) to the customs of the country of entry, prior to the introduction of goods into the customs territory of the European Union.

The required documentation required is:

- a signed commercial invoice
- certificate of origin/goods certificate.

You will need to pay a customs duty on goods during customs formalities when importing goods into free circulation. The amount depends on the type of the goods, country of origin and quantity. Besides customs duties, you will need to pay VAT and, for some goods, an excise duty: alcohol, tobacco, motor fuel.

For general information on imports to EU member state, please visit the [EU Customs Union website](#). You can also visit the [Estonian Customs website](#).

Distribution market players

Private wholesalers and trading firms are particularly strong in certain specialised sectors, such as electronics, electrical components and instruments, pharmaceutical and health care products, technical products and machinery, and raw materials and chemicals.

There are several competitors in the Estonian supermarket industry:

- Maxima: Lithuanian group operating in hypermarket, supermarket and convenience store format: 84 points of sale in Estonia
- Selver: Estonian group operating in hypermarket and supermarket formats: 71 points of sale in Estonia
- Coop (previously ETK): over 330 stores, in Estonia more than 100 supermarkets under the Konsum banner, and 14 supermarkets under the Maksimarket banner
- S Group: Swedish group owns 9 hypermarkets under the name Prisma
- OG Elektra AS: Estonian group distributing in 67 outlets in Estonia (supermarkets and convenience stores) under the brand name Grossi

OPERATING A BUSINESS

Type of companies

Fuusilisest isikust ettevotja or F.I.E. (Sole proprietorship)

Number of partners: 1 person.

Capital (max/min): No minimum capital required.

Shareholders and liability: Liability is unlimited.

Osaühing or O.U. (Private Limited Company)

Number of partners: No minimum.

Capital (max/min): Minimum EUR 2,500.

Shareholders and liability: Partners' liability is limited to the amount contributed.

Aktsiaselts or A.S. (Public Limited Company)

Number of partners: No minimum.

Capital (max/min): Minimum EUR 25,000.

Shareholders and liability: Partners' liability is limited to the amount contributed.

Taasisühing or T.U. (General Partnership)

Number of partners: Minimum 2 partners.

Capital (max/min): No minimum capital required.

Shareholders and liability: The partners are solitarily liable for the obligations of the partnership with all of their assets. Limited liability for limited partner.

Setting Up a Company	Estonia	Eastern Europe & Central Asia
Procedures (number)	3.0	5.3
Time (days)	3.5	11.8

Source: *Doing Business* - Latest available data.

Cost of Labour

Minimum Wage

The minimum wage is EUR 584 per month in 2021 according to Eurostat.

Average Wage

According to Statistics Estonia data, the average salary was around EUR 1,316 per month in 2019 (latest data available).

Social Contributions

Social Security Contributions Paid By Employers: The rate is 33.8% (20% for social security, 13% for health insurance and 0.8% for unemployment insurance).

Social Security Contributions Paid By Employees: The rate is 3.6% (2% for a pension fund and 1.6% for unemployment insurance).

Intellectual Property

National Organisations

The [patents office of Estonia](#) was created on 3rd December 1991. It started functioning in 1992. Among its activities were included the implementation of laws concerning trademarks of manufactured products or business trademarks, the law concerning the copyrights of authors, laws concerning patents and finally the laws concerning utility models.

The principle of priority to the first patent applicant is applied.

Estonia is a member of the [WIPO](#) (World Intellectual Property Organization) since 1994, and is also a member of Paris and Berne Conventions.

Regional Organisations

Estonia has signed several regional conventions on intellectual property. For instance, the Paris and Berne Conventions, Rome convention as well as the Madrid protocol.

TAX RATES

Consumption Taxes

Nature of the Tax

Value Added Tax (VAT) - [Käibemaks](#) (in Estonian)

Tax Rate

20%

Reduced Tax Rate

Two reduced rates are available: 0% and 9%.

