

# Doing business in Estonia



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# Introduction

Estonia, a small Baltic nation, has gained significant attention in recent years as an ideal destination for conducting business.

Estonia is an attractive destination for doing business due to its pro-business environment, digital infrastructure, and strategic location in Northern Europe. The country's e-residency program, low bureaucracy, and competitive taxation system have garnered international attention. Moreover, its technically sound population and commitment to innovation have fostered a thriving startup ecosystem. With its ease of starting and operating businesses, Estonia continues to be a prime choice for entrepreneurs looking to establish themselves in the European market.

Estonia is known for its advanced digital infrastructure and e-government services. It provides secure and efficient online platforms for business operations, including electronic tax filing, digital signatures, and e-banking. This digital ecosystem streamlines administrative processes and enhances the ease of doing business. It has a highly educated and tech-savvy workforce. The country places a strong emphasis on education, particularly in the fields of technology and innovation. English proficiency is high, making it easier to communicate with local talent and international partners.

# Economic overview



**Strong and stable economy:** Estonia has a strong and stable economy characterized by sustainable growth, prudent fiscal policies, and a favorable business climate. The country experienced rapid economic development following its independence in 1991 and has maintained steady GDP growth in recent years.

**Open and liberal market:** It embraces free-market principles and a liberal economic policy framework. The country promotes competitiveness, innovation, and entrepreneurship, providing a conducive environment for business growth and investment.

**Digital transformation:** Estonia is renowned for its digital transformation and advanced digital infrastructure. It has implemented e-governance and e-services, making it one of the most digitally advanced countries in the world.

**Attractive tax system:** The tax system in Estonia is known for its simplicity and competitiveness. The Estonian Corporate Income Tax, based on the principle of "taxation upon distribution," allows companies to reinvest their profits tax-free.

**Strategic location and access to markets:** Situated at the crossroads of Northern and Eastern Europe, Estonia enjoys a strategic location. It provides businesses with access to the European Union market, which offers a large consumer base and opportunities for trade and expansion.

**Competitive Business Environment:**

Estonia is known for its competitive business environment. The country has streamlined administrative procedures, minimized bureaucracy, and implemented efficient online platforms for business operations.

**Support for Entrepreneurship and Startups:**

It has a thriving startup ecosystem and provides various support mechanisms for entrepreneurs and startups. Initiatives such as startup visas, grants, and incubation programs encourage innovation and attract international talent and investment.

**Financial Stability:**

Financial stability can be defined as “a condition in which the financial system is not unstable”. It can also mean a condition in which the three components of the financial system financial institutions, financial markets, and financial infrastructure are stable. Estonia has maintained financial stability, with a well-regulated banking sector and prudent financial policies.

**Skilled Workforce:**

The country boasts a highly educated and skilled workforce. The country places a strong emphasis on education, particularly in the fields of technology, engineering, and innovation. The workforce is proficient in English, which facilitates international business communication.



# Foreign direct investment policy

The country has actively sought to attract foreign investments and has implemented several measures to encourage and facilitate FDI.

Here are some key aspects of Estonia's FDI policy:

- **Non-discriminatory approach:** Estonia follows a non-discriminatory approach towards FDI, treating both domestic and foreign investors equally. Foreign investors are granted the same rights and protections as domestic investors.
- **Liberal investment environment:** It has maintained a liberal investment environment with minimal restrictions on foreign ownership and investment. Most sectors of the economy are open to foreign investment, allowing investors to freely establish and operate businesses.
- **Investment protection:** Estonia provides a high level of investment protection. The country is a signatory to several international agreements, including bilateral investment treaties and multilateral investment agreements, which offer protection to foreign investors against expropriation, unfair treatment, and repatriation of profits.
- **Simple and efficient company registration:** The country offers a streamlined and efficient company registration process. Through its e-Residency program, foreign entrepreneurs can establish and manage a location-independent business online, enabling them to register a company quickly and easily.



