Estonian CIT – announcement of changes in regulations

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The Ministry of Finance has published a draft amendment to the regulations governing income tax. One of the key areas of the amendment is Estonian CIT.

The new regulations provide for both solutions that increase the tax burden and modifications that facilitate the application of a lump sum tax on company income.

Below we present the most important proposed changes to Estonian CIT, which may significantly affect the situation of entrepreneurs.

BROADER DEFINITION OF HIDDEN PROFITS

The draft removes the condition that the benefit must be related to the right to share in profits. Furthermore, the list of hidden profits is to be expanded to include new categories, such as:

- rent and lease fees,
- receivables for the use of trademarks,
- costs of intangible services,
- benefits under Article 176 of the Commercial Companies Code.

In practice, this means that even market transactions with related entities (e.g., leasing real estate from a partner) will be treated as hidden profits and will be subject to taxation. It is reasonable to assume that the amendment will also result in loans granted by an Estonian company being subject to taxation (this is currently a matter of dispute).

INTRODUCTION OF A DEFINITION OF NON-OPERATING EXPENSES

The current provisions do not provide a clear definition of such expenses. The Ministry of Finance has announced its intention to implement changes to this regard. According to the draft, all costs that do not serve to generate, secure or maintain revenue will be considered non-business-related.

Furthermore, public law penalties (e.g., administrative penalties, tax interest) will be explicitly included in this category.

From the point of view of tax practice, the change is rather of an organizational nature, although it cannot be ruled out that, based on the new definition, the tax authorities will adopt a broader scope of the concept than before.

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NEW PRESUMPTION REGARDING PROFIT DISTRIBUTIONS

Another change concerns dividends paid after the end of the Estonian CIT regime.

Currently, the regulations assume, to the benefit of companies, that “ordinary” profits are paid out first, followed by those covered by the lump sum. This allows for the deferral of taxation on Estonian profits, the payment of which results in CIT charges.

The draft reverses this rule—any dividend paid after the end of the Estonian CIT will be treated as if it came from the lump sum tax period. The proposed amendments may result in the conclusion that with respect to dividend payments after January 1, 2026, it will not be possible to rebut this presumption, even by specifying this in the resolution on the payment of dividends.

RELIEF FROM FORMAL REQUIREMENTS

Against the backdrop of many unfavorable proposals, one change should be viewed positively. It concerns companies that have implemented Estonian CIT during the tax year.

Currently, formal deficiencies, such as the lack of signatures of management board members on financial statements submitted on time, may result in the loss of the right to apply the lump sum Following the implementation of these changes, such deficiencies will not automatically disqualify the taxpayer, provided that all other conditions are met.

However, it should be noted that this relief is retroactive and only applies to companies that started applying Estonian CIT before September 1, 2025.

DEFINITION OF A TAXPAYER STARTING A BUSINESS

The draft also provides for clarification of the provisions regarding the status of taxpayers starting a business. The status of a taxpayer starting a business is associated with a number of preferences in the application of Estonian CIT.

The absence of a definitive statutory definition has resulted in considerable variations in interpretation, particularly in the context of companies established through transformation (e.g., the business activities of natural persons).The amendment introduces a definition of a taxpayer (entity) starting a business or commencing business activity into the CIT Act, according to which this status will not apply to entities continuing business activity previously conducted by other entities.

This solution works to the disadvantage of taxpayers, as it narrows the range of situations in which it will be possible to take advantage of the tax preferences provided for new entrepreneurs.

Therefore, if a sole proprietorship is converted into a capital company, the new entity will not be treated as a "starting business" as defined by the Act.

Consequently, such a company will forgo the opportunity to benefit from reliefs and preferences exclusively available to new CIT taxpayers.

CHANGES IN THE FLAT-RATE TAX ON RECORDED INCOME

The proposed regulations indicate an increase in the tax burden in the case of partners providing services to companies. In practice, this may also affect companies applying the Estonian CIT and their partners (if their revenues are taxed at a flat rate on recorded revenues).

The legislator proposes that income from services provided to related entities be taxed at a uniform flat rate of 17%.

SUMMARY

The planned changes to Estonian CIT are a combination of simplifications and new requirements:

The following points should be noted:

- obstacles and higher risks – a significant expansion of the list of hidden profits and a reversal of the rules for settling dividends,
- a new definition of expenses not related to business activity,
- partial simplifications – abandoning excessive formalism in the implementation of the lump sum.

For a significant number of companies, the changes will necessitate a re-examination of their relationships.

It is recommended that related entities plan their profit distribution with greater care.Despite the proposed changes, Estonian CIT remains an attractive taxation method for companies, but its application will become more demanding in terms of tax analysis and compliance with regulations.

The aforementioned amendments are currently being pursued by the government. It should be noted that these provisions are subject to further modification as the legislative process progresses.

If the new regulations may affect your situation, please contact:

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