A reduced rate of 9% is available on items such as books, periodicals, medical equipment and products for disabled people, and accommodation services.

Zero-rated items include exported goods, most exported services, intracommunity supplies of goods, the sale of certain services to foreign persons and goods supplied on vessels and aircraft.

Exemptions are provided for health care services; real estate transactions; financial services; insurance, reinsurance and insurance mediation services; educational services (only non-commercial basic education); lotteries and gaming; postal services; learning materials related to education.

The import of goods used to contrast the COVID-19 epidemic is exempt from customs duties and import VAT from 30 January 2020 to 31 July 2020.

Other Consumption Taxes

Excise taxes are levied on tobacco, alcohol, electricity, some packaging materials and motor fuel. Please visit the website of the [Estonian Tax and Customs Board](#) for further information on excise duties.

A tax is levied on heavy vehicles intended for the carriage of goods, with quarterly rates varying between EUR 0 and EUR 232.60.

A gambling tax is levied on income derived from the operation of games of skill, totalizers, betting, lotteries and promotional lotteries. The tax is also levied on gaming tables and machines used for games of chance in authorised premises.

Following the COVID-19 emergency, excise duty rates on certain fuels (such as diesel and natural gas) and electricity were temporarily reduced from 1 May 2020 to 30 April 2022.

Corporate Taxes

Company Tax

20% CIT at 20/80 of the net amount of profit distribution

Tax Rate For Foreign Companies

Non-residents are only taxed on their income derived from Estonian sources.

Capital Gains Taxation

Capital gains are treated as ordinary income of Estonian resident companies; however, they are taxed only where there is a profit distribution.

Main Allowable Deductions and Tax Credits

Companies are no longer subject to income tax, they are only taxed on distributed benefits according to the Estonian Company Tax Law. According to the terms of this new law, legal entities are exempt from tax on profits that are not distributed, whether reinvested or retained. Payments made to foreign affiliates are also exempt from tax when they serve the business interests of the company. As a result, there is no provision for depreciation or for carrying forward or backward tax losses.

Since 1 January 2018, companies that are subject to tax on benefits in kind granted to staff may be exempted up to a maximum of EUR 100 per quarter if these benefits relate to expenditure on sports or health programmes. Entertainment expenses may be exempted from corporate tax up to a maximum of EUR 32 per month.

All taxes paid are deductible.

Other Corporate Taxes

Land is subject to a tax which is calculated according to the estimated value of the land at rates varying between 0.1% and 2.5% depending on the municipality. The tax can be paid by the owners or the users.

The social tax payable by the employer amounts to 33% of the salary (20% for the pension fund, 13% for the health insurance). Employers also contribute 0.8% of the salary for unemployment insurance and withhold 1.6% for their employees' contributions to the compulsory accumulative pension scheme, if the employee has joined such scheme.

Employers are liable for tax on fringe benefits granted to employees. Benefits are subject to a 20/80 corporate income tax and 33% social tax on the sum of the benefit and the 20/80 CIT (a fringe benefit of EUR 100 would give rise to a EUR 25 CIT and a EUR 41.25 social tax with a 33% tax applying to EUR 125).

A gambling tax is levied on income derived from the operation of games of skill, totalizers, betting, lotteries and promotional lotteries. The tax is also levied on gaming tables and machines used for games of chance in authorised premises.

Taxes apply on heavy goods vehicles, at rates varying between EUR 0 and 930.4 per year.

Local authorities may also levy certain taxes, often at negligible rates for companies.

Other Domestic Resources

[Consult Doing Business Website](#), to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

[See the list of the tax treaties](#)

Withholding Taxes

- Dividends: 0%/7% (dividends paid to individuals if the distribution has been subject to the reduced CIT rate at the hands of the paying company)
- Interest: 20% (resident individuals)/0% (non-residents)
- Royalties: 0% (resident companies)/10% (non-resident companies and individuals)/20% (resident individuals)