- **Double taxation avoidance:** Estonia has signed double taxation avoidance agreements with several countries, which help to eliminate or reduce the tax burden on foreign investors by avoiding the double taxation of income.
- **Investment promotion:** Estonia actively promotes investment opportunities and facilitates business development through various agencies and initiatives. The Estonian Investment Agency, a part of Enterprise Estonia, provides support and guidance to foreign investors, assisting them in finding suitable investment opportunities and navigating the local business environment.
- **Innovation and startups:** it has a strong focus on innovation and startups, attracting foreign investors interested in these sectors. The country offers various incentives, grants, and support programs for startups and innovative projects.
- **Favourable tax system:** Estonia's favourable tax system is attractive to foreign investors. The Estonian Corporate Income Tax is based on the principle of "taxation upon distribution," which means that companies are not taxed on their profits until they distribute dividends.



# Key sectors of business in Estonia

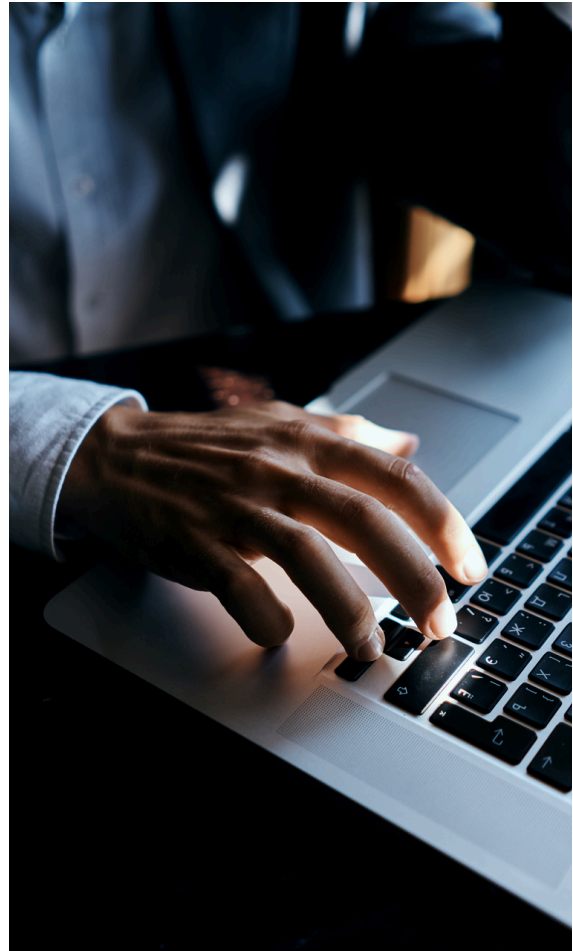
These sectors represent key areas of business opportunities in Estonia, but the country's economy is diverse, and there may be additional sectors and opportunistic markets worth exploring based on specific business interests and expertise.

- **Information technology and digital services:** Estonia is renowned for its advanced digital infrastructure and expertise in "IT". The country is a hub for technology startups and offers opportunities in areas such as software development, cybersecurity, e-commerce, e-governance solutions, fintech, and digital services.
- **Manufacturing and engineering:** Estonia has a strong manufacturing sector, particularly in engineering and electronics. The country is known for producing high-quality machinery, equipment, electrical components, and industrial automation systems. Manufacturing opportunities exist in sectors such as automotive, electronics, energy, and machinery production.
- **Renewable energy:** Estonia has made significant progress in renewable energy production, with a focus on wind, biomass, and solar energy. There are opportunities for investments in renewable energy projects, including the development of wind farms, biomass power plants, and solar energy installations.





