

Year end - a good time to switch to Estonian CIT

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The turn of the year is the optimal time to decide whether or not to take advantage of the increasingly popular tax relief, commonly referred to as the '*Estonian CIT*'.

Why is Estonian CIT becoming increasingly popular?

Estonian CIT is a relatively new form of taxation, designed for a **very wide range of taxpayers**; companies of almost any legal form (with the exception of a general partnership) can benefit from it. It is also irrelevant what type of activity the taxpayer conducts - it is only important that it is not a tax-exempt activity (e.g. zone activity) and that the majority of income is operating income (and not capital income - e.g. dividends, interest).

Considering the main advantage (tax deferral and low taxation), this solution may even be an **ideal choice** for profitable companies and/or companies reinvesting their profits.

The benefits of a **properly implemented** Estonian CIT can be very significant and include:

- **exemption from income taxation** until the profit is withdrawn - if the withdrawal takes place, for example, after 4 years, the taxpayer may not pay tax at all for that period of time,
- **low tax rate** - combined PIT and CIT on distributed profits is taxed at a rate of 20 per cent (small taxpayers) or 25 per cent (others); this is significantly less than the taxation of profits distributed by 'ordinary' limited liability companies, (and even less than taxation under a sole proprietorship),
- **simplified tax records** (tax settlement is based on accounting records),
- **additional tax benefits** (e.g. no minimum tax on buildings; no obligation to file local MDRs).

Why might switching to Estonian CIT from the new year be a good option?

Choosing an Estonian CIT **from the new year** may be a good option for several reasons:

- choosing Estonian CIT from the beginning of the year is **easier and less labour-intensive/costly** (choosing during the year is possible - but results in the need to close the tax year and additional financial and tax reporting),
- the choice of the Estonian CIT from the beginning of the year will allow a more reliable estimation of the tax benefits (by reference to the result of the whole year), particularly for activities characterised by an uneven distribution of income and expenses during the year,
- the choice of the Estonian CIT from the beginning of the year will avoid interpretative doubts regarding the fulfilment of certain conditions (e.g. the annual minimum employment requirement).

If you are considering choosing this form of taxation, our experts will help you implement it **correctly and safely**. An ill-considered or unplanned implementation of Estonian CIT may result in various negative consequences, including additional taxation (tax on conversion, hidden profits and others).

How can we help?

Our support can consist of, among other things:

- assessment, whether the company/company meets the conditions necessary to benefit from the Estonian CIT,
- preparing a projection (based on actual financial data) showing the level of tax benefits resulting from the choice of this form of taxation,
- support in the submission/preparation of the necessary documents at the selection stage of the Estonian CIT,
- ongoing tax and accounting support during the period of application of the Estonian CIT
- support on 'doubtful' issues (hidden profits, so-called non-business income, etc.),
- support for the submission of possible requests for individual interpretation (if it is necessary to confirm interpretative doubts in this form),
- support in fulfilling reporting obligations (financial and tax),
- maintenance of the accounts and adaptation of the chart of accounts to the specifics of the Estonian CIT,
- support for the preparation of the so-called 'preliminary adjustment',
- support at the profit distribution stage (preparation of resolutions, determination of the correct rate and tax base).

If you are interested in verification of how your business may be affected with the above regulations, please contact:

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