



## EUROPEAN PARLIAMENT

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DIRECTORATE-GENERAL FOR RESEARCH  
DIRECTORATE A  
DIVISION FOR INTERNATIONAL AND CONSTITUTIONAL AFFAIRS

### FACTSHEET

Estonia

Chapter 10 - Taxation

#### 1. The *acquis*<sup>1</sup>

The *acquis* in this chapter mainly covers indirect taxation, particularly VAT and excise duties, while on direct taxation it is limited to legislation on corporate taxation. On the whole, the candidate countries have an indirect taxation system close to that of the EC.

**VAT** was introduced in 1970 by the first and second VAT Directives. The decision on own resources for the EC led to the harmonisation of VAT. The sixth VAT directive (77/388/EEC) harmonised the basis and the assessment basis and is still the main body of law for VAT, laying down all Community definitions and principles, while leaving a number of options to Member States.

The *acquis* in the area of **excise duties** covers harmonised legislation on mineral oils, tobacco products and alcoholic beverages. The legislation lays down the structure of the duty and minimum rates. Duty is payable to the Member State in which the product is consumed. All fiscal controls at the Community's internal frontiers were abolished in 1993.

Legislation in the area of **administrative cooperation and mutual assistance** provides instruments to circumvent tax evasion and avoidance across the frontiers of Member States by information gathering and exchange.

The **direct taxation** *acquis* concerns some aspects of corporate taxation and capital duty such as administrative cooperation between tax authorities and removing obstacles to cross-frontier business activities. There is also a code of conduct for business taxation.

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<sup>1</sup> Information largely drawn from the European Commission, DG Enlargement  
<http://europa.eu.int/comm/enlargement/negotiations/index.htm>

## 2. The negotiations

The chapter has been closed with ten countries and provisionally closed with Bulgaria, while it remains open with Romania. Most countries have provided a timetable for full alignment for VAT and excise duties and have declared during the negotiations that they accept and will apply the principles of the code of conduct for business taxation. The Commission is analysing the candidate countries' legislation in order to identify potentially harmful practices not in line with the code.

All candidate countries have requested transitional measures and a limited number of derogations, mostly as regards VAT and excise duties. One country has requested a transitional period in the area of business taxation. The level of rates of tax or duty has been the most contentious issue as excise duty in particular tends to be much lower in the candidate countries. Governments fear the economic and social implications and, hence, the political consequences of sharp tax rises on socially-sensitive goods such as cigarettes, and all have therefore asked for transitional periods on particular goods or services to allow for a longer period of adjustment. For its part, the EU has considered both the need to safeguard the proper functioning of the internal market and the political, social and economic impact in the candidate countries. Thus, some transitional measures of relatively short duration have been accepted.

**Chapter opened** November 1999

**Status** Closed December 2002 (provisionally closed in June 2002)

**Transitional arrangements:**

- Reduced VAT rate on heating
- Level of VAT turnover threshold for SMEs
- Lower excise duty rates on cigarettes
- Full alignment to the parent-subsidiary directive
- VAT exemption on international passenger transport

## 3. Latest assessment of the European Commission <sup>1</sup>

In its 1997 Opinion, the Commission concluded that the *acquis* concerning direct taxation should present no significant difficulties, and that where indirect taxation was concerned, a considerable effort would be required if Estonia was to comply with the *acquis* on VAT and excise duties in the medium term. The Commission added that it should be possible for Estonia to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, Estonia has made significant progress in aligning its indirect tax legislation with the Community tax *acquis*, although some weaknesses remain to be addressed. However, the Commission Opinion's conclusion on direct taxation was made on the basis of the direct tax system and legislation in force in Estonia in 1997, and the entry into force of the new Estonian Income Tax Act in January 2000 has raised new concerns. Apart from direct taxation, the legislation is largely aligned, with only a few remaining amendments to be introduced, and Estonia is reasonably advanced as regards the necessary capacity to implement the *acquis* in this area.

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<sup>1</sup> European Commission, Regular Report on Estonia 2002, p.72:  
[http://www.europa.eu.int/comm/enlargement/report2002/ee\\_en.pdf](http://www.europa.eu.int/comm/enlargement/report2002/ee_en.pdf)

Negotiations on this chapter have been provisionally closed. Estonia has been granted, for an indefinite period of time, the right to apply a VAT registration and exemption threshold of €16000 for small and medium-sized enterprises, a transitional period until 30 June 2007 for the continued application of the reduced VAT rate on heating sold to non-commercial bodies and on the sale of peat, fuel briquettes, coal and firewood to natural persons, and a transitional period until 31 December 2009 in order to reach the EC minimum excise duty levels on cigarettes and smoking tobacco. In addition, Estonia has been granted a transitional period to ensure full compliance of the Estonian direct tax legislation with the relevant *acquis* (until 31 December 2008). Estonia is generally meeting the commitments it has made in the context of the accession negotiations.

In order to complete preparations for membership, Estonia's efforts should now focus on completing transposition - except for areas where transitional arrangements were agreed - in the areas of direct and indirect taxation, including intra-Community transactions, and on pursuing the measures taken to modernise and reinforce the tax administration.

January 2003