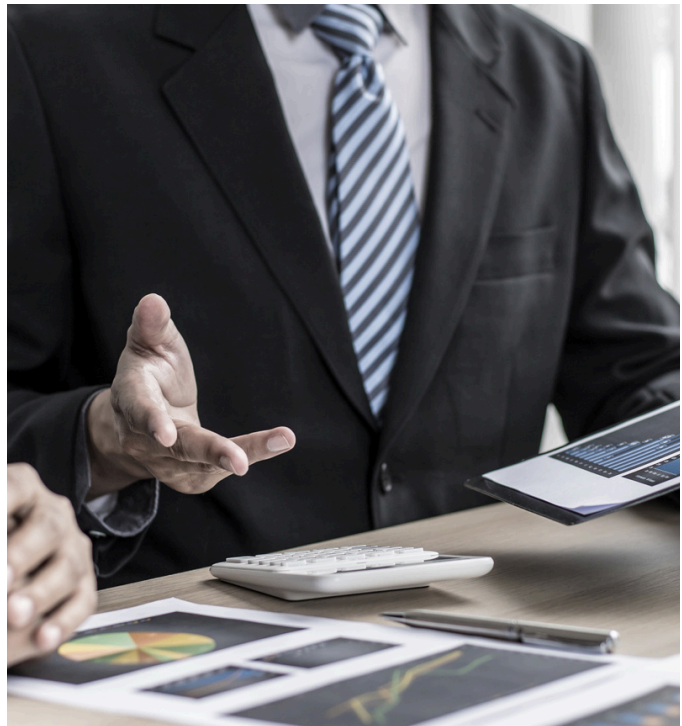
**Financial technology** :Estonia has become a hotspot for FinTech startups and innovations. The country offers opportunities in areas such as digital banking, payment solutions, blockchain technology, peer-to-peer lending, and financial software development.



**Wood and timber processing:** Estonia has abundant forest resources, making the wood and timber processing industry a significant sector. Opportunities exist in wood processing, furniture manufacturing, timber construction, and forestry-related services.

# Advantages of doing business in Estonia

The business opportunities in Estonia are very favourable to the needs of the start-up business as it offers a low taxation rate, less setup and operational cost, a convenient registration process and much more. The IT sector is also developed and enables technology-driven companies to conduct their business in Estonia freely. The below-mentioned measures determine why doing business in Estonia is more favourable than in any other country, especially for a start-up company.



## 1. Business environment

Estonia's business environment is more beneficial to enterprises since economic policies are designed to attract foreign direct investment from a variety of businesses. The policies are intended to encourage long-term investments in order to preserve long-term economic growth.

## 2. Legal perspective

After regaining its independence, Estonia progressively changed its legal system. The country's legal system has been simplified in order to encourage entrepreneurship. The laws are designed to make the environment more appealing to new entrants, allowing the corporation to benefit from tax revenues. Estonia's legal system encourages an entrepreneurial mindset.



## 3. Competition policy and consumer rights

Estonia's competition policy is consistent with European union competition policies. It is one of the few countries that allows for the prosecution of anti-competitive agreements and the formation of cartels. Furthermore, the Estonian Competition Act forbids agreements that fix prices directly or indirectly.



## 4. Intellectual property protection

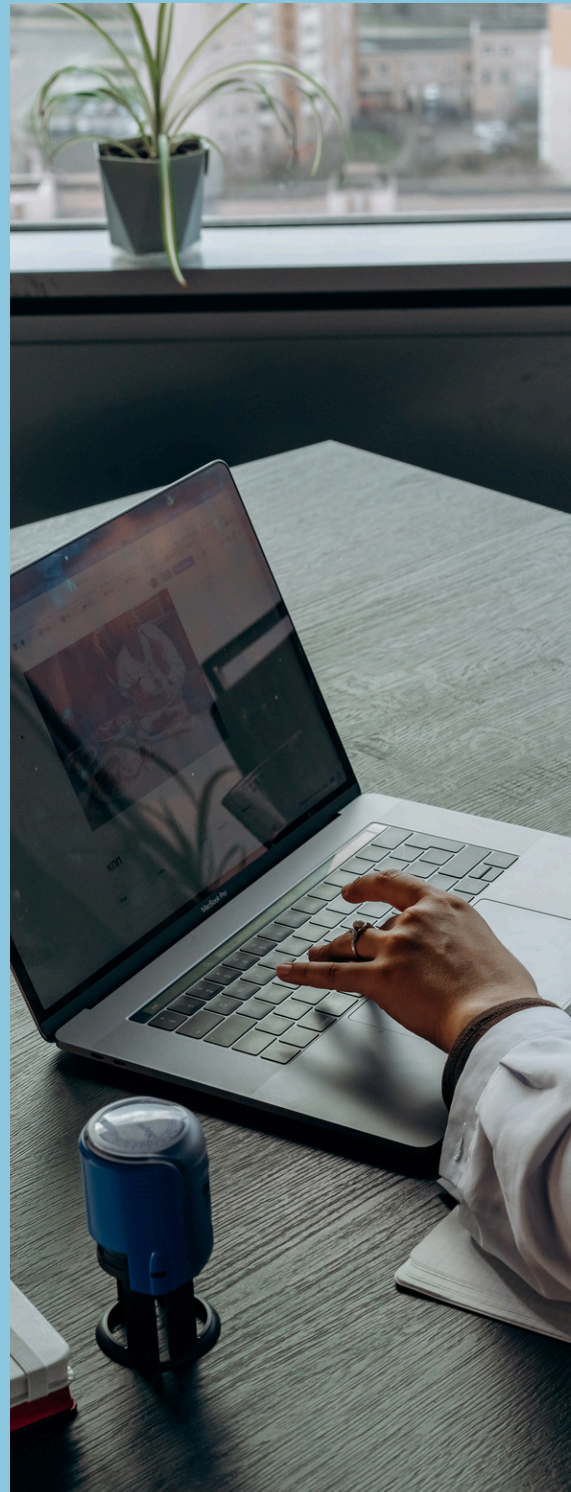
The Copyrights Act, Trademarks Act, Patents Act, Utility Models Act, Geographical Protection Act, and Industrial Design Protection Act govern Intellectual Property Law in Estonia. Estonia is a business-oriented country that seeks to protect the interests of its companies. The names of registered firms, unique inventions, and literary work are all protected under the Competition Act and the Commercial Code.

## 5. Banking services

The Bank of Estonia is the country's central bank. The central bank controls the country's financial industry and creates rules and regulations that make conducting business in Estonia easier. It also supervises the operations of subsidiary banks. Estonian banks provide the same banking services to domestic and foreign businesses as they do in other countries. Estonian banks have gained success in online banking transactions and provide a variety of commercial solutions.

## 6. Taxation system

Estonia's taxation policy is diverse and stable. The country has a more favourable corporation taxation regime, making doing business in Estonia easier. The corporate tax only applies to earned earnings that are distributed as dividends. It means that no tax is charged on the company's profits; but, these profits are taxable when dispersed to investors as dividends. Furthermore, the tax is not levied if the dividends are reinvested in the subsidiary company, as long as the Estonian company owns at least 10% of the shares or votes in the subsidiary company. Furthermore, Estonians pay less tax on their earnings than residents of other European countries.



# Types of business in Estonia

Estonia offers a wide range of business opportunities across various sectors. Here are some common types of businesses that can be established in Estonia:

## 1. Private limited company

The most common business type established by our clients and e-residents in Estonia is the private limited liability company. This is partly because Estonian law has made it simple to form and administer - can be set up in only one business day, has a minimal minimum share capital amount.

## 2. Public limited company

The public limited liability company is a type of corporation that can sell stock to the general public and overseas investors. As a result, the purchasers of those shares have minimal liability.



# Minimum eligibility criteria for company registration



To register a private limited company in Estonia, there are certain minimum eligibility criteria that need to be met. The requirements include:

- **Shareholders:** At least one shareholder is required to establish a company in Estonia. Shareholders can be individuals or legal entities, and there is no restriction on their nationality or residency.
  - **Management board:** Every Estonian company must have a management board responsible for the day-to-day management of the business. The management board can consist of one or more members, who can be shareholders or non-shareholders. At least one board member must be a resident of the European Economic Area or hold an Estonian e-Residency.
  - **Registered address:** A registered address in Estonia is mandatory for company registration. It must be a physical address within Estonia, and a virtual office or PO Box is not acceptable.
  - **Share capital:** There is no minimum share capital requirement for most types of companies in Estonia. However, it is important to determine the appropriate capital based on the needs and activities of the business.
  - **Articles of association:** The company's Articles of Association, which outline the rules and regulations governing the company's operations, must be prepared and submitted during the registration process.
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- **Company name:** The chosen company name must be unique and not infringe upon existing trademarks or violate any naming restrictions. The name must also comply with the Estonian language requirements, or an equivalent translation can be provided.



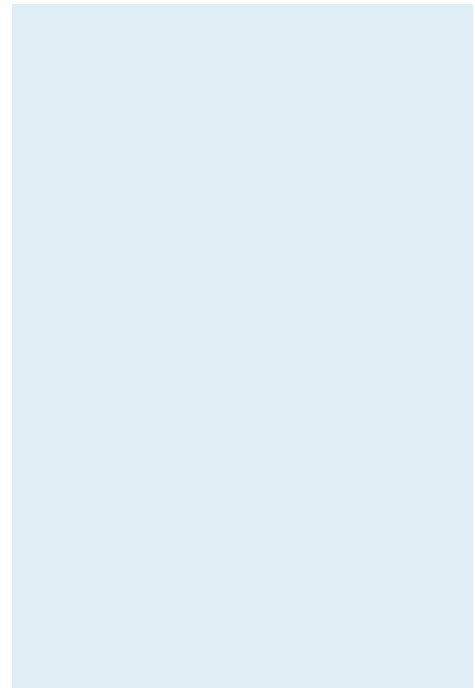
- **Legal representative:** If none of the company's board members are residents of the EEA or hold Estonian e-Residency, a legal representative must be appointed. The legal representative serves as the point of contact for legal and administrative matters on behalf of the company.
- **Registration procedure and documentation:** The company registration process in Estonia can be completed online through the Company Registration Portal or with the assistance of a notary. The required documents typically include the Articles of Association, identification documents of shareholders and board members, and proof of the registered address.



# How to set up a business?

Estonia is a popular country for entrepreneurs, digital nomads, contractors and freelancers, thanks to its streamlined, low-cost system for registering new businesses as a non-citizen, support for the entrepreneurial spirit, rapidly developing economy, and position as part of the European union.

- **Decide on the business type:** Determine the most suitable business structure for your venture, such as a private limited company, sole proprietorship, partnership, or branch office.
- **Choose a unique company name:** Select a unique name for your company that complies with Estonian naming regulations and does not infringe upon existing trademarks. You can check the availability of the name through the Estonian Business Register's website.
- **Prepare the necessary documentation:** Prepare the required documents, including the Articles of Association, which outline the rules and regulations of the company, and other supporting documents such as identification documents of shareholders and board members.

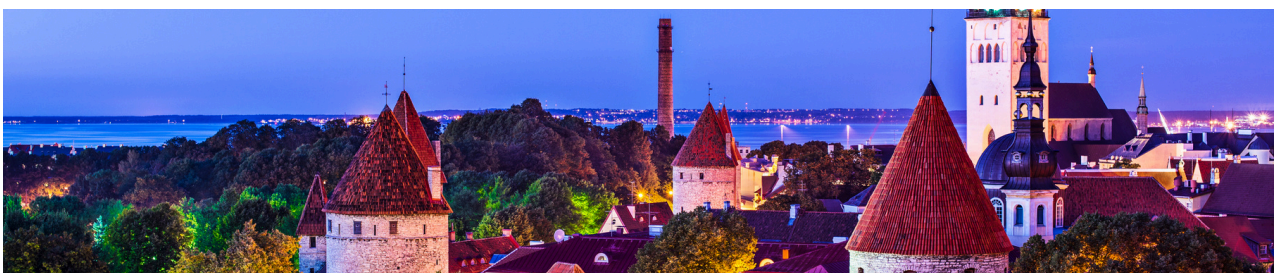




- **Register the company:** The registration process can be done online through the Company Registration Portal or by visiting a notary in Estonia. Follow the registration steps, provide the necessary information, and submit the required documents. Pay the registration fee, which can be done online.
- **Obtain a registered address:** Provide a registered address for your company within Estonia. It must be a physical address and cannot be a virtual office or PO Box.
- **Open a bank account:** Once your company is registered, open a business bank account in Estonia. Prepare the necessary documents, such as the company's registration certificate, Articles of Association, and identification documents of authorized representatives.
- **Register for taxes:** Register your company for taxation with the Estonian Tax and Customs Board. You will receive a unique identification number (reg. number) and will be required to fulfill your tax obligations, such as "VAT" registration if applicable.
- **Fulfill reporting obligations:** Familiarize yourself with the reporting obligations and deadlines for submitting annual reports, financial statements, and other required documents to relevant authorities.



- **Obtain licenses and permits (if applicable):** Depending on the nature of your business activities, you may need to obtain specific licenses, permits, or certifications. Research the requirements related to your industry and comply with the necessary regulations.
- **Comply with employment regulations:** If you plan to hire employees, familiarize yourself with Estonian employment laws and regulations. Register your employees for social security contributions and ensure compliance with labor standards.

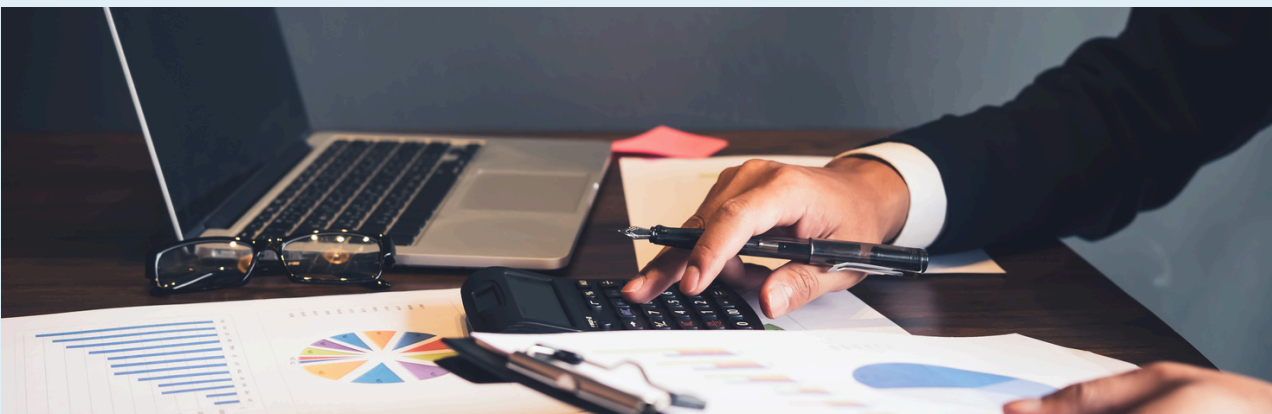


# Taxation policy in Estonia



Corporate profits that are not distributed are tax-free. This exemption applies to both active (such as trading) and passive (such as dividends, interest, and royalties) income. It also includes capital gains from the sale of various forms of assets, such as stocks, securities, and real estate. This tax system is available to Estonian resident corporations and registered permanent establishments of non-resident companies. Corporate profits are not taxed until they are distributed as dividends or judged to be distributed, as in the case of transfer pricing adjustments, non-business expenses and payments, fringe perks, gifts, donations, and representation fees.

Distributed profits are generally subject to the 20% "CIT" at 20/80 of the net amount of profit distribution. For example, a company that has profits of 100 euros (EUR) available for distribution can distribute dividends of EUR 80, on which it must pay "CIT" of EUR 20.



From the Estonian perspective, this tax is considered a "CIT" and not a "WHT", so the tax rate is not affected by an applicable tax treaty. Certain distributions are exempt from such tax if the distributions are paid out of:

- dividends received from Estonian, European union, European Economic Area, and Swiss tax resident companies (except tax haven companies) in which the Estonian company has at least a 10% shareholding
- profits attributable to a "PE" in the European Union, European Economic Area, or Switzerland
- dividends received from all other foreign companies in which the Estonian company (except tax haven companies) has at least a 10% shareholding, provided that either the underlying profits have been subject to foreign tax or if foreign income tax was withheld from dividends received, or
- profits attributable to a foreign "PE" in all other countries, provided that such profits have been subject to tax in the country of the PE.
- Estonia applies a standard "VAT" rate of 20% on most goods and services. Reduced rates of 9% and 0% apply to specific goods and services. Companies engaged in taxable activities with an annual turnover exceeding the "VAT" registration threshold (€40,000 as of 2023) must register for "VAT"

It also has an extensive network of double taxation treaties with many countries, which aim to avoid double taxation and provide relief in terms of tax credits or exemptions. These treaties help to ensure that businesses operating in Estonia are not subject to double taxation on their income.



# Accounting standard of Estonia



In Estonia, the accounting standards are governed by the Accounting Act and the Estonian Financial Supervision Authority. The accounting standards in Estonia are based on the International Financial Reporting Standards (IFRS) for the preparation and presentation of financial statements.

Let's discuss some important points of accounting standard of Estonia

- **International financial reporting standards:** Estonian companies, especially those listed on regulated markets, are required to prepare their financial statements in accordance with "IFRS". "IFRS" is a set of global accounting standards developed by the International Accounting Standards Board.
- **Annual financial statements:** Companies in Estonia must prepare annual financial statements that include a balance sheet, income statement, cash flow statement, statement of changes in equity, and accompanying notes. The financial statements should provide a true and fair view of the company's financial position, performance, and cash flows.



- **Accounting principles:** The accounting principles in Estonia follow the accrual basis of accounting, where revenues and expenses are recognized when earned or incurred, irrespective of the cash flows. The accounting principles emphasize the importance of fair presentation, consistency, materiality, and comparability of financial information.
- **Reporting entities:** The accounting standards in Estonia apply to all legal entities, including private limited companies, public limited companies, partnerships, and sole proprietors. The size and nature of the reporting entity may determine the level of reporting requirements and disclosures.
- **Annual audit:** Larger companies and companies meeting specific criteria are required to have their financial statements audited by independent auditors. The audit provides assurance on the accuracy and reliability of the financial statements.
- **Currency and measurement:** The financial statements are typically presented in euros as the functional currency. Transactions denominated in foreign currencies are converted to euros using appropriate exchange rates. The financial statements are generally prepared using the historical cost convention, with certain assets and liabilities measured at fair value when required by specific accounting standards.
- **Estonian accounting standards board:** The Estonian Accounting Standards Board is responsible for interpreting and developing accounting standards in the country. The board provides guidance on specific accounting issues and ensures consistency and compliance with the accounting regulations.
- **Disclosure requirements:** Estonian companies are required to provide comprehensive disclosures in their financial statements. The disclosures should include relevant information about significant accounting policies, estimates, related party transactions, contingencies, and other relevant matters.

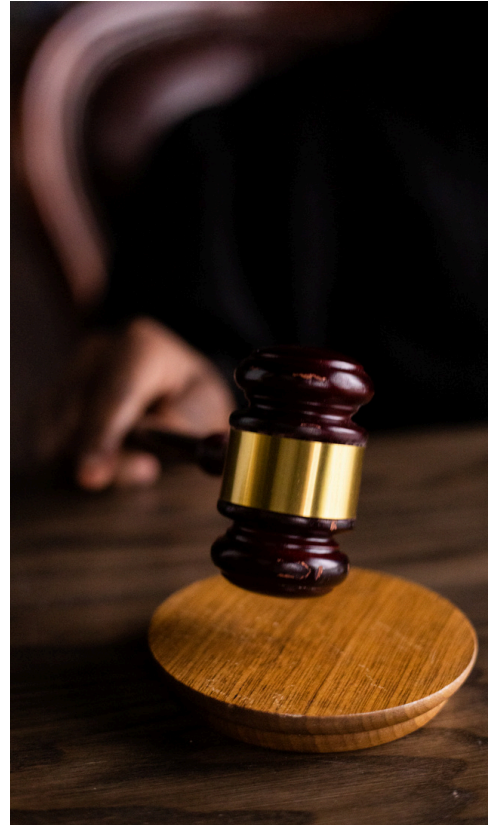


# Employment and labour laws

Every employee has the right to a formal employment contract. Employees are assumed to have engaged into an agreement the moment they begin working. Unless the parties agree otherwise, the Language Act presumes that the employment contract is in Estonian. The agreement does not need to be translated if it is written in a foreign language.

## 1. Pay slip

Employees are not required to receive a pay slip. However, the employee has the right to receive itemised pay slips (on paper or electronically) detailing the base income, any supplementary remuneration, bonuses, extra payments, and taxes deducted. Employers are required to comply with the request.



## 2. Health & safety

Employers must protect their employees' health and safety at work, including those who work from home. They must do risk assessments, have a health and safety policy, and keep track of workplace incidents. Employers are not required to purchase liability insurance for their employees because it is voluntary; yet, it is prevalent. During the first four months of employment, the employer must arrange for the employee to consult an occupational health doctor. Following that, the employee should see them every three years, or more frequently if necessary.



**3. Equal treatment and non-discrimination-** Estonian labour laws promote equal treatment and prohibit discrimination based on factors such as gender, age, disability, nationality, or religion. Employers are required to provide equal opportunities and fair treatment to all employees.

**4. Collective bargaining-** Collective bargaining agreements are common in Estonia and may be negotiated between employers and trade unions. These agreements cover various employment conditions, such as wages, working hours, and other terms of employment. Both employers and employees have the right to engage in collective bargaining.





## Employment policy

Estonia has an employment policy framework that focuses on promoting a flexible labor market, encouraging competitiveness, and ensuring fair treatment for workers. The employment policy of Estonia is aimed at creating a conducive environment for economic growth and employment opportunities.

Here are some key aspects of Estonia's employment policy:

- **Personal information protection**-As the chief processor of employee personal data, the employer has specific duties under the Personal Data Protection Act. They must appoint a particular person within the company who should be responsible for processing personal data.
- **Protection against dismissal**-Pregnant women and those on maternity or paternity leave are among those who are protected. Only in the event of liquidation or bankruptcy may the employer terminate their employment.
- **Data processing must comply with good data processing practices**- Employees' data must be collected only for specified, explicit and legitimate purposes. Any subsequent processing must be compatible with those original purposes. The employer should not retain employee personal data for longer than necessary to fulfil its purpose.
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**Employment of youth:** Estonia focuses on facilitating the employment of young people and reducing youth unemployment. Various initiatives, such as apprenticeship programs, internships, and career guidance services, aim to equip young individuals with skills and opportunities to enter the labour market.

**Active labor market policies:** Estonia implements active labour market policies to promote employment and support job seekers. These policies include vocational training programs, job counselling, retraining initiatives, and support for entrepreneurship. The aim is to enhance employability and facilitate a smooth transition into the labour market.

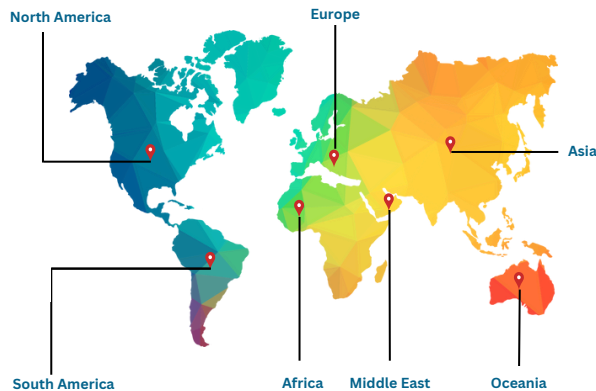
**Employment of persons with disabilities:** Estonia supports people with disabilities to work and has laws in place to help them integrate into the workforce. Employers are encouraged to make reasonable accommodations and adaptations to enable people with disabilities to work and contribute to the workforce.

# How we can help?

For individuals willing to set up business locally and companies that have ambitions beyond their local market, our firm offers a diverse range of market entry consulting services, Counseling Services, and Required processes for establishing the business in another country including a wide range from implementing impactful market entry strategies to setting up a complete business, and industrial operations.

- 1. Market research and analysis:** We conduct thorough research to evaluate the target market's potential, including market size, competition, consumer behavior, and regulatory framework. This information helps businesses make informed decisions about market entry strategies.
- 2. Business entity setup:** Our team guides businesses through the process of selecting the appropriate legal structure for the new entity, such as a subsidiary, branch office, joint venture, or representative office. They help with company registration, drafting legal documents, and fulfilling local incorporation requirements.
- 3. Tax and Financial Planning:** We help businesses understand the local tax system and devise tax-efficient structures. Consultancy firms assist with financial planning, including budgeting, forecasting, and ensuring compliance with accounting standards and reporting requirements.
- 4. Cross-cultural and language support:** Our professionals provide cultural intelligence and language support to bridge communication gaps and facilitate successful interactions with local stakeholders. This may include language training, cultural orientation, and negotiation assistance.
- 5. Ongoing support:** We often offer ongoing support even after the business is set up. This includes assistance with ongoing compliance, regulatory changes, expansion strategies, and general business advisory services.

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